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

FORM 10-Q

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

For the quarterly period ended September 30, 2011

Or

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

For the transition period from _____ to _____

Commission File Number: 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

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

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, 2011.

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 share and per share data)

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
	(Unaudited)	
Assets		
Current assets		
Cash and cash equivalents	\$ 21,247	\$ 46,159
Accounts receivable		
Trade, net of allowances of \$8,536 and \$7,151 respectively	123,328	106,652
Other	16,407	18,509
Inventories, net	89,869	83,123
Deferred income taxes	3,186	3,140
Due from Pactiv	1,167	1,161
Assets held for sale	99,465	99,348
Prepayments and other current assets	9,308	8,560
Total current assets	363,977	366,652
Property, plant and equipment, net of accumulated depreciation of \$215,546 and \$190,927, respectively	180,149	184,433
Other assets		
Goodwill	60,510	78,706
Intangible assets, net	45,707	50,177
Deferred financing costs, net	6,218	4,816
Due from Pactiv, long-term	6,322	8,168
Pension and related assets	11,859	11,848
Restricted Cash	3,503	3,501
Other	383	397
Total other assets	134,502	157,613
Total assets	\$ 678,628	\$ 708,698
Liabilities and stockholder's equity		
Current liabilities		
Current portion of long-term debt	\$ 2,601	\$ 46,363
Accounts payable	98,652	91,751
Accrued income taxes	—	2,268
Accrued payroll and benefits	14,775	12,810
Accrued interest	12,653	7,654
Liabilities held for sale	18,469	16,167
Other	18,141	19,679
Total current liabilities	165,291	196,692
Long-term debt	492,081	442,909
Deferred income taxes	13,721	14,185
Long-term income tax liabilities	3,990	5,732
Pension and related liabilities	3,732	4,149
Other	13,808	18,500
Stockholder's equity:		
Common stock - \$0.01 par value; 1,000 shares authorized, 149.0035 shares issued and outstanding at September 30, 2011 and December 31, 2010	—	—
Additional paid-in capital	155,992	155,055
Accumulated deficit	(161,374)	(119,400)
Accumulated other comprehensive loss	(8,613)	(9,124)
Total stockholder's equity	(13,995)	26,531
Total liabilities and stockholder's equity	\$ 678,628	\$ 708,698

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

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net Sales	\$ 211,995	\$ 197,727	\$ 625,217	\$ 575,451
Operating costs and expenses:				
Cost of sales, excluding depreciation and amortization	169,904	157,236	498,258	454,511
Selling, general and administrative	25,953	25,567	81,712	83,966
Depreciation and amortization	11,525	10,968	35,036	32,283
Goodwill impairment	18,072	—	18,072	—
Other operating expense, net	3,823	3,871	4,240	5,345
Total operating costs and expenses	<u>229,277</u>	<u>197,642</u>	<u>637,318</u>	<u>576,105</u>
Operating income (loss) from continuing operations	(17,282)	85	(12,101)	(654)
Interest expense, net of interest income	12,405	11,717	37,592	35,284
Foreign exchange (gain) loss, net	1,768	(427)	1,170	333
Loss from continuing operations before income taxes	(31,455)	(11,205)	(50,863)	(36,271)
Income tax expense (benefit)	356	(1,979)	(2,866)	(8,581)
Loss from continuing operations	(31,811)	(9,226)	(47,997)	(27,690)
Income from discontinued operations, net of tax	2,486	1,309	6,023	3,983
Net loss	<u>\$ (29,325)</u>	<u>\$ (7,917)</u>	<u>\$ (41,974)</u>	<u>\$ (23,707)</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)

	Nine Months Ended September 30,	
	2011	2010
Cash flow from operating activities of continuing operations		
Net loss	\$ (41,974)	\$ (23,707)
Adjustments to reconcile net loss to cash provided by operating activities of continuing operations:		
Income from discontinued operations	(6,023)	(3,983)
Depreciation and amortization	35,036	32,283
Amortization of inventory step-up	—	406
Deferred income taxes	(1,175)	(10,167)
Unrealized foreign exchange loss	1,328	690
Amortization of deferred financing costs	3,080	2,615
Amortization of debt discount	2,524	2,174
Gain on disposal of property, plant and equipment	(250)	1,737
Stock compensation expense	937	1,389
Goodwill impairment	18,072	—
Changes in operating assets and liabilities		
Accounts and other receivables, net	(15,581)	(18,211)
Due from Pactiv	1,905	(169)
Inventories, net	(7,440)	(10,898)
Prepayments and other current assets	(259)	(184)
Accounts payable	6,941	18,263
Accrued taxes	(4,442)	855
Accrued interest	4,780	4,469
Other current liabilities	2,074	(331)
Pension and related assets and liabilities, net	(437)	(1,428)
Other, net	(1,088)	(2,070)
Cash used in operating activities of continuing operations	(1,992)	(6,267)
Investing activities of continuing operations		
Capital expenditures	(26,528)	(20,207)
Proceeds from sale of assets	342	535
Proceeds from sale leaseback, net of costs	—	17,875
Acquisition of business, net of cash acquired	(2,733)	(31,655)
Change in restricted cash	(2)	(3,501)
Cash used in investing activities of continuing operations	(28,921)	(36,953)
Financing activities of continuing operations		
Repayment of debt	(43,000)	—
Proceeds from ABL credit facility	44,891	—
Proceeds from revolving credit facility	500	500
Proceeds from foreign lines of credit draws	375	3,670
Deferred financing fees	(4,822)	—
Other, net	(252)	71
Cash provided by/(used in) financing activities of continuing operations	(2,308)	4,241
Effect of exchange rate changes on cash and cash equivalents	264	(1,722)
Decrease in cash and cash equivalents from continuing operations	(32,957)	(40,701)
Cash flow from discontinued operations		
Cash flows from operating activities of discontinued operations, net	7,850	6,534
Cash flows from investing activities of discontinued operations, net	(580)	(1,612)
Effect of exchange rate changes on cash	(6)	(69)
Net decrease in cash and cash equivalents	(25,693)	(35,848)
Cash and cash equivalents, beginning of period	46,159	78,168
Cash and cash equivalents of discontinued/held-for-sale operations, beginning of period	1,686	2,267
Net decrease in cash and cash equivalents	(25,693)	(35,848)
Less: cash and cash equivalents of discontinued/held for sale operations at end of period	(905)	(2,058)
Cash and cash equivalents, end of period	\$ 21,247	\$ 42,529

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, 2011 are not necessarily indicative of the operating results for the full year.

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 for the year ended December 31, 2010.

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 18).

Acquisition and Divestitures

In February 2010 the Company acquired all of the outstanding shares of IntelliPack (see Note 14). The results of operations of IntelliPack, Inc. (“IntelliPack”) are included in the consolidated results of the Company beginning February 20, 2010.

During October 2011, the Company announced the sale of multiple businesses. The proceeds from the transactions will be used to repay a portion of our ABL credit facility and will be otherwise retained for debt repayment, general corporate purposes, and future reinvestment. In the first transaction, management entered into a definitive agreement with Boise Paper Holding, L.L.C. to sell the Hexacomb business for \$125 million. This business unit was previously included in the Company’s protective packaging segment and manufactured honeycomb protective packaging material made from kraft paper. In the second transaction, management entered into a definitive agreement with an affiliate of Sun European Partners, LLP (the European advisor to Sun Capital Partners, Inc.) to sell the Kobusch-Sengewald business for €160 million (\$220 million). Kobusch-Sengewald included both our flexibles and rigid packaging businesses. This business has historically been included in our specialty packaging segment and manufactured flexible and foodservice packaging such as films, bags, pouches and labels. As part of this divestiture, the Company sold certain assets which historically have been a part of our Hospital Supplies business. Both sales are expected to close during the fourth quarter of 2011.

The Hexacomb business met the criteria for “Assets held for sale” in accordance with Accounting Standard Codification (“ASC”) Topic 360 (ASC 360), Property, Plant and Equipment as of September 30, 2011. The Kobusch-Sengewald business did not meet the criteria for “Assets held for sale” as of September 30, 2011, due to ongoing negotiations and related uncertainty. The Hexacomb assets and liabilities are reflected as “held for sale” on the consolidated balance sheet in accordance with ASC 360, at September 30, 2011 and December 31, 2010. In addition, the result of operations for the Hexacomb business have been presented as discontinued operations in accordance with ASC 205-20, *Results of Operations- Discontinued Operations* for all periods presented (Note 15).

2. INVENTORIES

The major components of net inventories are as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Finished goods	\$ 46,257	\$ 40,833
Work-in-process	14,395	14,117
Raw materials	27,068	26,192
Other materials and supplies	2,149	1,981
	<u>\$ 89,869</u>	<u>\$ 83,123</u>

Inventories at September 30, 2011 and at December 31, 2010 were stated net of reserves totaling \$1,859 and \$2,128, respectively.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in goodwill by reportable segment for the nine months ended September 30, 2011 are as follows:

	<u>Protective Packaging</u>	<u>Specialty Packaging</u>	<u>Total</u>
Balance as of December 31, 2010			
Goodwill	\$ 49,237	\$ 48,526	\$ 97,763
Goodwill reported in assets held for sale	61,089	—	61,089
Accumulated impairment losses	—	(19,057)	(19,057)
	<u>110,326</u>	<u>29,469</u>	<u>139,795</u>
Changes during period			
Impairment losses	(6,917)	(10,906)	(17,823)
Foreign currency translation	(10)	(116)	(126)
Goodwill reported in assets held for sale	(61,336)	—	(61,336)
Balance as of September 30, 2011			
Goodwill	48,980	48,410	97,390
Accumulated impairment losses	(6,917)	(29,963)	(36,880)
	<u>\$ 42,063</u>	<u>\$ 18,447</u>	<u>\$ 60,510</u>

During the third quarter, based on several indicators of impairment including (1) depressed global and regional economic conditions driving lower volume demand and overall sales, (2) raw material prices (i.e., resin) remain at or near historical peak levels, (3) an inability to pass along higher raw material prices to customers, and (4) challenges in achieving planned cost cutting measures, the Company concluded on an interim basis that the goodwill in one of the reporting units in the Protective Packaging segment and goodwill in one of the reporting units in the Specialty Packaging segment may be impaired. Therefore, the Company performed an interim goodwill impairment assessment as of August 31, 2011. The fair value of the Company's reporting units were estimated primarily using a combination of the income approach and the market approach. The Company used discount of 13% and 14% in determining the discounted cash flows for each of the reporting units under the income approach, corresponding to the Company's cost of capital, adjusted for risk where appropriate. In determining estimated future cash flows, current and future levels of income were considered that reflected business trends and market conditions. Under the market approach, the Company estimated the fair value of the reporting units based on peer company multiples of earnings before interest, taxes, depreciation and amortization (EBITDA). The Company also considered the multiples at which businesses similar to the reporting units have been sold or offered for sale.

