



Tekni-Plex, Inc.

Quarterly Report For the Period Ended April 2, 2010

**1150 First Avenue
Suite 500
King of Prussia, PA 19406
(484) 690-1520**

TEKNI-PLEX, INC.
Quarterly Report
for the Period Ended April 2, 2010
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PRESENTATION OF THIS QUARTERLY REPORT

Pursuant to Section 4.03 of the Indenture dated June 10, 2005 (“**10% Indenture**”) with respect to the 10 7/8% Senior Secured Notes due 2012 (the “**10% Notes**”) and the Indenture dated November 21, 2003 (“**8 3/4% Indenture**”) with respect to the 8 3/4% Senior Secured Notes due 2013 (“**8 3/4 Notes**”) (together, the “**Indentures**”), Tekni-Plex, Inc. (the “**Company**”) was required to file all its annual, quarterly and current reports (collectively “**Periodic Reports**”), with the Securities and Exchange Commission (“**SEC**”) on Forms 10-K, 10-Q and 8-K. The Company’s filing obligations under the Indentures were amended on December 8, 2009, such that the Periodic Reports (a) are now posted on the Company’s website, rather than filed with the SEC, (b) are not required to contain financial information for periods ending June 30, 2007 or earlier and (c) are not required to contain the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. This quarterly report for the period ended April 2, 2010 (“**Quarterly Report**”) has been prepared accordingly.

This Quarterly Report should be read in conjunction with the Company’s Annual Report for fiscal year 2009 posted on the Company’s website on December 11, 2009 (“**2009 Annual Report**”).

TERMS USED IN THIS QUARTERLY REPORT

Unless otherwise noted, or indicated by the context, in this Quarterly Report the terms “**Tekni-Plex**”, “**Company**”, “**we**”, “**us**”, and “**our**” refer to Tekni-Plex, Inc. and its subsidiaries; the term “**working capital**” refers to current assets minus current liabilities; the term “**ABL Facility**” refers to our asset based credit facility in the maximum amount of \$110 million. References to our fiscal years are to the 52 or 53 week period that ends on the Friday nearest to June 30 of such year; “**fiscal year 2010**” refers to the period ending July 2, 2010; “**fiscal year 2009**” refers to the period ending July 3, 2009; “**fiscal year 2008**” refers to the period ending June 27, 2008 and unless otherwise noted, includes the 11 month Predecessor period from June 30, 2007 through May 30, 2008 and the one month Successor period from May 31, 2008 through June 27, 2008 on a “combined” basis, which assists us in comparing results of operations for fiscal year 2009 with the previous year.

FORWARD-LOOKING INFORMATION

Certain statements included in this Quarterly Report, including statements in the “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” section and in the Notes to Unaudited Consolidated Financial Statements in Item 1. *Financial Statements*, are forward-looking statements. All statements other than statements of historical fact, including statements regarding prospects and future results are forward looking. The words “believe”, “expect”, “intend”, “estimate”, “anticipate”, “will”, “may”, “might”, “could”, “predict”, “potential”, “continue”, “projects” and similar expressions identify statements that are forward-looking. All statements addressing operating performance, events or developments that the Company expects or anticipates will occur in the future, including statements expressing optimism or pessimism about future operating results, are forward-looking statements and will be based not on historical facts, but rather on management’s then-current views and assumptions regarding future events and operating performance, and are applicable only as of the dates of such statements.

Forward-looking statements involve risks, uncertainties and assumptions. Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. Actual results may differ materially from those expressed in these forward-looking statements due to a number of uncertainties and risks, including the risks described in Item 1A *Risk Factors* of the 2009 Annual Report, as well as elsewhere in the 2009 Annual Report, this Quarterly Report and in the Company’s other public statements and reports, along with other unforeseen risks. You should not put undue reliance on any forward-looking statements. These statements speak only as of the date hereof and, except as required by the federal securities laws, we undertake no obligation to update or revise these statements to reflect events or circumstances occurring after the date hereof.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TEKNI-PLEX, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	April 2, <u>2010</u>	July 3, <u>2009</u>
ASSETS		
Current assets:		
Cash	\$ 12,800	\$ 19,939
Accounts receivable, net of allowances of \$1,102 and \$294	79,268	83,768
Inventories, net	86,471	82,397
Deferred taxes	2,663	2,387
Prepaid expenses and other current assets	<u>6,488</u>	<u>10,111</u>
Total current assets	187,690	198,602
Property, plant and equipment, net	179,845	189,109
Goodwill	127,839	127,427
Intangible assets, net of accumulated amortization of \$60,624 and \$36,444	184,677	211,340
Deferred financing charges, net of accumulated amortization of \$8,361 and \$4,656	9,144	12,849
Other long-term assets	<u>2,305</u>	<u>3,427</u>
Total assets	<u>\$ 691,500</u>	<u>\$ 742,754</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 12,242	\$ 12,110
Accounts payable	43,101	29,210
Accrued payroll and benefits	14,456	15,889
Accrued interest	12,419	9,917
Other current liabilities	<u>28,999</u>	<u>31,582</u>
Total current liabilities	111,217	98,708
Long-term debt	475,182	473,227
Deferred taxes	47,582	59,287
Other long-term liabilities	<u>41,966</u>	<u>48,297</u>
Total liabilities	<u>675,947</u>	<u>679,519</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock (\$0.01 par value; authorized 10,000,000 shares; issued and outstanding 3,500,000 shares)	35	35
Additional paid-in capital	303,219	303,219
Accumulated other comprehensive loss	(26,755)	(27,143)
Accumulated deficit	<u>(260,946)</u>	<u>(212,876)</u>
Total stockholders' equity	<u>15,553</u>	<u>63,235</u>
Total liabilities and stockholders' equity	<u>\$ 691,500</u>	<u>\$ 742,754</u>

See accompanying notes to unaudited consolidated financial statements.