The initial step of the Company's impairment test indicated that the goodwill in the two reporting units tested were impaired. Both the reporting units had estimated fair values that were lower than their carrying values. The fair values of the reporting units were lower than their carrying values by 24% and 30% as of August 31, 2011. The corresponding carrying values of goodwill for these reporting units were \$6.9 million and \$10.9 million. The Company is in the process of completing Step 2 of the goodwill impairment analysis to measure the impairment losses and expects to complete the analysis during the fourth quarter. Based on the results of the analysis completed as of the date of the issuance of the consolidated financial statements, the Company concluded that it is probable that the entire carrying value of the goodwill in both the reporting units is impaired. Accordingly, based on the Company's best estimate of the probable impairment loss, the Company recorded an impairment loss of \$6.9 million and \$10.9 million related to goodwill in the Protective Packaging segment and Specialty Packaging segment, respectively during the third quarter. Any adjustment to the estimated impairment losses based on the completion of the measurement of the impairment losses will be recorded during the fourth quarter.

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

	Average Life (Years)	September 30, 2011		December 31, 2010	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:					
Customer relationships	12	\$ 44,246	\$ 19,663	\$ 44,422	\$ 17,235
Patents	10	13,656	2,335	11,435	1,148
Non-compete agreements	2 - 5	4,903	3,604	4,902	3,319
Software	3	3,947	3,314	3,853	2,809
Land use rights and other	32	1,391	726	1,389	648
Trademarks and trade names	20	3,000	238	3,000	125
In-process research and development	10	—	—	2,200	183
Intangible assets not subject to amortization:					
Trademarks and trade names		4,444	—	4,443	—
Total		<u>\$ 75,587</u>	<u>\$ 29,880</u>	<u>\$ 75,644</u>	<u>\$ 25,467</u>

Amortization expense related to intangible assets totaled \$1,508 and \$1,500 for the three months ended September 30, 2011 and 2010, respectively, and \$4,572 and \$4,264 for the nine months ended September 30, 2011 and 2010, respectively.

As discussed above, based on the interim indications of impairment noted in certain reporting units, the Company completed the impairment assessment for the indefinite-life intangible assets in the affected reporting units as of August 31, 2011. No material impairment losses were noted based on the impairment assessment.

As a result of the interim indicators of goodwill impairment identified during the third quarter, the Company also evaluated all of the long-lived assets in the affected reporting units for impairment in accordance with ASC 360-10, Impairment or Disposal of Long-Lived Assets and noted that there was no impairment in the carrying value of such long-lived assets.

4. DEBT

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

	September 30, 2011	December 31, 2010
ABL credit facility, due March, 2016	\$ 44,891	\$ —
Revolving Credit Facility, due October, 2011	—	42,500
Senior secured 2005 notes, due April, 2013	133,870	133,700
Senior secured 2009 notes, due April, 2013 net of discount of \$4,841 at September 30, 2011 and \$6,928 at December 31, 2010	162,497	160,197
Senior subordinated notes, due October, 2013, net of discount of \$967 at September 30, 2011 and \$1,272 at December 31, 2010	149,033	148,728
Foreign lines of credit	4,095	3,719
Other	296	428
Total debt	494,682	489,272
Less: current portion of long-term debt	(2,601)	(46,363)
Long-term debt	<u>\$ 492,801</u>	<u>\$ 442,909</u>

In March 2011, Pregis Holding II and Pregis and certain of their subsidiaries entered into a \$75 million Credit Agreement with Wells Fargo Capital Finance, LLC, as agent, Wells Fargo Bank, National

Association, as lender and other lenders from time to time parties thereto (the “ABL credit facility”). The ABL credit facility provides for borrowings in dollars, euros and pounds sterling and consists of (1) a UK facility, under which certain UK subsidiaries of Pregis (the “UK Borrowers”) may from time to time borrow up to a maximum amount of the lesser of the UK borrowing base and \$30 million and (2) a US facility, under which certain US subsidiaries of Pregis (the “US Borrowers”) and, together with the UK Borrowers, the “Borrowers”) may from time to time borrow up to a maximum amount of the lesser of the US borrowing base and \$75 million less amounts outstanding under the UK facility. The borrowing base is calculated on the basis of certain permitted over advance amounts, plus a percentage of certain eligible accounts receivable and eligible inventory, subject to reserves established by the agent from time to time. The ABL credit facility provides for the issuance of letters of credit and a swingline subfacility. The ABL credit facility also provides for future uncommitted increases of its maximum amount, not to exceed \$40 million.

On October 3, 2011, Pregis announced that it had entered into an agreement to sell its Hexacomb business, and on October 14, 2011 Pregis announced that it had entered into an agreement to sell its Kobush-Sengewald business. The ABL credit facility requires, among other things, that Pregis maintain 25% excess availability immediately following the sales in order to effect each transaction. In order to achieve this threshold, Pregis may be required to prepay borrowings under the ABL credit facility out of the proceeds of such divestitures. Currently, our estimate of the related amount of borrowings required to be paid upon the sale of the Hexacomb business is \$2.5 million. This will be ascertained on the date of the sale using the final borrowing base figures. Further, the sale of these businesses will reduce the permitted overadvance amount portion, which are additional available borrowings above assets values, of the borrowing base availability to zero.

The ABL credit facility matures on the earlier of (a) March 22, 2016 and (b) January 15, 2013 or July 15, 2013, which is 90 days prior to the maturity of the existing senior secured notes and senior subordinated notes, respectively, unless these notes are (i) redeemed, discharged or defeased in full 90 days prior to maturity and (ii) refinanced with proceeds from permitted indebtedness as defined in the ABL agreement with a maturity date at least 90 days after March 22, 2016. Advances under the ABL credit facility bear interest, at the Borrowers’ option, equal to adjusted LIBOR plus an applicable margin for LIBOR loans or a base rate plus an applicable margin for base rate loans. The applicable margin for LIBOR loans ranges from 2.5% to 3%, depending on the average quarterly excess availability of the Borrowers. The applicable margin for base rate loans is 100 basis points lower than the applicable margin for LIBOR loans.

All obligations under the ABL credit facility are guaranteed by Pregis Holding II and certain of its direct and indirect subsidiaries (other than certain non wholly-owned and immaterial subsidiaries and certain foreign subsidiaries), with foreign guarantors guaranteeing only the obligations of the UK Borrowers. All obligations under the ABL credit facility and the guarantees of those obligations are secured, subject to certain exceptions, by a first-priority security interest in substantially all of the assets of Pregis Holding II, the Borrowers and the guarantors, as well as the pledge of 100% of the capital stock of the Borrowers, the guarantors and their direct subsidiaries, with the obligations of the US Borrowers being secured only by (1) a first-priority security interest in substantially all assets of Pregis Holding II, the US Borrowers and the domestic guarantors, (2) a pledge of 100% of the capital stock of the US Borrowers, the domestic guarantors and their direct domestic subsidiaries and (3) a pledge of 65% of the voting capital stock and 100% of the non-voting capital stock of the first-tier foreign subsidiaries of the US Borrowers and domestic guarantors. The security interest in the domestic collateral ranks prior to the security interest securing the Company’s existing second priority floating rate notes due 2013. The lenders under the ABL credit facility have agreed to share their domestic collateral with future secured notes, if any, that refinance the existing notes, with the ABL credit facility retaining a first priority security interest in all accounts receivable, inventory and certain related assets of Pregis Holding II, the US Borrowers and the domestic guarantors and subordinating its security interest in all other domestic assets and the capital stock of the US Borrowers, domestic guarantors and their direct subsidiaries to the liens securing such new secured notes, if any.

As of September 30, 2011, borrowings under the ABL credit facility totaled \$44.9 million, outstanding letters of credit were \$6.0 million, and remaining availability was \$24.1 million. The Company utilized proceeds from the ABL credit facility to pay off and terminate its pre-existing \$50 million revolving credit facility.

Pregis’s senior secured notes were issued in the principal amount of €100.0 million and €125.0 million, respectively, and bear interest at a floating rate equal to EURIBOR (as defined) plus 5.00% per year (for a total rate of 6.605% as of September 30, 2011). Interest resets quarterly and is payable quarterly on January 15, April 15, July 15 and October 15. The senior secured notes mature on April 15, 2013. The senior subordinated notes were issued in the principal amount of \$150.0 million and bear interest at the rate of

12.375% annually. Interest on the senior subordinated notes is payable semi-annually on April 15 and October 15. The senior subordinated notes mature on October 15, 2013. The senior subordinated notes were issued at a discount of 98.149% of their principal amount, resulting in an initial discount of \$2.8 million, which is being amortized using the effective interest method over the term of the notes. The senior secured notes issued in 2009 were issued at a discount of 94% of their principal amount, resulting in an initial discount of \$11.0 million (€7.5 million), which is being amortized using the effective interest method over the term of the notes. The senior secured notes and senior subordinated notes do not have required principal payments prior to maturity.

The indentures governing the senior secured notes and the senior subordinated notes provide that proceeds from the sale of assets must be applied in specified manners within 365 days of the date of receipt of proceeds therefrom. Capitalized terms used in this paragraph are as defined in the indentures governing the senior secured notes and senior subordinated notes, as applicable. The indenture governing the senior secured notes provides that, within 365 days of the receipt of the proceeds of the sale of assets, the proceeds must be used to either: (i) repay (x) Indebtedness constituting First Priority Lien Obligations, (y) Indebtedness secured by a Permitted Lien on the assets that were sold (if the assets sold are not Collateral) or (z) Indebtedness of a Restricted Subsidiary of Pregis that is not a Guarantor of the senior secured notes; (ii) purchase or make an investment in Replacement Assets; (iii) repay Pari Passu Debt, provided that Pregis must ratably prepay the senior secured notes, if then prepayable, or make an offer to all holders of senior secured notes in the amount that would otherwise be prepaid if the senior secured notes are not then prepayable; or (iv) any combination of the foregoing. The indenture governing the senior subordinated notes provides that, within 365 days of the receipt of the proceeds of the sale of assets, the proceeds must be used to either: (i) repay Senior Debt (which includes the senior secured notes) or Indebtedness of a Restricted Subsidiary of Pregis that is not a Guarantor of the senior subordinated notes; (ii) purchase or make an investment in Replacement Assets; (iii) repay Pari Passu Debt, provided that Pregis must ratably prepay the senior subordinated notes, if then prepayable, or make an offer to all holders of senior subordinated notes in the amount that would otherwise be prepaid if the senior subordinated notes are not then prepayable; or (iv) any combination of the foregoing. Both indentures provide that pending the final application of any such proceeds of an asset sale, Pregis may temporarily reduce revolving credit borrowings or otherwise invest such proceeds in any manner that is not prohibited by the indentures. Both indentures provide that if the proceeds of a sale of assets are not applied as described above within 365 days of the receipt of the proceeds, or earlier if Pregis elects, Pregis must make an offer to all noteholders and holders of Pari Passu Debt to purchase their debt with the proceeds at a price of 100% of the principal amount of such debt plus accrued and unpaid interest to the date of purchase. The Company is in the process of determining how the proceeds of the pending sales of the Hexacomb and Kobusch-Sengewald businesses as described previously will be used to comply with the terms of the indentures.

Pregis Holding II and Pregis's domestic subsidiaries have guaranteed the obligations under the senior secured notes and the senior subordinated notes on a senior secured basis and senior subordinated basis, respectively. Additionally, the senior secured notes are secured on a second priority basis by liens on all of the domestic collateral (subject to certain exceptions) securing Pregis's ABL credit facility. 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 ABL credit facility and any other first priority obligations.

For the nine months ended September 30, 2011, the revaluation of the Company's euro-denominated senior secured notes resulted in an unrealized foreign exchange loss of \$0.3 million which has been partially offset by unrealized gain of \$0.6 million related to the revaluation of the Company's euro-denominated intercompany notes receivable for the nine months ended September 30, 2011. For the nine months ended September 30, 2010, the revaluation of the Company's euro-denominated senior secured notes resulted in an unrealized foreign exchange gain of \$14.8 million which has been partially offset by unrealized losses of \$15.6 million related to the revaluation of the Company's euro-denominated intercompany notes receivable for the nine months ended September 30, 2010. These amounts are included within foreign exchange (gain) loss, net in the Company's consolidated statements of operations.

The Company has borrowings available to its foreign subsidiaries under two local lines of credit. The first subsidiary line of credit allows for borrowings up to a certain percentage of such subsidiary's specified accounts receivable. As of September 30, 2011, amounts outstanding under this foreign line of credit totaled \$4.1 million. The second foreign line of credit allows for issuances of letters of credit only, which totaled \$3.0 million as of September 30, 2011.

5. 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 minimize 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 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 were expected to be highly effective in offsetting the fluctuations in the floating interest rate and are, therefore, being recorded in other comprehensive income until the underlying transaction is recorded. This swap arrangement was settled in March 2011.

The accounting for the cash flow impact of the swap was recorded as an adjustment to interest expense. For the three months ended March 31, 2011, the swap resulted in an increase to interest expense of \$1,654, which included additional expense of \$838 related to the termination of the swap. There was no additional interest expense in the third quarter due to the settlement of the swap in March 2011. 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.

At September 30, 2011, the Company's contingent purchase consideration relating to the IntelliPack acquisition in 2010 is recorded at fair value and is categorized as Level 3 within the fair value hierarchy. The fair value of this liability is estimated using a present value analysis as of September 30, 2011 and was \$7.4 million. This analysis considers, among other items, the financial forecasts of future operating results of the acquiree, the probability of reaching the forecast, and the associated discount rate. A rollforward of this liability from the acquisition date to the balance sheet date is as follows:

	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)
Contingent purchase consideration liability	
Fair value at acquisition date	\$ 9,700
Payments	(772)
Change in fair value (1)	672
Balance as of December 31, 2010	\$ 9,600
Payments	(2,733)
Change in fair value (1)	533
Balance as of September 30, 2011	\$ 7,400

- (1) The adjustment to the original contingent purchase consideration liability recorded was the result of using revised financial forecasts in the updated fair value measurement and is included in interest expense in the consolidated statements of operations

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. At September 30, 2011, the fair values of the Company's senior secured notes (issued in 2005), senior secured notes (issued in 2009), and senior subordinated notes were estimated to be \$128,850, \$161,062, and \$130,500 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.

The Company's fair value estimate of goodwill for two of its reporting units in the Protective Packaging and Specialty Packaging segment, which resulted in an impairment charge of \$18,072, was based upon Level 3 inputs. The Company estimated the fair value of the reporting units using both the income and market approaches, based on the present value of expected future cash flows, computed using discount rates of 13% and 14%, which corresponds to their risk-adjusted cost of capital. In determining estimated future cash flows, current and future levels of income were considered that reflected business trends and market conditions. See Note 3.

6. 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, 2011 and 2010 are as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Service cost of benefits earned	\$ 587	\$ 506	\$ 1,767	\$ 1,503
Interest cost on benefit obligations	1,293	1,160	3,887	3,524
Expected return on plan assets	(1,644)	(1,621)	(4,944)	(4,825)
Amortization of unrecognized net gain	—	(9)	—	(29)
Net periodic pension cost	<u>\$ 236</u>	<u>\$ 36</u>	<u>\$ 710</u>	<u>\$ 173</u>

7. 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Divestiture costs	\$ 4,217	\$ —	\$ 4,217	\$ —
Restructuring expense	153	2,045	1,127	3,587
Gain on disposal of property, plant and equipment	(62)	1,837	(250)	1,747
Other (income) expense, net	(485)	(11)	(854)	11
Other operating expense, net	<u>\$ 3,823</u>	<u>\$ 3,871</u>	<u>\$ 4,240</u>	<u>\$ 5,345</u>

Divestiture costs comprised of legal and due diligence costs in relation to the Company's planned divestitures of the Hexacomb and Kobusch-Sengewald businesses.

Restructuring activities are discussed further in Note 8 below.

8. RESTRUCTURING ACTIVITY

In 2010, the Company incurred restructuring costs within its European operations in an effort to upgrade management and to further drive cost reductions. The Company used outside consultants to aid in this process. These efforts have continued in 2011.

Following is a reconciliation of the restructuring liability for the nine months ended September 30, 2011.

<u>Segment</u>	<u>December 31, 2010</u>	<u>Severance</u>	<u>Other</u>	<u>Cash Paid Out</u>	<u>Foreign Currency Translation</u>	<u>September 30, 2011</u>
Protective Packaging	\$ 118	\$ 204	\$531	\$ (851)	\$ 4	\$ 6
Specialty Packaging	822	23	—	(889)	44	—
Corporate	—	—	369	(369)	—	—
Total	<u>\$ 940</u>	<u>\$ 227</u>	<u>\$900</u>	<u>\$(2,109)</u>	<u>\$ 48</u>	<u>\$ 6</u>

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

9. INCOME TAXES

The Company's effective tax rate for continuing operations was (5.63)% and (23.66)% for the nine months ended September 30, 2011 and 2010, 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>2011</u>	<u>2010</u>
U.S. federal income tax rate	(35.00)%	(35.00)%
Changes in income tax rate resulting from:		
Valuation allowances	13.54	7.83
State and local taxes on income, net of U.S. federal income tax benefit	(0.67)	(0.93)
Foreign rate differential	1.35	0.31
Permanent differences	14.93	1.31
Other	<u>0.22</u>	<u>2.82</u>
Income tax benefit	<u>(5.63)%</u>	<u>(23.66)%</u>

10. RELATED PARTY TRANSACTIONS

Continuing Operations

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 \$585 and \$1,722 for the three and nine months ended September 30, 2011, and \$537 and \$2,026 for the same periods of 2010 which included a \$500 fee for services related to the acquisition of IntelliPack.

The Company had sales to affiliates of AEA Investors LP totaling \$1,431 for the three months ended March 31, 2011. There were no sales to affiliates of AEA Investors LP for the second and third quarters of 2011. For the three and nine months ended September 30, 2010, the Company had sales to affiliates of AEA Investors LP totaling \$1,148 and \$1,963, respectively. The Company made purchases from affiliates of AEA Investors LP totaling \$4,630 and \$14,155 for the three and nine months ended September 30, 2011 compared to \$4,136 and \$11,885 for the same periods of 2010.

Discontinued Operations

Discontinued operations had no related-party transactions for the three and nine months ended September 30, 2011 and no related party transactions for the same periods of 2010.

11. 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.

As of the third quarter of fiscal 2011, the results of Hexacomb business are reported as discontinued operations for the periods presented as further described in Note 15.

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, 2011 and 2010 are as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Protective Packaging	\$ 122,877	\$ 115,860	\$ 364,518	\$ 338,858
Specialty Packaging	89,118	81,867	260,699	236,593
	<u>\$ 211,995</u>	<u>\$ 197,727</u>	<u>\$ 625,217</u>	<u>\$ 575,451</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, and 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 from continuing operations before income taxes:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Segment EBITDA				
Protective Packaging	\$ 10,842	\$ 11,063	\$ 30,893	\$ 27,079
Specialty Packaging	9,925	7,674	28,775	27,075
Total segment EBITDA	20,767	18,737	59,668	54,154
Corporate expenses	(7,794)	(3,361)	(16,439)	(15,355)
Restructuring expense	(153)	(2,045)	(1,127)	(3,587)
Depreciation and amortization	(11,525)	(10,968)	(35,036)	(32,283)
Interest expense, net of interest income	(12,405)	(11,717)	(37,592)	(35,284)
Goodwill impairment	(18,072)	—	(18,072)	—
Unrealized foreign exchange loss, net	(1,908)	321	(1,328)	(690)
Non-cash stock compensation	(360)	(331)	(937)	(1,389)
Non-cash loss on sales leaseback	—	(1,914)	—	(1,914)
Other	(5)	73	—	77
Loss from continuing operations before income taxes	<u>\$ (31,455)</u>	<u>\$ (11,205)</u>	<u>\$ (50,863)</u>	<u>\$ (36,271)</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.

12. COMPREHENSIVE INCOME (LOSS)

Total comprehensive loss and its components for the three and nine months ended September 30, 2011 and 2010 are as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net loss	\$ (29,325)	\$ (7,917)	\$ (41,974)	\$ (23,707)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	6,028	(4,737)	(510)	1,528
Net change in fair value of hedging instrument	—	348	1,021	1,498
Comprehensive income (loss)	<u>\$ (23,297)</u>	<u>\$ (12,306)</u>	<u>\$ (41,463)</u>	<u>\$ (20,681)</u>

As discussed in Note 5, the Company settled the interest rate swap in March 2011. The change in fair value of the swap through the date of settlement was recorded in other comprehensive income (loss) and the amount remaining in accumulated other comprehensive income (loss) on the date of settlement was recorded as interest expense.

13. 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, that a loss is reasonably possible. 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.

Financing commitments

As of September 30, 2011, the Company had \$6,023 of outstanding letters of credit under the ABL credit facility. In addition, the Company had outstanding guarantees and letters of credit issued under other financing lines with local banks totaling \$3,043.

14. ACQUISITIONS

In February 2010, Pregis acquired all of the outstanding stock of IntelliPack, Inc. through one of its wholly owned subsidiaries, Pregis Management Corporation (the "IntelliPack Acquisition"). Following the acquisition, Pregis Management Corporation was subsequently renamed Pregis IntelliPack Corporation ("IntelliPack"). The initial purchase price of \$31.5 million, including certain escrowed amounts totaling \$3.5 million, was funded with cash-on-hand. In accordance with the terms of the agreement, additional consideration up to a maximum of \$11.5 million may be payable by Pregis if certain future performance targets are achieved by IntelliPack. Based on a present value analysis, the fair value of contingent purchase consideration was valued at approximately \$9.7 million on the acquisition date. The Company has paid \$2.7 million as of September 30, 2011 and \$0.8 million during 2010 related to this contingency. The remaining contingent purchase consideration was revalued at approximately \$7.4 million as of September 30, 2011. The classification of the additional consideration payable as current and long-term was based on the estimated timing of future payments and the amounts are included in other current liabilities and other long-term liabilities in the consolidated balance sheet.

15. ASSETS HELD-FOR-SALE AND DISCONTINUED OPERATIONS

Hexacomb Business

As discussed in Note 1, on October 3, 2011, the Company announced the sale of the Hexacomb business to Boise Paper Holdings, L.L.C., for \$125 million. The sale is expected to close during the fourth quarter of 2011 and the Company has estimated that the sale will result in a pre-tax gain of approximately \$40 million.

The Hexacomb business met the criteria for "Assets held for sale" in accordance with ASC 360 as of September 30, 2011. The Hexacomb assets and liabilities are reflected as "held for sale" on the consolidated balance sheets in accordance with ASC 360 at September 30, 2011 and December 31, 2010. In addition, the results of operations for the Hexacomb business have been presented as discontinued operations in accordance with ASC 205-20 for all periods presented.