TEKNI-PLEX, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	Three Months Ended		Nine Months Ended	
	April 2, 2010	March 27, 2009	April 2, 2010	March 27, 2009
Net sales	\$ 162,855	\$ 155,305	\$ 421,583	\$ 442,514
Cost of goods sold	<u>134,764</u>	<u>126,270</u>	<u>324,135</u>	<u>369,597</u>
Gross profit	28,091	29,035	97,448	72,917
Operating expenses:				
Selling, general and administrative	27,136	21,224	81,356	73,411
Restructuring	2,452	633	8,130	17,694
Impairment charges	<u>13,429</u>	<u>-</u>	<u>13,429</u>	<u>145,739</u>
Income (loss) from operations	(14,926)	7,178	(5,467)	(163,927)
Other expense (income):				
Interest expense, net	15,581	16,821	48,100	48,093
Other (income) expense	<u>582</u>	<u>(3,636)</u>	<u>(345)</u>	<u>1,107</u>
Loss before income taxes	(31,089)	(6,007)	(53,222)	(213,127)
Benefit from income taxes	<u>(5,357)</u>	<u>(1,029)</u>	<u>(5,152)</u>	<u>(18,271)</u>
Loss from continuing operations	(25,732)	(4,978)	(48,070)	(194,856)
Discontinued operations:				
Loss from discontinued operations, net of income tax benefit of \$0, \$(882), \$0 and \$(3,072), respectively	<u>-</u>	<u>(4,175)</u>	<u>-</u>	<u>(12,693)</u>
Net loss	<u><u>\$ (25,732)</u></u>	<u><u>\$ (9,153)</u></u>	<u><u>\$ (48,070)</u></u>	<u><u>\$ (207,549)</u></u>
Net loss	\$ (25,732)	\$ (9,153)	\$ (48,070)	\$ (207,549)
Other comprehensive loss:				
Currency translation adjustments	<u>(92)</u>	<u>(765)</u>	<u>388</u>	<u>(30,038)</u>
Comprehensive loss	<u><u>\$ (25,824)</u></u>	<u><u>\$ (9,918)</u></u>	<u><u>\$ (47,682)</u></u>	<u><u>\$ (237,587)</u></u>

See accompanying notes to unaudited consolidated financial statements.

TEKNI-PLEX, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Nine Months Ended	
	April 2, 2010	March 27, 2009
OPERATING ACTIVITIES:		
Net loss	\$ (48,070)	\$ (207,549)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Impairment charges	13,429	145,739
Depreciation	16,474	18,240
Amortization of intangible assets	25,226	25,495
Amortization of debt costs	9,433	9,709
Capitalized interest in junior lien credit agreement	595	278
Accretion of restructuring and asset retirement obligations	644	610
Provision for bad debts	914	467
Deferred income taxes	(8,906)	(21,207)
Loss (gain) on disposal of assets	140	(124)
Changes in assets and liabilities:		
Accounts receivable	4,190	9,145
Inventories	(4,620)	31,660
Prepaid expenses and other current assets	3,493	(3,969)
Accounts payable and other current liabilities	13,740	(5,074)
Income taxes payable	1,388	129
Other liabilities	(8,827)	(6,267)
Net cash provided by (used in) operating activities	19,243	(2,718)
INVESTING ACTIVITIES:		
Business acquisition	(7,885)	-
Capital expenditures	(13,627)	(12,881)
Proceeds from disposal of assets	7	3,595
Other	(522)	(2,240)
Net cash used in investing activities	(22,027)	(11,526)
FINANCING ACTIVITIES:		
Borrowings under line of credit	110,490	122,049
Repayments under line of credit	(113,081)	(149,130)
Borrowings under long-term debt	-	51,883
Repayments of long-term debt	(524)	(254)
Debt financing costs	-	(8,975)
Net cash (used in) provided by financing activities	(3,115)	15,573
Effect of exchange rate changes on cash	(1,240)	(8,024)
Net decrease in cash and cash equivalents	(7,139)	(6,695)
Cash and cash equivalents beginning of period	19,939	20,507
Cash and cash equivalents end of period	\$ 12,800	\$ 13,812

See accompanying notes to unaudited consolidated financial statements.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

NOTE 1. BASIS OF PRESENTATION

In the opinion of management, the accompanying balance sheets and related interim statements of operations and cash flows include all adjustments necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America (GAAP) and the instructions to Form 10-Q, and Rule 10-01 of Regulation S-X. The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of our financial statements, as well as the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

In accordance with applicable accounting standards, the accompanying financial statements do not include all of the information and footnote disclosures that are required to be included in our annual consolidated financial statements. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. Accordingly, our quarterly financial statements should be read in conjunction with the consolidated financial statements included in our 2009 Annual Report for the year ended July 3, 2009, which was posted to our website on December 11, 2009.

Unless clearly indicated to the contrary, the terms “we”, “our”, “ours”, “us”, “Tekni-Plex” and “Company” are used in this Report to refer to Tekni-Plex, Inc. and its subsidiaries.

NOTE 2. RECENTLY ISSUED ACCOUNTING STANDARDS

Recently Adopted Accounting Pronouncements

On July 4, 2009, we adopted changes issued by the Financial Accounting Standards Board (“FASB”) to the authoritative hierarchy of GAAP. These changes establish the FASB Accounting Standards Codification™ (“Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (“SEC”) under authority of federal securities laws are also sources of authoritative GAAP. The FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead the FASB will issue Accounting Standards Updates. Accounting Standards Updates will not be authoritative in their own right as they will only serve to update the Codification. These changes and the Codification itself do not change GAAP. Other than the manner in which new accounting guidance is referenced, the adoption of these changes had no impact on our consolidated financial statements.