The assets and liabilities of the Hexacomb business are disclosed as current assets and current liabilities held for sale in the consolidated balance sheets as of September 30, 2011 and December 31, 2010. Additional detail related to those assets and liabilities are as follows:

	September 30, 2011	December 31, 2010
Current assets	\$ 22,160	\$ 20,916
Plant, property and equipment, net	12,746	13,827
Goodwill	61,336	61,089
Other non-current assets	3,223	3,516
Total assets	\$ 99,465	\$ 99,348
Current liabilities	\$ 15,643	\$ 13,257
Other non-current liabilities	2,826	2,910
Total liabilities	\$ 18,469	\$ 16,167

Accumulated other comprehensive loss in the consolidated balance sheets as of September 30, 2011 and December 31, 2010, includes foreign currency translation adjustments of \$0.9 million and \$0.9 million, respectively.

Income from discontinued operations, net of tax presented in the consolidated statements of operations was as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net sales	\$ 29,105	\$ 25,954	\$ 85,044	\$ 76,067
Income before income taxes	3,293	2,072	8,707	5,967
Income tax expense	(807)	(763)	(2,684)	(1,984)
Income from discontinued operations, net of tax	\$ 2,486	\$ 1,309	\$ 6,023	\$ 3,983

16. SUBSEQUENT EVENT

As also described in Note 1, on October 13, 2011, management entered into a definitive agreement with an affiliate of Sun European Partners, LLP, the European adviser to Sun Capital Partners, Inc., to sell our Kobusch-Sengewald business. Kobusch-Sengewald included both our flexibles and rigid packaging businesses. This business has historically been included in our specialty packaging segment and manufactured flexible and foodservice packaging such as films, bags, pouches, and labels. As part of this divestiture, the Company sold certain assets which, historically have been a part of our Hospital Supplies business. This business unit was previously included in our specialty packaging segment and manufactured medical supplies and packaging.

The sale price agreed upon for the business unit is €160 million (\$220 million), subject to the adjustments set forth in the Agreement. The Kobusch-Sengewald business did not meet the criteria for “Assets held for sale” as of September 30, 2011 due to ongoing negotiations and related uncertainty. We expect to close in the fourth quarter of 2011 and record a gain on the sale. The asset group of the Kobusch-Sengewald businesses comprise of the following major assets and liabilities:

	<u>September 30, 2011</u>
Current assets	\$ 111,568
Plant, property and equipment, net	65,945
Goodwill	18,432
Other non-current assets	16,801
Total assets	<u>\$ 212,746</u>
Current liabilities	\$ 53,438
Long term debt	11,500
Other non-current liabilities	4,769
Total Liabilities	<u>69,707</u>

The table above does not include certain assets that historically were a part of the Company’s Hospital Supplies business and disposed as part of this transaction.

17. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (“FASB”) issued ASU 2011-04, Fair Value Measurement (Topic 820), (“ASU 2011-04”), in order to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This guidance will take effect for the Company beginning on January 1, 2012. The adoption of this ASU is not expected to significantly impact the Company’s consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 which provided new guidance on the presentation of comprehensive income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholder’s equity and instead requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The adoption of this ASU will not have a significant impact on the Company’s consolidated financial statements as it only requires a change in the format of the current presentation.

In September 2011, the FASB issued ASU 2011-08 which provided new guidance on the testing for goodwill impairment. ASU 2011-08 was issued to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance will take effect for fiscal years beginning after December 15, 2011. Early adoption is permitted if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The Company has elected to adopt this ASU early as permitted by FASB when testing for goodwill impairment during the current year.

18. 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 ABL credit facility 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 ABL credit facility 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, 2011
(unaudited)

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Assets						
Current assets						
Cash and cash equivalents	\$ —	\$ 5,311	\$ 529	\$ 15,407	\$ —	\$ 21,247
Accounts receivable						
Trade, net of allowances	—	—	29,054	94,274	—	123,328
Affiliates	—	174,682	226,127	(9,733)	(391,076)	—
Other	—	—	325	16,082	—	16,407
Inventories, net	—	—	18,810	71,059	—	89,869
Deferred income taxes	—	134	2,562	490	—	3,186
Due from Pactiv	—	96	—	1,071	—	1,167
Assets held for sale	—	—	80,478	18,987	—	99,465
Prepayments and other current assets	—	8,849	(2)	461	—	9,308
Total current assets	—	189,072	357,883	208,098	(391,076)	363,977
Investment in subsidiaries / intercompany balances	(13,995)	461,141	—	—	(447,146)	—
Property, plant and equipment, net	—	880	47,848	131,421	—	180,149
Other assets						
Goodwill	—	—	40,006	20,504	—	60,510
Intangible assets, net	—	—	30,221	15,486	—	45,707
Restricted cash	—	3,503	—	—	—	3,503
Other	—	5,614	3,445	15,723	—	24,782
Total other assets	—	9,117	73,672	51,713	—	134,502
Total assets	<u>\$(13,995)</u>	<u>\$660,210</u>	<u>\$ 479,403</u>	<u>\$ 391,232</u>	<u>\$(838,222)</u>	<u>\$ 678,628</u>
Liabilities and stockholder's equity						
Current liabilities						
Current portion of long-term debt	\$ —	\$ 2,500	\$ —	\$ 101	\$ —	\$ 2,601
Accounts payable	—	13,074	14,997	70,581	—	98,652
Accounts payable, affiliate	—	180,763	179,451	30,719	(390,933)	—
Accrued payroll and benefits	—	627	3,393	10,755	—	14,775
Accrued interest	—	12,653	—	—	—	12,653
Liabilities held for sale	—	—	14,157	4,312	—	18,469
Other	—	4,254	5,997	7,890	—	18,141
Total current liabilities	—	213,871	217,995	124,358	(390,933)	165,291
Long-term debt	—	467,790	—	24,291	—	492,081
Intercompany balances	—	—	77,385	276,555	(353,940)	—
Deferred income taxes	—	(12,259)	22,793	3,187	—	13,721
Other long-term liabilities	—	4,804	6,943	9,783	—	21,530
Total Stockholder's equity	(13,995)	(13,996)	154,287	(46,942)	(93,349)	(13,995)
Total liabilities and stockholder's equity	<u>\$(13,995)</u>	<u>\$660,210</u>	<u>\$ 479,403</u>	<u>\$ 391,232</u>	<u>\$(838,222)</u>	<u>\$ 678,628</u>

Pregis Holding II Corporation
Condensed Consolidating Balance Sheet
December 30, 2010
(unaudited)

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ —	\$ 19,019	\$ 763	\$ 26,377	\$ —	\$ 46,159
Accounts receivable						
Trade, net of allowances	—	—	26,591	80,061	—	106,652
Affiliates	—	67,201	90,017	4,334	(161,552)	—
Other	—	—	(14)	18,523	—	18,509
Inventories, net	—	—	20,090	63,033	—	83,123
Deferred income taxes	—	134	2,562	444	—	3,140
Due from Pactiv	—	56	—	1,105	—	1,161
Assets held for sale	—	—	79,502	19,846	—	99,348
Prepayments and other current assets	—	4,269	1,105	3,186	—	8,560
Total current assets	—	90,679	220,616	216,909	(161,552)	366,652
Investment in subsidiaries / intercompany balances	26,531	475,691	—	—	(502,222)	—
Property, plant and equipment, net	—	1,042	50,391	133,000	—	184,433
Other assets						
Goodwill	—	—	40,006	38,700	—	78,706
Intangible assets, net	—	—	32,627	17,550	—	50,177
Restricted cash	—	3,501	—	—	—	3,501
Other	—	4,836	3,489	16,904	—	25,229
Total other assets	—	8,337	76,122	73,154	—	157,613
Total assets	<u>\$26,531</u>	<u>\$575,749</u>	<u>\$ 347,129</u>	<u>\$ 423,063</u>	<u>\$(663,774)</u>	<u>\$ 708,698</u>
Liabilities and stockholder's equity						
Current liabilities						
Current portion of long-term debt	\$ —	\$ 42,500	\$ —	\$ 3,863	\$ —	\$ 46,363
Accounts payable	—	5,208	16,436	70,107	—	91,751
Accounts payable, affiliate	—	50,104	62,895	48,417	(161,416)	—
Accrued income taxes	—	(1,597)	983	2,882	—	2,268
Accrued payroll and benefits	—	446	3,179	9,185	—	12,810
Accrued interest	—	7,654	—	—	—	7,654
Liabilities held for sale	—	—	11,530	4,637	—	16,167
Other	—	5,136	5,414	9,129	—	19,679
Total current liabilities	—	109,451	100,437	148,220	(161,416)	196,692
Long-term debt	—	442,625	—	284	—	442,909
Intercompany balances	—	—	77,384	276,198	(353,582)	—
Deferred income taxes	—	(12,374)	22,794	3,765	—	14,185
Other long-term liabilities	—	9,516	6,779	12,086	—	28,381
Total Stockholder's equity	26,531	26,531	139,735	(17,490)	(148,776)	26,531
Total liabilities and stockholder's equity	<u>\$26,531</u>	<u>\$575,749</u>	<u>\$ 347,129</u>	<u>\$ 423,063</u>	<u>\$(663,774)</u>	<u>\$ 708,698</u>

Pregis Holding II Corporation
Condensed Consolidating Statement of Operations
For the Three Months Ended September 30, 2011
(Unaudited)

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net Sales	\$ —	\$ —	\$ 74,407	\$ 141,107	\$ (3,519)	\$ 211,995
Operating costs and expenses:						
Cost of sales, excluding depreciation and amortization	—	401	55,311	117,711	(3,519)	169,904
Selling, general and administrative	—	3,448	7,690	14,815	—	25,953
Depreciation and amortization	—	129	4,211	7,185	—	11,525
Goodwill impairment	—	—	—	18,072	—	18,072
Other operating expense, net	—	4,079	(54)	(202)	—	3,823
Total operating costs and expenses	—	8,057	67,158	157,581	(3,519)	229,277
Operating income (loss) from continuing operations	—	(8,057)	7,249	(16,474)	—	(17,282)
Interest expense, net of interest Income	—	3,907	2,394	6,104	—	12,405
Foreign exchange (gain) loss, net	—	1,192	—	576	—	1,768
Equity in loss of subsidiaries	29,325	17,196	—	—	(46,521)	—
Income (loss) from continuing operations before income taxes	(29,325)	(30,352)	4,855	(23,154)	46,521	(31,455)
Income tax expense (benefit)	—	(1,027)	1,953	(570)	—	356
Net income (loss) from continuing operations	(29,325)	(29,325)	2,902	(22,584)	46,521	(31,811)
Net income from discontinued operations, net of income tax expense	—	—	1,695	791	—	2,486
Net income (loss)	<u>\$(29,325)</u>	<u>\$(29,325)</u>	<u>\$ 4,597</u>	<u>\$ (21,793)</u>	<u>\$ 46,521</u>	<u>\$ (29,325)</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>
Net Sales	\$ —	\$ —	\$ 70,709	\$ 129,871	\$ (2,853)	\$ 197,727
Operating costs and expenses:						
Cost of sales, excluding depreciation and amortization	—	—	52,552	107,537	(2,853)	157,236
Selling, general and administrative	—	3,837	7,323	14,407	—	25,567
Depreciation and amortization	—	132	4,034	6,802	—	10,968
Other operating expense, net	—	943	1,978	950	—	3,871
Total operating costs and expenses	—	4,912	65,887	129,696	(2,853)	197,642
Operating income (loss) from continuing operations	—	(4,912)	4,822	175	—	85
Interest expense, net of interest Income	—	4,005	2,715	4,997	—	11,717
Foreign exchange (gain) loss, net	—	(1,322)	—	895	—	(427)
Equity in loss of subsidiaries	7,917	2,981	—	—	(10,898)	—
Income (loss) from continuing operations before income taxes	(7,917)	(10,576)	2,107	(5,717)	10,898	(11,205)
Income tax expense (benefit)	—	(2,659)	783	(103)	—	(1,979)
Net income (loss) from continuing operations	(7,917)	(7,917)	1,324	(5,614)	10,898	(9,226)
Net income from discontinued operations, net of income tax expense	—	—	1,020	289	—	1,309
Net income (loss)	<u>\$(7,917)</u>	<u>\$(7,917)</u>	<u>\$ 2,344</u>	<u>\$ (5,325)</u>	<u>\$ 10,898</u>	<u>\$ (7,917)</u>

Pregis Holding II Corporation
Condensed Consolidating Statement of Operations
For the Nine Months Ended September 30, 2011
(Unaudited)

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net Sales	\$ —	\$ —	\$ 213,496	\$ 421,029	\$ (9,308)	\$ 625,217
Operating costs and expenses:						
Cost of sales, excluding depreciation and amortization	—	401	159,000	348,165	(9,308)	498,258
Selling, general and administrative	—	12,467	24,042	45,203	—	81,712
Depreciation and amortization	—	389	12,776	21,871	—	35,036
Goodwill Impairment	—	—	—	18,072	—	18,072
Other operating expense, net	—	4,576	(112)	(224)	—	4,240
Total operating costs and expenses	—	17,833	195,706	433,087	(9,308)	637,318
Operating income (loss) from continuing operations	—	(17,833)	17,790	(12,058)	—	(12,101)
Interest expense, net of interest income	—	12,864	7,182	17,546	—	37,592
Foreign exchange (gain) loss, net	—	(77)	—	1,247	—	1,170
Equity in loss of subsidiaries	41,974	14,392	—	—	(56,366)	—
Income (loss) from continuing operations before income taxes	(41,974)	(45,012)	10,608	(30,851)	56,366	(50,863)
Income tax expense (benefit)	—	(3,038)	103	69	—	(2,866)
Net income (loss) from continuing operations	(41,974)	(41,974)	10,505	(30,920)	56,366	(47,997)
Net income from discontinued operations, net of income tax expense	—	—	4,047	1,976	—	6,023
Net income (loss)	<u>\$(41,974)</u>	<u>\$(41,974)</u>	<u>\$ 14,552</u>	<u>\$ (28,944)</u>	<u>\$ 56,366</u>	<u>\$ (41,974)</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>
Net Sales	\$ —	\$ —	\$ 198,380	\$ 385,613	\$ (8,542)	\$ 575,451
Operating costs and expenses:						
Cost of sales, excluding depreciation and amortization	—	—	149,036	314,017	(8,542)	454,511
Selling, general and administrative	—	16,708	22,465	44,793	—	83,966
Depreciation and amortization	—	394	11,794	20,095	—	32,283
Other operating expense, net	—	1,856	1,883	1,606	—	5,345
Total operating costs and expenses	—	18,958	185,178	380,511	(8,542)	576,105
Operating income (loss) from continuing operations	—	(18,958)	13,202	5,102	—	(654)
Interest expense	—	10,936	9,166	15,182	—	35,284
Foreign exchange (gain) loss, net	—	678	—	(345)	—	333
Equity in loss of subsidiaries	23,707	4,374	—	—	(28,081)	—
Income (loss) from continuing operations before income taxes	(23,707)	(34,946)	4,036	(9,735)	28,081	(36,271)
Income tax expense (benefit)	—	(11,239)	1,749	909	—	(8,581)
Net income (loss) from continuing operations	(23,707)	(23,707)	2,287	(10,644)	28,081	(27,690)
Net income from discontinued operations, net of income tax expense	—	—	2,990	993	—	3,983
Net income (loss)	<u>\$(23,707)</u>	<u>\$(23,707)</u>	<u>\$ 5,277</u>	<u>\$ (9,651)</u>	<u>\$ 28,081</u>	<u>\$ (23,707)</u>

Pregis Holding II Corporation
Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 2011
(Unaudited)

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating activities of continuing operations						
Net income (loss)	\$(41,974)	\$(41,974)	\$ 14,552	\$ (28,944)	\$ 56,366	\$ (41,974)
Net income from discontinued operations	—	—	(4,047)	(1,976)	—	(6,023)
Non-cash adjustments	41,974	20,671	13,497	39,776	(56,366)	59,552
Changes in operating assets and liabilities, net of effects of acquisitions	—	32,948	(16,446)	(30,049)	—	(13,547)
Cash provided by (used in) operating activities of continuing operations	<u>—</u>	<u>11,645</u>	<u>7,556</u>	<u>(21,193)</u>	<u>—</u>	<u>(1,992)</u>
Investing activities of continuing operations						
Capital expenditures	—	(227)	(7,899)	(18,402)	—	(26,528)
Proceeds from sale of assets	—	—	108	234	—	342
Acquisition of business, net of cash acquired	—	(2,733)	—	—	—	(2,733)
Change in restricted cash	—	(2)	—	—	—	(2)
Cash used in investing activities of continuing operations	<u>—</u>	<u>(2,962)</u>	<u>(7,791)</u>	<u>(18,168)</u>	<u>—</u>	<u>(28,921)</u>
Financing activities of continuing operations						
Repayment of long-term debt	—	(43,000)	—	—	—	(43,000)
Proceeds from ABL credit facility	—	24,891	—	20,000	—	44,891
Proceeds from revolving credit facility	—	500	—	—	—	500
Proceeds from local lines of credit draws	—	—	—	375	—	375
Deferred financing fees	—	(4,822)	—	—	—	(4,822)
Other, net	—	—	—	(252)	—	(252)
Cash provided by (used in) financing activities of continuing operations	<u>—</u>	<u>(22,431)</u>	<u>—</u>	<u>20,123</u>	<u>—</u>	<u>(2,308)</u>
Effect of exchange rate changes on cash and cash equivalents	—	40	—	224	—	264
Increase/decrease in cash and cash equivalents of continuing operations	<u>—</u>	<u>(13,708)</u>	<u>(235)</u>	<u>(19,014)</u>	<u>—</u>	<u>(32,957)</u>
Cash flow from discontinued operations						
Cash flows from operating activities of discontinued operations, net	—	—	287	7,563	—	7,850
Cash flows from investing activities of discontinued operations, net	—	—	(286)	(294)	—	(580)
Effect of exchange rate changes on cash	—	—	—	(6)	—	(6)
Net decrease in cash and cash equivalents	<u>—</u>	<u>(13,708)</u>	<u>(234)</u>	<u>(11,751)</u>	<u>—</u>	<u>(25,693)</u>
Cash and cash equivalents, beginning of period	—	19,019	763	26,377	—	46,159
Cash and cash equivalents of discontinued/held for sale operations, beginning of period	—	—	—	1,686	—	1,686
Net decrease in cash and cash equivalents	<u>—</u>	<u>(13,708)</u>	<u>(234)</u>	<u>(11,751)</u>	<u>—</u>	<u>(25,693)</u>
Less: cash and cash equivalents of discontinued/held for sale operations at end of period	—	—	—	(905)	—	(905)
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 5,311</u>	<u>\$ 529</u>	<u>\$ 15,407</u>	<u>\$ —</u>	<u>\$ 21,247</u>

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>
Operating activities of continuing operations						
Net income (loss)	\$(23,707)	\$(23,707)	\$ 5,277	\$ (9,651)	\$ 28,081	\$ (23,707)
Net income from discontinued operations	—	—	(2,990)	(993)	—	(3,983)
Non-cash adjustments	23,707	555	15,763	19,183	(28,081)	31,127
Changes in operating assets and liabilities, net of effects of acquisitions	—	6,068	(1,130)	(14,642)	—	(9,704)
Cash provided by (used in) operating activities of continuing operations	<u>—</u>	<u>(17,084)</u>	<u>16,920</u>	<u>(6,103)</u>	<u>—</u>	<u>(6,267)</u>
Investing activities of continuing operations						
Capital expenditures	—	(169)	(8,215)	(11,823)	—	(20,207)
Proceeds from sale of assets	—	—	(15)	550	—	535
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)
Cash used in investing activities of continuing operations	<u>—</u>	<u>(35,440)</u>	<u>9,760</u>	<u>(11,273)</u>	<u>—</u>	<u>(36,953)</u>
Financing activities of continuing operations						
Intercompany activity	—	26,758	(26,758)	—	—	—
Proceeds from revolving credit facility	—	500	—	—	—	500
Proceeds from local lines of credit draws	—	—	—	3,670	—	3,670
Other, net	—	—	—	71	—	71
Cash provided by (used in) financing activities of continuing operations	<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	—	(1,726)	—	(1,722)
Increase (decrease) in cash and cash equivalents of continuing operations	<u>—</u>	<u>(25,262)</u>	<u>(78)</u>	<u>(15,361)</u>	<u>—</u>	<u>(40,701)</u>
Cash flow from discontinued operations						
Cash flows from operating activities of discontinued operations, net	—	—	853	5,681	—	6,534
Cash flows from investing activities of discontinued operations, net	—	—	(775)	(837)	—	(1,612)
Effect of exchange rate changes on cash	—	—	—	(69)	—	(69)
Net decrease in cash and cash equivalents	<u>—</u>	<u>(25,262)</u>	<u>—</u>	<u>(10,586)</u>	<u>—</u>	<u>(35,848)</u>
Cash and cash equivalents, beginning of period	—	40,883	—	37,285	—	78,168
Cash and cash equivalents of discontinued/held for sale operations, beginning of period	—	—	—	2,267	—	2,267
Net decrease in cash and cash equivalents	<u>—</u>	<u>(25,262)</u>	<u>—</u>	<u>(10,586)</u>	<u>—</u>	<u>(35,848)</u>
Less: cash and cash equivalents of discontinued/held for sale operations at end of period	—	—	—	(2,058)	—	(2,058)
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 15,621</u>	<u>\$ —</u>	<u>\$ 26,908</u>	<u>\$ —</u>	<u>\$ 42,529</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 for the fiscal year ended December 31, 2010.

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 our need to comply with various negative and other covenants contained in our debt agreements;
- risks associated with our ability to access existing liquidity and/or access the debt or 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;
- our ability to retain management;
- 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, both in the U.S. and worldwide;
- risks related to our acquisition or divestiture strategy;
- 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 for the fiscal year ended December 31, 2010 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 46 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 63% of our 2010 net sales were generated outside of the U.S., so we are sensitive to fluctuations in foreign currency exchange rates, primarily between the euro and pound sterling with the U.S. dollar.