On July 4, 2009, we adopted guidance issued by the FASB on business combinations. The guidance retains the fundamental requirements that the acquisition method of accounting (previously referred to as the purchase method of accounting) be used for all business combinations, but requires a number of changes, including changes in the way assets and liabilities are recognized and measured as a result of business combinations. It also requires the capitalization of in-process research and development at fair value and requires the expensing of acquisition-related costs as incurred. We have applied this guidance to business combinations completed since July 4, 2009.

In April 2009, the FASB issued a further update in relation to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies, which amends the previous guidance to require contingent assets acquired and liabilities assumed in a business combination to be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the measurement period. If fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability would be recognized in accordance with standards and guidance on accounting for contingencies and reasonable estimation of the amount of a loss. Further, this update eliminated the specific subsequent accounting guidance for contingent assets and liabilities without significantly revising the original guidance. However, contingent consideration arrangements of an acquired entity assumed by the acquirer in a business combination would still be initially and subsequently measured at fair value. We have applied this additional guidance to business combinations completed since July 4, 2009.

On July 4, 2009, we adopted an update issued by the FASB to the accounting for instruments (or embedded features) indexed to an entity’s own stock. These changes clarify the determination of whether an instrument (or embedded feature) is indexed to an entity’s own stock, which would qualify as a scope exception under previously issued guidance. The adoption of these changes resulted in the reclassification of our outstanding warrants from stockholders’ equity to liabilities. At April 2, 2010 and July 3, 2009 the warrants had fair value of zero.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

Recent Accounting Pronouncements Not Yet Adopted

In January 2010, the FASB issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires new disclosures on the transfers of assets and liabilities between Level 1 (quoted prices in active market for identical assets or liabilities) and Level 2 (significant other observable inputs) of the fair value measurement hierarchy, including the reasons and the timing of the transfers. Additionally, the guidance requires a roll forward of activities on purchases, sales, issuance, and settlements of the assets and liabilities measured using significant unobservable inputs (Level 3 fair value measurements). The guidance became effective for us with the reporting period beginning January 2, 2010, except for the disclosure on the roll forward activities for Level 3 fair value measurements, which will become effective for us with the reporting period beginning July 2, 2011. Other than requiring additional disclosures, adoption of this new guidance will not have a material impact on our financial statements.

In June 2009, the FASB issued guidance intended to improve the information provided in financial statements about transfers of financial assets, including the effects of a transfer on the transferor's financial position, financial performance, and cash flows, and any continuing involvement of the transferor with the transferred financial assets. This new accounting standard becomes effective for us beginning July 3, 2010. The adoption of this standard is not expected to have a material impact on our financial position or results of operations.

In June 2009, the FASB issued guidance on the consolidation of variable interest entities, which will become effective for us beginning July 3, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new guidance will not have an impact on our financial statements; as we do not have an interest in any variable interest entities at this time.

NOTE 3. IMPAIRMENT

We monitor the carrying value of long-lived assets for potential impairment each quarter based on whether certain triggering events have occurred. These events include current period losses combined with a history of losses, projection of continuing losses or a significant decrease in the market value of an asset. Our hose business generated negative cash flows which were substantially below budget during the quarter ended April 2, 2010. As a result of performance significantly below expectations during the third quarter, management performed a comprehensive strategic update of the hose business in the third quarter of fiscal year 2010. This process involved a re-evaluation of the strategy and cash flow projections. An impairment loss is to be recognized on held and used long-lived assets if the carrying amount is not recoverable based on an analysis of undiscounted future expected cash flows from the use and ultimate disposition of the asset. If we identify impairment for long-lived assets to be held and used, we compare the assets' current carrying value to the assets' fair value. The fair value of the long-lived assets of \$28,555 is determined based on market values or discounted future cash flows and is therefore considered a level three in the fair value hierarchy as these inputs are unobservable.

Due to the decline in projected cash flows of our hose business, we concluded it was necessary to test the depreciating and amortizable assets for impairment. As a result of that testing, we recorded a non-cash asset impairment charge of \$13,429 related to our hose business. The impairment charge was allocated to our Tubing segment's amortizable and depreciable assets as follows; \$3,978 to our definite-lived intangible assets (developed technology, trade names and customer relationships) and \$9,451 to our plant and equipment.

NOTE 4. DISCONTINUED OPERATIONS

During fiscal year 2009, we consolidated and scaled down our vinyl hose operation at three manufacturing locations and two warehouses and consolidated our rubber hose operation by closing one location. We also closed our consumer foam business and exited the remaining two facilities associated with that business. We closed our specialty resins business and exited the facility. Net sales reported in discontinued operations for the three and nine months ended March 27, 2009 were \$4,888 and \$38,692, respectively. Pretax losses, reported in discontinued operations, for the three and nine months ended March 27, 2009 were \$5,058 and \$15,766, respectively.

Reserves for future exit and disposal costs related to the operations we discontinued in fiscal year 2009 were \$5,591 and \$1,820 at April 2, 2010 and are included in the Other Current Liabilities and Other Long-Term Liabilities, respectively. The components of these liabilities, the changes in the balances and the ending balances are as follows:

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

	Employee Severance	Contractual Obligations	Environmental	Plant Closures	Total
Balance at July 3, 2009	\$ 9	\$ 2,852	\$ 4,118	\$ 5,427	\$ 12,406
Subsequent accruals	49	966	-	-	1,015
Costs incurred	(9)	(1,515)	(479)	(4,614)	(6,617)
Accretion	-	329	-	269	598
Foreign currency translation	2	7	-	-	9
Balance at April 2, 2010	<u>\$ 51</u>	<u>\$ 2,639</u>	<u>\$ 3,639</u>	<u>\$ 1,082</u>	<u>\$ 7,411</u>

Subsequent accruals result primarily from a change in estimates relating to anticipated sublease income from a closed leased facility which we believe is unlikely to materialize.

NOTE 5. BUSINESS ACQUISITION

On October 16, 2009 we acquired the assets of two affiliated packaging entities for total consideration of \$9,500, of which approximately \$7,900 was paid at closing, and an additional payment of approximately \$1,600 payable in one year. These entities have been included in our consolidated results of operations since their acquisition date. Pro forma results of operations have not been presented because the effects of these business combinations, individually and in the aggregate, were not material to our consolidated results of operations.

NOTE 6. GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill attributable to each reportable operating segment and changes thereto follows:

	Packaging	Tubing	Other	Total
Balance as of July 3, 2009				
Goodwill	\$ 175,265	\$ 58,367	\$ 39,967	\$ 273,599
Accumulated impairment losses	<u>(64,663)</u>	<u>(43,144)</u>	<u>(38,365)</u>	<u>(146,172)</u>
	110,602	15,223	1,602	127,427
Currency translation adjustments	<u>505</u>	<u>26</u>	<u>(119)</u>	<u>412</u>
Balance at April 2, 2010	<u>\$ 111,107</u>	<u>\$ 15,249</u>	<u>\$ 1,483</u>	<u>\$ 127,839</u>
Balance at April 2, 2010				
Goodwill	\$ 174,079	\$ 58,423	\$ 40,003	\$ 272,505
Accumulated impairment losses	<u>(62,972)</u>	<u>(43,174)</u>	<u>(38,520)</u>	<u>(144,666)</u>
	<u>\$ 111,107</u>	<u>\$ 15,249</u>	<u>\$ 1,483</u>	<u>\$ 127,839</u>

The components of our identifiable intangible assets were as follows:

	April 2, 2010			July 3, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$ 226,092	\$ (58,358)	\$ 167,734	\$ 224,676	\$ (34,374)	\$ 190,302
Trade names and trademarks	7,506	(907)	6,599	9,632	(818)	8,814
Developed technology and other	<u>11,703</u>	<u>(1,359)</u>	<u>10,344</u>	<u>13,476</u>	<u>(1,252)</u>	<u>12,224</u>
Total	<u>\$ 245,301</u>	<u>\$ (60,624)</u>	<u>\$ 184,677</u>	<u>\$ 247,784</u>	<u>\$ (36,444)</u>	<u>\$ 211,340</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

Following are details of changes in the gross carrying value of our identifiable intangible assets:

	Customer relationships	Trade names and trademarks	Developed technology and other	Total
Balance at July 3, 2009	\$ 224,676	\$ 9,632	\$ 13,476	\$ 247,784
Acquisitions	4,046	75	299	4,420
Impairment charges	(2,009)	(2,110)	(502)	(4,621)
Currency translation adjustments	(621)	(91)	(1,570)	(2,282)
Balance at April 2, 2010	<u>\$ 226,092</u>	<u>\$ 7,506</u>	<u>\$ 11,703</u>	<u>\$ 245,301</u>

NOTE 7. INVENTORIES

Inventories are summarized as follows:

	April 2, 2010	July 3, 2009
Raw materials	\$ 36,536	\$ 29,077
Work-in-process	8,965	10,004
Finished goods	<u>40,970</u>	<u>43,316</u>
	<u>\$ 86,471</u>	<u>\$ 82,397</u>

NOTE 8. LONG-TERM DEBT

Long-term debt consists of the following:

	April 2, 2010	July 3, 2009
Senior Secured Notes at 10.875%, due August 15, 2012 (less unamortized premium of \$1,748 and \$2,208)	\$ 151,748	\$ 152,208
Senior Secured Notes at 8.75%, due November 15, 2013 (less unamortized discount of \$35,767 and \$41,186)	239,233	233,814
Junior Lien Credit Agreement, at 15%, due November 14, 2013	16,081	15,486
Senior Subordinated Notes at 12.75%, due June 15, 2010 (less unamortized discount of \$287 and \$1,056)	11,233	10,464
TPE Agreement, at 15%, due November 14, 2013, euro borrowing of 26,361	35,551	36,930
Revolving line of credit term (ABL Facility)	30,951	33,426
Other, primarily foreign term loans, with interest rates ranging from 1.00% to 3.5% and maturities through 2018	<u>2,627</u>	<u>3,009</u>
	487,424	485,337
Less: current maturities	<u>(12,242)</u>	<u>(12,110)</u>
	<u>\$ 475,182</u>	<u>\$ 473,227</u>

As of May 10, 2010, borrowings under the revolving line of credit were \$24,051. Additionally, letters of credit of \$8,485 were outstanding, and availability under the revolving line of credit was \$29,987.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

NOTE 9. ACCOUNTS RECEIVABLE

In December 2009 we entered into an arrangement with a third party financial institution to sell certain invoices of a domestic customer. Under the terms of the agreement, invoices that have been accepted by and approved for payment by our customer and which we have irrevocably offered to sell, will be paid, generally the following business day, in full less a fee as defined in the agreement. During the nine months ended April 2, 2010, we sold invoices with a fair value of \$7,570 and received net proceeds of \$7,386 during the nine months. The difference represents fees of \$47 and proceeds of \$137 received on April 5, 2010 for invoices sold on April 2, 2010.

Additionally, we have three international factoring agreements to sell certain non-U.S. receivables to an unrelated third-party financial institution. These agreements relate to receivables of our Northern Ireland, Belgium and Italian operations. Under the terms of the agreements, we are able to draw up to 85% of the outstanding receivables that have been factored. The maximum amounts of allowable outstanding advances under the agreements are approximately 2,500 pounds sterling (Northern Ireland), 8,500 Euros (Belgium) and 2,500 Euros (Italy). Collections made by the factor are transferred to our account on a daily basis and we are charged a monthly administrative fee. As of April 2, 2010 there are approximately \$19,508 in outstanding invoices that have been sold and are receivable from the factor. We have advances against the factored receivables of approximately \$1,902 as of April 2, 2010. The amount due from the factor of \$17,606, net of advances received of \$1,902 is included in Accounts receivable, net in the Consolidated Balance Sheet.