Pregis – Results from Continuing and Discontinued Operations

For the third quarter of 2011, the Company generated net sales of \$241.1 million, an increase of 7.8% versus net sales of \$223.7 million in the third quarter of 2010. Gross margin as a percent of net sales decreased year-over-year to 20.9% for the third quarter of 2011, compared to 21.2% for the same period of 2010.

	Reconciliation of Net Sales					
	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	2011	2010	Change
Net Sales from continuing operations	\$ 211,995	\$ 197,727	\$ 14,268	\$ 625,217	\$ 575,451	\$ 49,766
Net Sales from discontinued operations	29,105	25,954	3,151	85,044	76,067	8,977
Total Net Sales	<u>\$ 241,100</u>	<u>\$ 223,681</u>	<u>\$ 17,419</u>	<u>\$ 710,261</u>	<u>\$ 651,518</u>	<u>\$ 58,743</u>

(dollars in thousands)	Reconciliation of Gross Margin					
	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Change	2011	2010	Change
Net sales from continuing operations	\$ 211,995	\$ 197,727	\$ 14,268	\$ 625,217	\$ 575,451	\$ 49,766
Net sales from discontinued operations	29,105	25,954	3,151	85,044	76,067	8,977
Total Net Sales	241,100	223,681	17,419	710,261	651,518	58,743
Cost of sales, excluding depreciation and amortization of continuing operations	(169,904)	(157,236)	(12,668)	(498,258)	(454,511)	(43,747)
Cost of sales, excluding depreciation and amortization of discontinued operations	(20,688)	(19,065)	(1,623)	(61,337)	(55,628)	(5,709)
Total Cost of sales, excluding depreciation and amortization	(190,592)	(176,301)	(14,291)	(559,595)	(510,139)	(49,456)
Gross margin of continuing operations	\$ 42,091	\$ 40,491	\$ 1,600	\$ 126,959	\$ 120,940	\$ 6,019
Gross margin of discontinued operations	8,417	6,889	1,528	23,707	20,439	3,268
Total gross margin	<u>\$ 50,508</u>	<u>\$ 47,380</u>	<u>\$ 3,128</u>	<u>\$ 150,666</u>	<u>\$ 141,379</u>	<u>\$ 9,287</u>
Gross margin, as a percent of net sales of continuing operations	<u>19.9%</u>	<u>20.5%</u>	<u>(0.6)%</u>	<u>20.3%</u>	<u>21.0%</u>	<u>(0.7)%</u>
Gross margin, as a percent of net sales of discontinued operations	<u>28.9%</u>	<u>26.5%</u>	<u>2.4%</u>	<u>27.9%</u>	<u>26.9%</u>	<u>1.0%</u>
Total gross margin, as a percent of total net sales	<u>20.9%</u>	<u>21.2%</u>	<u>(0.3)%</u>	<u>21.2%</u>	<u>21.7%</u>	<u>(0.6)%</u>

Divestitures

During October 2011, we announced our decision to divest of certain business units as part of two separate transactions. In the first transaction, on October 3, 2011 we announced that management had entered into a definitive agreement with Boise Paper Holding, L.L.C. to sell our Hexacomb business for \$125 million. In the second transaction, on October 13, 2011, we announced that management had entered into a definitive agreement with an affiliate of Sun European Partners, LLP to sell our Kobusch-Sengewald business for €160 million. Both sales will close during the fourth quarter of 2011.

The Hexacomb business met the criteria for “Assets held for sale” in accordance with ASC 360 as of September 30, 2011. The Kobusch-Sengewald business did not meet the criteria for “Assets held for sale” as of September 30, 2011 due to ongoing negotiations and related uncertainty. The Hexacomb assets and liabilities are reflected as “held for sale” on the consolidated balance sheets in accordance with ASC 360 at September 30, 2011 and December 31, 2011. In addition, the results of operations for the Hexacomb business have been presented as discontinued operations in accordance with ASC 205-20 for all periods presented (Note 15). Given that the criteria required to reflect operations as discontinued under ASC 205-20 was not met, at the quarter end date, the results of Kobusch-Sengewald continue to be included in continuing operations as of September 30, 2011. In addition, the result of operations for Hexacomb have been presented as discontinued operations in accordance with ASC 205-20, at the quarter end date, for all periods presented. Given that the criteria required to reflect operations as discontinued under ASC 205-20 was not met, the results of Kobusch-Sengewald continue to be included in continuing operations as of September 30, 2011.

Pregis – Results from Continuing Operations

Our net sales from continuing operations for the three and nine months ended September 30, 2011 increased 7.2% and 8.6%, respectively, over the comparable periods of 2010. The increase was driven primarily by the impact of selling price increases, favorable currency translation and incremental sales associated with the acquisition of IntelliPack. Excluding the impact of favorable foreign currency translation and the net sales of the partial first quarter of IntelliPack, net sales for the three and nine months ended September 30, 2011 increased 2.9% and 4.4%, respectively, compared to the same periods in 2010.

Our gross margin (defined as net sales less cost of sales, excluding depreciation and amortization) as a percent of net sales from continuing operations decreased to 19.9% for the three months ended September 30, 2011, compared to 20.5% for the same period of 2010. This decline in our 2011 gross margin percentage was driven primarily by increased key raw material costs partially offset by the impact of selling price increases.

Our gross margin (defined as net sales less cost of sales, excluding depreciation and amortization) as a percent of net sales from continuing operations decreased to 20.3% for the nine months ended September 30, 2011, compared to 21.0% for the same period of 2010. This decline in our 2011 gross margin percentage was driven primarily by increased key raw material costs partially offset by the impact of selling price increases.

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. In the first nine months of 2011 as compared to the same period of 2010, average resin costs increased approximately 13% in North America and 22% in Europe, as measured by the Chemical Market Associates, Inc. (“CMAI”) index and ICIS index, their respective market indices.

In March 2011, the Company successfully refinanced its existing \$50 million revolving credit facility with a new \$75 million ABL credit facility. This refinancing addressed the October 2011 maturity of our old revolving credit facility while providing additional borrowing capacity.

RESULTS OF OPERATIONS – Continuing Operations

Net Sales

Our net sales for the three and nine months ended September 30, 2011 compared to the same periods ended September 30, 2010 are summarized by segment as follows:

	Three Months Ended September 30,		\$ Change	% Change	Change Attributable to the Following Factors							
	2011	2010			Price / Mix	Volume	Acquisition	Currency Translation				
	(dollars in thousands)											
Segment:												
Protective Packaging	\$122,877	\$115,860	\$ 7,017	6.1%	\$ 3,258	2.8%	\$ 422	0.4%	\$ —	— %	\$ 3,337	2.9%
Specialty Packaging	89,118	81,867	7,251	8.9%	2,591	3.2%	(619)	(0.8)%	—	— %	5,279	6.5%
Total	<u>\$211,995</u>	<u>\$197,727</u>	<u>\$14,268</u>	7.2%	<u>\$ 5,849</u>	3.0%	<u>\$(197)</u>	(0.1)%	<u>\$ —</u>	— %	<u>\$ 8,616</u>	4.3%

	Nine Months Ended September 30,		\$ Change	% Change	Change Attributable to the Following Factors							
	2011	2010			Price / Mix	Volume	Acquisition	Currency Translation				
	(dollars in thousands)											
Segment:												
Protective Packaging	\$364,518	\$338,858	\$25,660	7.6%	\$13,768	4.1%	\$ 205	0.1%	\$2,339	0.7%	\$ 9,348	2.7%
Specialty Packaging	260,699	236,593	24,106	10.2%	11,167	4.7%	211	0.1%	—	— %	12,728	5.4%
Total	<u>\$625,217</u>	<u>\$575,451</u>	<u>\$49,766</u>	8.6%	<u>\$24,935</u>	4.3%	<u>\$ 416</u>	0.1%	<u>\$2,339</u>	0.4%	<u>\$22,076</u>	3.8%

Segment Net Sales

Volume in the Company's protective packaging segment was flat for the three and nine months ended September 30, 2011. This was a result of the Company's growth initiatives in inflatable systems being offset by weaker European volumes, driven in part by weakening economic conditions.

Price/mix for the Company's protective packaging segment increased net sales by 2.8% and 4.1% for both periods ended September 30, 2011 compared to the same periods in 2010. Price/mix was favorable for both the three and nine months ended September 30, 2011 due to selling price increases implemented for both our North American and European businesses over the last twelve months in response to increased key raw material costs.

Volume in the Company's specialty packaging segment decreased by 0.8% and was flat for the three and nine months ended September 30, 2011 compared to the same periods of 2010 primarily due to weakness in the European economy.

Price/mix for the Company's specialty packaging segment increased net sales by 3.2% and 4.7% for the three and nine months ended September 30, 2011 compared to the same periods in 2010. Price/mix was favorable year-to-date due primarily to selling price increases implemented in our flexible packaging business in response to increased key raw material costs.

Gross Margin

Gross margin (defined as net sales less cost of sales, excluding depreciation and amortization), as a percent of net sales, was 19.9% and 20.3% for the three and nine months ended September 30, 2011 compared to 20.5% and 21.0% for the same periods of 2010. These decreases were due to increased key raw material costs partially offset by the impact of selling price increases. The increase in key raw material costs offset by selling price increases resulted in a negative 67 basis point impact on gross margin as a percent of net sales.

Average resin costs in North America for the three and nine month periods ended September 30, 2011 were 11% and 13% higher, respectively, than average resin costs for the same periods in 2010 while average resin costs in Europe were 17% and 22% higher, respectively, than average resin prices for the same periods of 2010, based on their respective market indices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$0.4 million for the three months ended September 30, 2011 compared to the same period of 2010. This increase was primarily driven by unfavorable foreign currency translation. Excluding the impact of unfavorable foreign currency translation selling, general and administrative expenses for the three months ended September 30, 2011 decreased by approximately \$1.7 million.

Selling, general and administrative expenses decreased by \$2.3 million for the nine months ended September 30, 2011 compared to the same period of 2010. This decrease was primarily driven by legal expenses and 2010 acquisition related fees not incurred in 2011, partially offset by 2011 unfavorable foreign currency translation, severance expense, and incremental IntelliPack expenses for the full first quarter of 2011 compared to a partial first quarter in 2010. Excluding the impact of unfavorable foreign currency translation, legal expenses, and acquisition related costs, selling, general and administrative expenses for the nine months ended September 30, 2011 decreased \$2.4 million compared to the same period in 2010.

Other Operating Expense, net

For the three and nine months ended September 30, 2011, other operating expense, net totaled \$3.8 million and \$4.2 million, respectively, compared to \$3.9 million and \$5.3 million, respectively, in the same periods of 2010. We recorded \$4.2 million in divestiture costs for the three and nine months ended September 30, 2011. These costs are comprised of legal and due diligence costs in relation to the Company's planned divestiture of the Hexacomb and Kobusch-Sengewald businesses. We also recorded restructuring charges of \$1.1 million and \$3.6 million for the nine months ended September 30, 2011 and 2010, respectively. Restructuring charges were primarily related to consulting expenses. See Note 8 to the unaudited consolidated financial statements for details regarding our restructuring activity.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by \$0.6 million and \$2.8 million for the three and nine months ended September 30, 2011, respectively, compared to the same periods of 2010, primarily due to the IntelliPack expenses for the full first quarter of 2011 compared to a partial first quarter in 2010 and the impact of unfavorable foreign currency translation.

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 charges and benefits. See Note 11 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>2011</u>	<u>2010</u>		
	<u>(dollars in thousands)</u>			
Segment:				
Protective Packaging	\$ 10,842	\$ 11,063	\$ (221)	(2.0)%
Specialty Packaging	9,925	7,674	2,251	29.3%
Total segment EBITDA	<u>\$ 20,767</u>	<u>\$ 18,737</u>	<u>\$ 2,030</u>	10.8%
	<u>Nine Months Ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
	<u>(dollars in thousands)</u>			
Segment:				
Protective Packaging	\$ 30,893	\$ 27,079	\$ 3,814	14.1%
Specialty Packaging	28,775	27,075	1,700	6.3%
Total segment EBITDA	<u>\$ 59,668</u>	<u>\$ 54,154</u>	<u>\$ 5,514</u>	10.2%

Segment EBITDA for the Protective Packaging segment decreased \$0.2 million for the three months ended September 30, 2011 and increased \$3.8 million for the nine months ended September 30, 2011 compared to the same periods of 2010. The quarter-to-date decrease was a result of increased key raw material costs, decreased sales volumes partially offset by selling price increases. The year-to-date increase was primarily due to the impact from selling price increases and the impact of the IntelliPack acquisition partially offset by increased key raw material costs and a decrease in sales volumes.

Segment EBITDA for specialty packaging increased by \$2.3 million and \$1.7 million for the three and nine months ended September 30, 2011 compared to the same periods of 2010. These increases were due to the impact of selling price increases offset by higher key raw material.

Interest Expense, net of interest income

Interest expense net of interest income for the three and nine months ended September 30, 2011 increased \$0.7 million and \$2.3 million, respectively, compared to the same periods of 2010. The year-to-date increase was primarily driven by unfavorable foreign currency translation and increased interest expense on the Company's euro denominated debt.

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 (5.63)% for the nine months ended September 30, 2011, compared to approximately (23.66)% for the nine months ended September 30, 2010. For the nine months ended September 30, 2011 and 2010, the Company's effective rate differs from the U.S. federal statutory rate of 35% primarily due to the 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, 2011, we had a net loss of \$29.3 million and \$42.0 million, respectively, compared to a net loss of \$7.9 million and \$23.7 million in the comparable periods of 2010. As discussed herein, the 2011 net loss is mainly the result of key increased raw material costs partially offset by increases in selling prices and increased sales volumes.

Discontinued Operations

As discussed under "Divestitures", October 3, 2011, we announced the sale of the Hexacomb business to Boise Paper Holdings, L.L.C., for \$125 million. We have reflected the results of this business as discontinued operations in the consolidated statements of operations for all periods presented. The assets and liabilities of the Hexacomb business are as current assets and current liabilities held for sale in the consolidated balance sheets as of September 30, 2011 and December 31, 2010.

Income from discontinued operations, net of tax presented in the consolidated statements of income included the following:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Net Sales	\$ 29,105	\$ 25,954	\$ 85,044	\$ 76,067
Income before income taxes	3,293	2,072	8,707	5,967
Income tax expense	(807)	(763)	(2,684)	(1,984)
Income from discontinued operations, net of tax	<u>\$ 2,486</u>	<u>\$ 1,309</u>	<u>\$ 6,023</u>	<u>\$ 3,983</u>

LIQUIDITY AND CAPITAL RESOURCES

The following table shows our sources and uses of funds related to our continuing operations for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010:

	<u>Nine Months Ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
	<u>(dollars in thousands)</u>	
Cash used in operating activities of continuing operations	\$ (1,992)	\$ (6,267)
Cash used in investing activities of continuing operations	(28,921)	(36,953)
Cash provided (used) in financing activities	(2,308)	4,241
Effect of foreign exchange rate changes	264	(1,722)
Decrease in cash and cash equivalents of continuing operations	<u>\$ (32,957)</u>	<u>\$ (40,701)</u>

Operating Activities. Cash used in operating activities decreased by \$4.3 million during the nine months ended September 30, 2011 compared to the same period of 2010. This increase was driven primarily by our improved operating results.

Cash from operating activities of continuing operations 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 lagged the underlying change in raw material costs, the Company has historically been able to recover significant increases in underlying raw material costs from its customers over a twelve to twenty-four month period. Future cash from operations is dependent upon the Company's continued ability to recover increases in underlying raw material increases from its customers.

The Company will have lower cash flows in future periods after the divestiture of Kobusch-Sengewald business during the fourth quarter of 2011. We do not expect the divestiture to have an adverse affect as the expected proceeds from the divestiture to be received will provide additional liquidity as well as the ability to pay down some of our debt which will result in lower interest payment obligations.

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. Significant increases in resin pricing could negatively affect our cash generated from operating activities in future periods.

Investing Activities. Cash used in investing activities totaled \$28.9 million for the nine months ended September 30, 2011, a decrease of \$8.0 million compared to the same period of 2010. This decrease was primarily the result of the 2010 acquisition of IntelliPack and was partially offset by increased capital expenditures. In February 2010, Pregis acquired all of the stock of IntelliPack for an initial purchase price of \$31.5 million and certain escrowed amounts totaling \$3.5 million, which was funded with cash-on-hand. In accordance with the terms of the agreement, additional consideration up to a maximum amount of \$11.5 million may be payable by Pregis if certain future performance targets are achieved by IntelliPack. As of September 30, 2011 the Company has paid \$2.7 million related to this contingency. Capital expenditures totaled \$26.5 million in the 2011 period compared to \$20.2 million in the 2010 period, driven by investments for capacity expansion in our specialty segment.

Financing Activities. Cash used in financing activities totaled \$2.3 million for the nine months ended September 30, 2011 compared to cash provided by financing activities of continuing operations of \$4.2 million for the same period in 2010. During 2011, proceeds from the ABL credit facility of \$44.9 million were used for repayment of the senior secured credit facility of \$43.0 million and \$4.8 million in deferred financing fees associated with the ABL credit facility. The decrease between years was primarily related to a \$3.3 million decrease in our foreign lines of credit draws.

Our liquidity requirements are significant, primarily due to debt service requirements and capital investment in our businesses. We expect our 2011 capital expenditures to total approximately \$30 to \$35 million and our 2011 debt service costs to total approximately \$40 million. At September 30, 2011, we had cash and cash equivalents of \$21.2 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 experienced no 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 the ABL credit facility and foreign lines of credit. In addition, given the sale of Hexacomb and Kobusch-Sengewald, we will obtain cash proceeds of \$125 million and €160 million (\$220 million) less deal expenses some of which will also be used to pay down some of the outstanding ABL facility. In addition, we are still in the process of determining a plan to meet our indenture requirements related to the senior secured notes as well as senior subordinated notes. We believe these transactions and the resulting decrease in our debt will improve our liquidity and cash position.

ABL Credit Facility. On March 23, 2011, Pregis Holding II and Pregis and certain of their subsidiaries entered into a \$75 million Credit Agreement with Wells Fargo Capital Finance, LLC, as agent, Wells Fargo Bank, National Association, as lender and other lenders from time to time parties thereto (the “ABL credit facility”). The ABL credit facility provides for the borrowings in dollars, euros and pounds sterling and consists of (1) a UK facility, under which certain UK subsidiaries of Pregis (the “UK Borrowers”) may from time to time borrow up to a maximum amount of the lesser of the UK borrowing base and \$30 million and (2) a US facility, under which certain US subsidiaries of Pregis (the “US Borrowers” and, together with the UK Borrowers, the “Borrowers”) may from time to time borrow up to a maximum amount of the lesser of the US borrowing base and \$75 million less amounts outstanding under the UK facility. The borrowing base is calculated on the basis of certain permitted over advance amounts, plus a percentage of certain eligible accounts receivable and eligible inventory, subject to reserves established by the agent from time to time. The ABL credit facility provides for the issuance of letters of credit and a swingline subfacility. The ABL credit facility also provides for future uncommitted increases of its maximum amount, not to exceed \$40 million.

On October 3, 2011, Pregis announced that it had entered into an agreement to sell its Hexacomb business unit, and on October 14, 2011 Pregis announced that it had entered into an agreement to sell its Kobusch-Sengewald business unit. The ABL credit facility requires, among other things, that Pregis maintain 25% excess availability immediately following the sales in order to effect each transaction. In order to achieve this threshold, Pregis may be required to prepay borrowings under the ABL credit facility out of the proceeds of such divestitures. Currently, our estimate of the related amount of borrowings required to be paid upon the sale of the Hexacomb business is \$2.5 million. This will be exacted on the date of sale using the final borrowing base figures. Further, the sale of these business units will reduce the permitted overadvance amount portion, which are additional borrowings above asset value, of the borrowing base availability to zero.

The ABL credit facility matures on the earlier of (a) March 22, 2016 and (b) January 15, 2013 or July 15, 2013, which is 90 days prior to the maturity of the existing senior secured notes and senior subordinated notes, respectively, unless these notes are (i) redeemed, discharged or defeased in full 90 days prior to maturity and (ii) refinanced with proceeds from permitted indebtedness as defined in the ABL agreement with a maturity date at least 90 days after March 22, 2016. Advances under the ABL credit facility bear interest, at the Borrowers’ option, equal to adjusted LIBOR plus an applicable margin for LIBOR loans or a base rate plus an applicable margin base rate loans. The applicable margin for LIBOR loans ranges from 2.5% to 3%, depending on the average quarterly excess availability of the Borrowers. The applicable margin for the base rate loans is 100 basis points lower than the applicable margin for LIBOR loans.

All obligations under the ABL credit facility are guaranteed by Pregis Holding II and certain of its direct and indirect subsidiaries (other than certain non wholly-owned and immaterial subsidiaries and certain foreign subsidiaries), with foreign guarantors guaranteeing only the obligations of the UK Borrowers. All obligations under the ABL credit facility and the guarantees of those obligations are secured, subject to certain exceptions, by a first-priority security interest in substantially all of the assets of the Pregis Holding II, the Borrowers and the guarantors, as well as the pledge of 100% of the capital stock of the Borrowers, the guarantors and their direct subsidiaries, with the obligations of the US Borrowers being secured only by (1) a first-priority security interest in substantially all assets of the Pregis Holding II, the US Borrowers and the domestic guarantors, (2) a pledge of 100% of the capital stock of the US Borrowers, the domestic guarantors and their direct domestic subsidiaries and (3) a pledge of 65% of the voting capital stock and 100% of the non-voting capital stock of the first-tier foreign subsidiaries of the US Borrowers and domestic guarantors. The security interest in the domestic collateral

ranks prior to the security interest securing the Company's existing second priority floating rate notes due 2013. The lenders under the ABL credit facility have agreed to share their domestic collateral with future secured notes, if any, that refinance the existing notes, with the ABL credit facility retaining a first priority security interest in all accounts receivable, inventory and certain related assets of the Pregis Holding II, the US Borrowers and the domestic guarantors and subordinating its security interest in all other domestic assets and the capital stock of the US Borrowers, domestic guarantors and their direct subsidiaries to the liens securing such new secured notes, if any.