NOTE 10. INCOME TAXES

Our effective tax rate is likely to vary materially both from the statutory tax rate and from period to period due to discrete items that impact our effective tax rate, the impact of increases to certain uncertain tax benefits, foreign earnings, state income taxes and lower tax rates in foreign jurisdictions and the relative amount of income we earn in those jurisdictions.

The income tax provision for the three months ended April 2, 2010 reflects an effective income tax benefit of 17.2% compared to an effective income tax benefit of 17.1% for the three months ended March 27, 2009. The income tax provision for the nine months ended April 2, 2010 reflects an effective income tax benefit of 9.7% compared to an effective income tax benefit of 8.6% for the nine months March 27, 2009. The effective income tax benefits for the three and the nine months ended April 2, 2010 were impacted by a discrete item relating to the correction of the fiscal year 2009 tax provision. During fiscal year 2010, we recorded a net increase to tax expense of \$4,600, of which \$600, \$700 and \$3,300 was recorded in the first, second and third quarter of fiscal year 2010, respectively, to account for the income tax effect of actual and deemed cash distributions received from our European subsidiary in fiscal year 2009. Because the tax expense should have been recorded in fiscal year 2009, tax expense was understated by \$4,600 in fiscal year 2009 and was overstated by \$4,600 in fiscal year 2010. Based upon our evaluation of this error, considering both qualitative and quantitative factors, we concluded that the impact was not material to the current or previously issued consolidated financial statements. The effective income tax benefit for the nine months ended March 27, 2009 was also impacted by a discrete item relating to the impairment of goodwill, the significant portion of which was non-deductible for tax purposes.

We expect a significant increase to our liability for unrecognized tax benefits within the next twelve months of approximately \$6,600 for the continuing impact of uncertain tax positions relating to transfer pricing and, also expect a decrease of approximately \$3,300 due to the submission of previously unfiled foreign tax returns. We also settled our dispute with the Belgian taxing authorities regarding the deductibility of certain losses and remitted the related tax of approximately \$4,200 during the third quarter of fiscal year 2010.

NOTE 11. PENSION AND WELFARE PLANS

We sponsor the Tekni-Plex, Inc. Pension Plan ("Pension Plan") that covers substantially all hourly employees of the Burlington division covered by a collective bargaining agreement, substantially all employees of certain business units of the Colorite Division and employees of Dolco Packaging. Benefits under the Pension Plan were frozen as of December 31, 2008.

The current funding policy of the Pension Plan is to contribute no less frequently than annually an amount at least equal to the minimum contribution required by law. We may, at our discretion, contribute amounts in excess of the minimum required contribution. Contributions to the Pension Plan for the three and nine months ended April 2, 2010 were \$0 and \$800, respectively. Contributions for the three and nine months ended March 27, 2009 were \$2,250 and \$3,750, respectively. We expect to make additional contributions of \$350 during the remaining fiscal year.

Tekni-Plex, Inc. and Subsidiaries
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The components of net periodic pension costs are as follows:

	Three Months Ended		Nine Months Ended	
	April 2, 2010	March 27, 2009	April 2, 2010	March 27, 2009
Service cost	\$ -	\$ 17	\$ -	\$ 51
Interest cost	389	391	1,166	1,174
Expected return on plan assets	(391)	(418)	(1,174)	(1,255)
Amortization of unrecognized:				
Actuarial loss	112	-	336	-
Total	<u>\$ 110</u>	<u>\$ (10)</u>	<u>\$ 328</u>	<u>\$ (30)</u>

In addition to providing pension benefits, we also sponsor the Burlington Retiree Health and Welfare Plan (“Welfare Plan”), which provides certain healthcare and life insurance benefits for retired employees of the Burlington division who were employed on an hourly basis, and covered under a collective bargaining agreement. The Burlington division was closed during fiscal year 2009. Those employees and their dependant spouses became eligible for these benefits after the employee completed five years of service, if retiring at age fifty-five, or at age sixty-five, the normal retirement age. Post-retirement healthcare and life benefits paid for the three and nine months ended April 2, 2010 were \$31 and \$72, respectively, net of retiree contributions. Payments for the three and nine months ended March 27, 2009 were \$26 and \$68, respectively, net of retiree contributions. On April 23, 2010 we notified participants that the Welfare Plan was being terminated. See Note 15- Subsequent Event.

The components of net periodic post-retirement benefit costs are as follows:

	Three Months Ended		Nine Months Ended	
	April 2, 2010	March 27, 2009	April 2, 2010	March 27, 2009
Service cost	\$ 6	\$ 6	\$ 17	\$ 18
Interest cost	62	65	186	194
Total	<u>\$ 68</u>	<u>\$ 71</u>	<u>\$ 203</u>	<u>\$ 212</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

Commitments

We lease building space and certain equipment in approximately 30 locations throughout the United States, Canada, Asia, and Europe under long-term non-cancelable operating leases. These leases generally have initial terms of 10 years and most have renewal options for additional periods. Additionally we operate in South America under a management and services agreement that requires minimum monthly payments. The parties to that agreement, which expired by its terms on March 31, 2010, are currently negotiating an extension and modification of the agreement, and are continuing to operate under the terms of the original agreement until the new one is finalized.

We are party to various legal proceedings arising in the normal conduct of business, including compliance with environmental regulations, employment matters and foreign tax matters. Management believes that the final outcome of these proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

Tekni-Plex, Inc. and Subsidiaries
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We are subject to environmental laws requiring the investigation and cleanup of environmental contamination. In addition to remediation being undertaken by third parties at a limited number of our locations, we are investigating and remediating existing environmental conditions resulting from past industrial activity at several of our New Jersey facilities pursuant to the requirements of New Jersey's Industrial Site Recovery Act ("ISRA"). If any other events were to occur in the future that would be deemed to have effected a "change of control" or shutdown of any of our New Jersey facilities as defined under ISRA, we would be required to take additional actions to comply with that statute, including the possibility of additional investigations and remediation. We are also conducting remediation at a formerly-owned New Jersey facility under a voluntary cleanup agreement with the state.

In 2004, the National Enforcement Investigation Center ("NEIC"), on behalf of the United States Environmental Protection Agency (EPA), conducted an environmental review of our Burlington, NJ site concerning federal Clean Air Act requirements. The EPA subsequently issued a request for further information regarding these air issues under Section 114 of the federal Clean Air Act. In February and March, 2006 the New Jersey Department of Environmental Protection (NJDEP) issued administrative orders alleging violations of certain state air regulations at the Burlington facility. In March 2006, the United States Department of Justice ("DOJ") contacted our Burlington Resins, Inc. subsidiary (d/b/a Colorite Specialty Resins) ("Colorite Resins") on behalf of the EPA. The DOJ indicated that certain violations under several federal environmental statutes had been identified as a result of the EPA's inspection. Colorite Resins agreed to enter into a Consent Decree to resolve the asserted claims; the United States District Court for the District of New Jersey approved the Consent Decree on December 18, 2008.

Under the terms of the Consent Decree, Colorite Resins agreed to pay a total civil penalty of \$1,300 to EPA and NJDEP, and agreed to adopt certain practices, procedures and plans with respect to the Burlington facility. Colorite Resins agreed to select, no later than December 2010, enforceable daily and 12-month rolling average RVCM limits for the suspension resins produced at the facility, and incorporate those limits into its Title V permit. Depending upon the specific RVCM limit that Colorite Resins chooses, it would pay a penalty of \$0, \$50, \$150, or \$200. Colorite Resins also agreed to implement Supplemental Environmental Projects ("SEPs") and NJ Projects relating to monomer emission reduction, monitoring and testing at its facility at an estimated cost of more than \$1,190 or pay additional stipulated penalties for failure to implement the projects.

Colorite Resins paid the \$1,300 civil penalty to EPA and NJDEP in 2009. Following a determination by the Company to shut down the Burlington facility, Colorite Resins abandoned the SEPs and NJ Projects and paid EPA and NJDEP stipulated penalties under the Consent Decree. DOJ has filed a motion with the US District Court of New Jersey to terminate the Consent Decree without further payment by Colorite Resins. Colorite Resins is awaiting a ruling from the Court on the motion. Shutdown of the Burlington facility also triggered another ISRA filing, and an obligation to investigate and remediate environmental conditions at the site.

Although we believe that, based on historical experience, the costs of achieving and maintaining compliance with environmental laws and regulations are unlikely to have a material adverse effect on our business, we could incur significant fines, penalties, capital costs or other liabilities associated with any confirmed noncompliance or remediation of contamination or natural resource damage liability at or related to any of our current or former facilities, the precise nature of which we cannot now predict. Furthermore, we cannot assure you that future environmental laws or regulations will not require substantial expenditures by us or significant modifications to our operations.

See Note 4 Discontinued Operations for reserves in our financial statements to reflect our best estimate of the aggregate expenses associated with these environmental matters.

NOTE 13. SEGMENT AND GEOGRAPHIC INFORMATION

We are a vertically integrated manufacturer of a diversified range of packaging and tubing products with manufacturing operations in the United States, Canada, Belgium, Italy, Northern Ireland, Germany, Argentina and China. The product range of the Packaging segment includes polystyrene food packaging, aerosol and pump packaging components, closure liners, medical and pharmaceutical blister films as well as heat seal and pressure sensitive liner solutions. Our Packaging segment produces its own highly engineered rubber compounds and PVC films. Our Tubing Products segment manufactures garden, aeration and irrigation hose as well as vinyl medical and industrial tubing. Our Other segment manufactures PVC compounds for specialized applications in the medical and industrial markets.

Tekni-Plex, Inc. and Subsidiaries
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(in thousands)

Financial information concerning our business segments in which we operate are as follows:

Three Months Ended April 2, 2010

	Tubing				Totals
	Products	Packaging	Other	Corporate	
Revenues from external customers	\$ 37,207	\$ 100,183	\$ 25,465	\$ -	\$ 162,855
Depreciation and amortization	2,490	9,352	1,882	114	13,838
Segment income (loss) from operations	(17,502)	13,079	(1,203)	(9,299)	(14,925)

Three Months Ended March 27, 2009

	Tubing				Totals
	Products	Packaging	Other	Corporate	
Revenues from external customers	\$ 40,002	\$ 91,117	\$ 24,186	\$ -	\$ 155,305
Depreciation and amortization	2,389	8,542	1,756	135	12,822
Segment income (loss) from operations	(2,563)	12,180	4,352	(6,791)	7,178

Nine Months Ended April 2, 2010

	Tubing				Totals
	Products	Packaging	Other	Corporate	
Revenues from external customers	\$ 75,414	\$ 282,143	\$ 64,026	\$ -	\$ 421,583
Depreciation and amortization	8,291	28,304	4,986	763	42,344
Segment income (loss) from operations	(21,166)	40,946	2,813	(28,060)	(5,467)

Nine Months Ended March 27, 2009

	Tubing				Totals
	Products	Packaging	Other	Corporate	
Revenues from external customers	\$ 88,919	\$ 277,728	\$ 75,867	\$ -	\$ 442,514
Depreciation and amortization	7,113	25,953	5,370	327	38,763
Segment income (loss) from operations	(57,714)	(37,577)	(34,171)	(34,465)	(163,927)