The ABL credit facility contains customary representations, warranties, covenants and events of default, and requires monthly compliance with a "springing" fixed charge coverage ratio of 1.1 to 1.0 if the excess availability of Pregis and its subsidiaries falls below a certain level. The ABL credit facility is also subject to mandatory prepayments out of certain asset sale, insurance and condemnation proceeds, if the excess availability of Pregis and its subsidiaries falls below a certain level.

As of September 30, 2011, borrowings under the ABL credit facility totaled \$44.9 million, outstanding letters of credit were \$6.0 million, and remaining availability was \$24.1 million. The Company utilized proceeds from the ABL to pay off and terminate its pre-existing \$50 million revolving credit facility. After the Hexacomb divestiture, the Company is expected to pay down its required portion of outstanding ABL credit facility related to the Hexacomb business.

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 "senior secured notes") and \$150 million aggregate principal amount of 12^{3/8}% senior subordinated notes due 2013 (the "senior subordinated notes").

The 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 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 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^{3/8}% 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 "2009 senior secured notes"). 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 greater than 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 indentures governing the senior secured notes and the senior subordinated notes provide that proceeds from the sale of assets must be applied in specified manners within 365 days of the date of receipt of proceeds therefrom. Capitalized terms used in this paragraph are as defined in the indentures governing the senior secured notes and senior subordinated notes, as applicable. The indenture governing the senior secured notes provides that, within 365 days of the receipt of the proceeds of the sale of assets, the proceeds must be used to either: (i) repay (x) Indebtedness constituting First Priority Lien Obligations, (y) Indebtedness secured by a Permitted Lien on the assets that were sold (if the assets sold are not Collateral) or (z) Indebtedness of a Restricted Subsidiary of Pregis that is not a Guarantor of the senior secured notes; (ii) purchase or make an investment in Replacement Assets; (iii) repay Pari Passu Debt, provided that Pregis must ratably prepay the senior secured notes, if then prepayable, or make an offer to all holders of senior secured notes in the amount that would otherwise be prepaid if the senior secured notes are not then prepayable; or (iv) any combination of the foregoing. The indenture governing the senior subordinated notes provides that, within 365 days of the receipt of the proceeds of the sale of assets, the proceeds must be used to either: (i) repay Senior Debt (which includes the senior secured notes) or Indebtedness of a Restricted Subsidiary of Pregis that is not a Guarantor of the senior subordinated notes; (ii) purchase or make an investment in Replacement Assets; (iii) repay Pari Passu Debt, provided that Pregis must ratably prepay the senior subordinated notes, if then prepayable, or make an offer to all holders of senior subordinated notes in the amount that would otherwise be prepaid if the senior subordinated notes are not then prepayable; or (iv) any combination of the foregoing. Both indentures provide that pending the final application of any such proceeds of an asset sale, Pregis may temporarily reduce revolving credit borrowings or otherwise invest such proceeds in any manner that is not prohibited by the indentures. Both indentures provide that if the proceeds of a sale of assets are not applied as described above within 365 days of the receipt of the proceeds, or earlier if Pregis elects, Pregis must make an offer to all noteholders and holders of Pari Passu Debt to purchase their debt with the proceeds at a price of 100% of the principal amount of such debt plus accrued and unpaid interest to the date of purchase. The Company is in process of determining how the proceeds of the pending sales of the Hexacomb and the Kobusch-Sengewald businesses as described previously will be used to comply with the terms of the indenture.

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.

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, 2010, 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, 2010		
	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.	\$ 60,165,000	\$50,300,000	\$112,300,000
Hexacomb Corporation	\$ 43,400,000	\$43,300,000	\$ 37,200,000
IntelliPack	\$ 38,300,000	\$38,300,000	\$ 9,100,000
Pregis (Luxembourg) Holding S.à.r.l. (66%)	\$ 17,300,000	\$17,300,000	\$ —
Pregis Management Corporation	\$ 100	\$ 100	\$ 100

As described above, under the collateral agreement, the capital stock pledged to the senior secured 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 notes. This threshold is €45,000,000, or, at the December 31, 2010 exchange rate of U.S. dollars to euro of 1.3370:1.00, approximately \$60.2 million. As of December 31, 2010, the book value and the market value of the shares of capital stock of Pregis Innovative Packaging Inc. were approximately \$50.3 million and \$112.3 million, respectively; the book value and the market value of the shares of capital stock of Hexacomb Corporation were approximately \$43.3 million and \$37.2 million respectively; the book value of and the market value of the shares of capital stock of IntelliPack were approximately \$38.3 million and \$9.1 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 \$17.3 million and \$ - million, respectively. Therefore, in accordance with the collateral agreement, the collateral pool for the senior secured floating rate notes includes approximately \$60.2 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 (Luxembourg) Holdings S.à.r.l are each less than the \$60.2 million threshold, they are not effected by the 20% clause of the collateral agreement.

For purposes of calculating book value for the year ended December 31, 2010 in the table above, 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 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 necessary to determine our compliance with the collateral arrangement governing the notes.

The value of the collateral for the senior secured 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,

2010, the value of the collateral for the senior secured floating rate notes totaled approximately \$617.7 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 \$459.2 million), and (2) the collateral value of the capital stock, as outlined above (which amount totaled \$158.5 million). Any proceeds received upon the sale of collateral would be paid first to the lenders under our ABL credit facility, who have a first lien security interest in the collateral, before any payment could be made to holders of the senior secured notes. There is no assurance that any collateral value would remain for the holders of the senior secured notes after payment in full to the lenders under our ABL credit facility.

Covenant Ratios Contained in the Senior Secured Notes and Senior Subordinated Notes. The indentures governing the senior secured 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 ABL credit facility 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, 2011 and 2010:

(unaudited) (dollars in thousands)	Covenant Measure	Ratios	
		Calculated at September 30,	
		2011	2010
Fixed Charge Coverage Ratio (after giving pro forma effect to acquisitions and/or dispositions occurring in the reporting period)	Minimum of 2.0x	1.9x	1.88x
Secured Indebtedness Leverage Ratio	Maximum of 3.0x	0.6x	0.61x
Consolidated Cash Flow (“Adjusted EBITDA”)	—	\$ 82,453	\$ 76,616
Fixed Charges (after giving pro forma effect to acquisitions and/or dispositions occurring in the reporting period)	—	\$ 43,194	\$ 40,758
Secured Indebtedness	—	\$ 49,281	\$ 46,945

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, 2011 and 2010, has been more than offset by the decrease in the Company’s trailing twelve month Consolidated Cash Flow over the same period, resulting in a reduction in the actual ratio. As of September 30, 2011, the Company’s Fixed Charge Coverage Ratio was less than 2:0. 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 (which has been used in part in order to incur debt under Pregis’s ABL credit facility), a \$25 million general basket, and a \$15 million capital lease basket.

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, 2011 and 2010 as follows:

(unaudited) (dollars in thousands)	Twelve Months Ended September 30,	
	2011	2010
Net loss of Pregis Holding II Corporation continuing operations	\$ (64,066)	\$ (38,921)
Interest expense, net of interest income	50,312	49,529
Income tax (benefit) expense	(4,542)	(10,739)
Depreciation and amortization	46,491	40,988
EBITDA	28,195	40,857
Other non-cash charges (income): (1)		
Unrealized foreign currency transaction losses (gains), net	1,547	118
Non-cash stock based compensation expense	2,639	1,681
Non-cash asset impairment charge	18,072	194
Loss on sale leaseback transaction	—	1,837
Net unusual or nonrecurring gains or losses: (2)		
Restructuring, severance and related expenses	6,551	5,629
Other unusual or nonrecurring gains or losses	9,236	11,418
Other adjustments: (3)		
Amounts paid pursuant to management agreement with Sponsor	2,166	2,508
Pro forma adjusted EBITDA of acquired business (4)	—	1,410
Discontinued operations (5)	14,047	10,964
Adjusted EBITDA (“Consolidated Cash Flow”)	\$ 82,453	\$ 76,616

- (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, and (c) 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 these comparable earnings in the future.
- (5) Results of operations for Hexacomb presented as discontinued operations in accordance with ASC 205-20.

Local lines of credit. From time to time, certain of our foreign businesses utilize various lines of credit in their operations. The first subsidiary line of credit allows for borrowing up to a certain percentage of such subsidiary’s specified accounts receivable. As of September 30, 2011 amounts outstanding under this foreign line of credit totaled \$4.1 million. The second line of credit only allows for issuance of letters of credit (\$3.0 million were outstanding at September 30, 2011) and had availability of \$5.1 million as of September 30, 2011.

Long-term Liquidity. We believe that cash flow generated from operations, existing cash balances, and our borrowing capacity 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 for the year ended December 31, 2010 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.

During the third quarter, based on several indicators of impairment including (1) depressed global and regional economic conditions driving lower volume demand and overall sales, (2) raw material prices (i.e., resin) remain at or near historical peak levels, (3) an inability to pass along higher raw material prices to customers, and (4) challenges in achieving planned cost cutting measures, the Company concluded on an interim basis that the goodwill in one of the reporting units in the Protective Packaging segment and goodwill in one of the reporting units in the Specialty Packaging segments may be impaired. Therefore, the Company performed an interim goodwill impairment assessment as of August 31, 2011. The fair value of the Company's reporting units were estimated primarily using a combination of the income approach and the market approach. The Company used discount rates ranging from 13% to 14% in determining the discounted cash flows for each of the reporting units under the income approach, corresponding to the Company's cost of capital, adjusted for risk where appropriate. In determining estimated future cash flows, current and future levels of income were considered that reflected business trends and market conditions. Under the market approach, the Company estimated the fair value of the reporting units based on peer company multiples of earnings before interest, taxes, depreciation and amortization (EBITDA). The Company also considered the multiples at which businesses similar to the reporting units have been sold or offered for sale.

The initial step of the Company's impairment test indicated that the goodwill in the two reporting units tested were impaired. Both the reporting units had estimated fair values that were lower than their carrying values. The fair values of the reporting units were lower than their carrying values by 24% and 30% as of August 31, 2011. The corresponding carrying values of goodwill for these reporting units were \$6.9 million and \$10.9 million. The Company is in the process of completing Step 2 of the goodwill impairment analysis to measure the impairment losses and expects to complete the analysis during the fourth quarter. Based on the results of the analysis completed as of the date of the issuance of the consolidated financial statements, the Company concluded that it is probable that the entire carrying value of the goodwill in both the reporting units is impaired. Accordingly, based on the Company's best estimate of the probable impairment loss, the Company recorded an impairment loss of \$6.9 million and \$10.9 million related to goodwill in the Protective Packaging segment and Specialty Packaging segment, respectively during the third quarter. Any adjustment to the estimated impairment losses based on the completion of the measurement of the impairment losses will be recorded during the fourth quarter.

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 2010 Annual Report on Form 10-K. Since the date of our 2010 Form 10-K, 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, 2010. For a discussion of our exposure to market risk, see our 2010 Annual Report on Form 10-K.

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, 2011. Based upon that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that as of September 30, 2011 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) are 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 for the year ended December 31, 2010.

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.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed".

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 14, 2011

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, Glenn Fischer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2011 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 14, 2011

/s/ Glenn Fischer

Name: Glenn Fischer

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, 2011 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 14, 2011

/s/ D. Keith LaVanway

Name: D. Keith LaVanway