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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Financial information concerning the geographic areas in which we operate is as follows:

	Three Months Ended		Nine Months Ended	
	April 2, 2010	March 27, 2009	April 2, 2010	March 27, 2009
REVENUES				
United States	\$ 121,671	\$ 124,552	\$ 314,875	\$ 354,201
Europe	32,149	23,419	86,862	70,360
Canada	4,229	4,137	6,572	8,882
China and Argentina	4,806	3,197	13,274	9,071
Total	\$ 162,855	\$ 155,305	\$ 421,583	\$ 442,514
		April 2, 2010	July 3, 2009	
LONG-LIVED ASSETS				
United States		\$ 371,274	\$ 412,843	
Europe		121,442	122,368	
Canada		6,271	1,155	
China and Argentina		4,823	7,786	
Total		\$ 503,810	\$ 544,152	

Income from operations is total net sales less cost of goods sold and operating expenses of each segment before deductions for general corporate expenses not directly related to an individual segment and interest. Identifiable assets by industry are those assets that are used in our operation in each industry segment, including assigned value of goodwill.

NOTE 14. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Tekni-Plex, Inc. issued 12 ¾% Senior Subordinated Notes in June 2000 and May 2002, 8 ¾% Senior Secured Notes in November 2003 and 10 ⅞% Senior Secured Notes in June 2005. These notes are guaranteed by all domestic subsidiaries of Tekni-Plex. The guarantor subsidiaries are 100% owned by the issuer. The guaranties are full and unconditional and joint and several. There are no restrictions on the transfer of funds from guarantor subsidiaries to the issuer. The financial information may not necessarily be indicative of results of operations or financial position had the guarantor subsidiaries or non-guarantor subsidiaries operated as independent entities.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

Condensed Consolidating Balance Sheet
April 2, 2010

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Total current assets	\$ 30,806	\$ 88,659	\$ 68,225	\$ -	\$ 187,690
Property, plant and equipment, net	65,334	68,364	46,147	-	179,845
Goodwill	71,042	37,942	18,855	-	127,839
Intangible assets, net	75,874	62,929	45,874	-	184,677
Deferred charges, net	9,144	-	-	-	9,144
Advances to (from) subsidiaries	384,198	(396,128)	11,930	-	-
Equity in subsidiaries	(146,668)	1,703	8,258	136,707	-
Other long-term assets	368	466	1,471	-	2,305
Total assets	<u>\$ 490,098</u>	<u>\$ (136,065)</u>	<u>\$ 200,760</u>	<u>\$ 136,707</u>	<u>\$ 691,500</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Total current liabilities	\$ 58,124	\$ 23,996	\$ 29,097	\$ -	\$ 111,217
Long-term debt	438,013	-	37,169	-	475,182
Deferred taxes	72,285	(35,010)	10,307	-	47,582
Other long-term liabilities	2,199	11,133	28,634	-	41,966
Total liabilities	570,621	119	105,207	-	675,947
Stockholders' equity (deficit)	(80,522)	(136,186)	95,554	136,707	15,553
Total liabilities and stockholders' equity (deficit)	<u>\$ 490,099</u>	<u>\$ (136,067)</u>	<u>\$ 200,761</u>	<u>\$ 136,707</u>	<u>\$ 691,500</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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Condensed Consolidating Statement of Operations
Three Months Ended April 2, 2010

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 53,973	\$ 67,698	\$ 41,184	\$ -	\$ 162,855
Cost of goods sold	<u>38,604</u>	<u>65,515</u>	<u>30,645</u>	<u>-</u>	<u>134,764</u>
Gross profit	15,369	2,183	10,539	-	28,091
Operating expenses:					
Selling, general and administrative	12,690	7,500	6,946	-	27,136
Restructuring	2,776	(308)	(16)	-	2,452
Impairment charges	<u>-</u>	<u>9,636</u>	<u>3,793</u>	<u>-</u>	<u>13,429</u>
Income (loss) from continuing operations	(97)	(14,645)	(184)	-	(14,926)
Other expense (income):					
Interest expense, net	15,034	(65)	612	-	15,581
Other expense (income)	<u>267</u>	<u>(620)</u>	<u>935</u>	<u>-</u>	<u>582</u>
(Loss) income before income taxes	(15,398)	(13,960)	(1,731)	-	(31,089)
Benefit for income taxes	(3,710)	(1,612)	(35)	-	(5,357)
Equity in income of subsidiaries	<u>(14,044)</u>	<u>-</u>	<u>-</u>	<u>14,044</u>	<u>-</u>
Net (loss) income	<u>\$ (25,732)</u>	<u>\$ (12,348)</u>	<u>\$ (1,696)</u>	<u>\$ 14,044</u>	<u>\$ (25,732)</u>

Condensed Consolidating Statement of Operations
Nine Months Ended April 2, 2010

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 153,887	\$ 160,988	\$ 106,708	\$ -	\$ 421,583
Cost of goods sold	<u>109,657</u>	<u>135,766</u>	<u>78,712</u>	<u>-</u>	<u>324,135</u>
Gross profit	44,230	25,222	27,996	-	97,448
Operating expenses:					
Selling, general and administrative	42,486	20,033	18,837	-	81,356
Restructuring	4,803	3,146	181	-	8,130
Impairment charges	<u>-</u>	<u>9,636</u>	<u>3,793</u>	<u>-</u>	<u>13,429</u>
Income (loss) from continuing operations	(3,059)	(7,593)	5,185	-	(5,467)
Other expense (income):					
Interest expense, net	44,609	(8)	3,499	-	48,100
Other expense (income)	<u>(1,881)</u>	<u>(891)</u>	<u>2,427</u>	<u>-</u>	<u>(345)</u>
(Loss) income before income taxes	(45,787)	(6,694)	(741)	-	(53,222)
(Benefit) expense from provision for income taxes	(5,256)	(580)	684	-	(5,152)
Equity in income of subsidiaries	<u>(7,539)</u>	<u>-</u>	<u>-</u>	<u>7,539</u>	<u>-</u>
Net (loss) income	<u>\$ (48,070)</u>	<u>\$ (6,114)</u>	<u>\$ (1,425)</u>	<u>\$ 7,539</u>	<u>\$ (48,070)</u>

Tekni-Plex, Inc. and Subsidiaries
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(in thousands)

Condensed Consolidating Statement of Cash Flows
Nine Months Ended April 2, 2010

	Issuer	Guarantors	Non-Guarantors	Total
NET CASH FLOWS PROVIDED BY (USED IN):				
OPERATING ACTIVITIES	\$ (17,755)	\$ 25,301	\$ 11,697	\$ 19,243
INVESTING ACTIVITIES				
Business acquisitions	-	-	(7,885)	(7,885)
Capital expenditures	(7,024)	(3,764)	(2,839)	(13,627)
Proceeds from disposal of assets	4	3	-	7
Other	(149)	(12)	(361)	(522)
Net cash used in investing activities	(7,169)	(3,773)	(11,085)	(22,027)
FINANCING ACTIVITIES				
Borrowings under line of credit	110,217	-	273	110,490
Repayments under line of credit	(112,693)	(370)	(18)	(113,081)
Repayments of long-term debt	-	-	(524)	(524)
Intercompany financing	27,235	(21,124)	(6,111)	-
Net cash (used in) provided by financing activities	24,759	(21,494)	(6,380)	(3,115)
Effect of exchange rate changes on cash	-	-	(1,240)	(1,240)
Net (decrease) increase in cash and cash equivalents	(165)	34	(7,008)	(7,139)
Cash and cash equivalents, beginning of period	2,437	187	17,315	19,939
Cash and cash equivalents, end of period	\$ 2,272	\$ 221	\$ 10,307	\$ 12,800

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
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Condensed Consolidating Balance Sheet
July 3, 2009

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Total current assets	\$ 29,681	\$ 99,790	\$ 69,131	\$ -	\$ 198,602
Property, plant and equipment, net	64,142	76,107	48,860	-	189,109
Goodwill	86,528	22,430	18,469	-	127,427
Intangible assets, net	70,513	89,849	50,978	-	211,340
Deferred charges, net	12,849	-	-	-	12,849
Advances to (from) subsidiaries	411,222	(417,290)	6,068	-	-
Equity in subsidiaries	(139,129)	1,703	5,113	132,313	-
Other long-term assets	360	1,246	1,821	-	3,427
Total assets	<u>\$ 536,166</u>	<u>\$ (126,165)</u>	<u>\$ 200,440</u>	<u>\$ 132,313</u>	<u>\$ 742,754</u>
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
Total current liabilities	\$ 54,088	\$ 19,127	\$ 25,493	\$ -	\$ 98,708
Long-term debt	433,880	1	39,346	-	473,227
Deferred taxes	77,971	(33,478)	14,794	-	59,287
Other long-term liabilities	2,425	18,709	27,163	-	48,297
Total liabilities	568,364	4,359	106,796	-	679,519
Stockholders' equity (deficit)	(32,198)	(130,524)	93,644	132,313	63,235
Total liabilities and stockholders' equity (deficit)	<u>\$ 536,166</u>	<u>\$ (126,165)</u>	<u>\$ 200,440</u>	<u>\$ 132,313</u>	<u>\$ 742,754</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
(in thousands)

Condensed Consolidating Statement of Operations
Three Months Ended March 27, 2009

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 55,619	\$ 68,933	\$ 30,753	\$ -	\$ 155,305
Cost of goods sold	<u>40,044</u>	<u>60,777</u>	<u>25,449</u>	<u>-</u>	<u>126,270</u>
Gross profit	15,575	8,156	5,304	-	29,035
Operating expenses:					
Selling, general and administrative	11,925	7,542	1,757	-	21,224
Restructuring	<u>1,177</u>	<u>(486)</u>	<u>(58)</u>	<u>-</u>	<u>633</u>
(Loss) from continuing operations	2,473	1,100	3,605	-	7,178
Other expense (income):					
Interest	16,284	(2)	539	-	16,821
Other expense (income)	<u>(2,994)</u>	<u>(431)</u>	<u>(211)</u>	<u>-</u>	<u>(3,636)</u>
Loss before income taxes	(10,817)	1,533	3,277	-	(6,007)
(Benefit) expense from provision for income taxes	(3,368)	528	1,811	-	(1,029)
Equity in loss of subsidiaries	<u>(1,704)</u>	<u>-</u>	<u>-</u>	<u>1,704</u>	<u>-</u>
(Loss) income from continuing operations	(9,153)	1,005	1,466	1,704	(4,978)
Discontinued operations:					
Loss from discontinued operations, net of income taxes	<u>-</u>	<u>(4,175)</u>	<u>-</u>	<u>-</u>	<u>(4,175)</u>
Net (loss) income	<u>\$ (9,153)</u>	<u>\$ (3,170)</u>	<u>\$ 1,466</u>	<u>\$ 1,704</u>	<u>\$ (9,153)</u>

Condensed Consolidating Statement of Operations
Nine Months Ended March 27, 2009

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
Net sales	\$ 165,906	\$ 188,295	\$ 88,313	\$ -	\$ 442,514
Cost of goods sold	<u>128,008</u>	<u>170,817</u>	<u>70,772</u>	<u>-</u>	<u>369,597</u>
Gross profit	37,898	17,478	17,541	-	72,917
Operating expenses:					
Selling, general and administrative	36,590	25,383	11,438	-	73,411
Restructuring	16,455	696	543	-	17,694
Goodwill impairment charges	<u>1,447</u>	<u>94,272</u>	<u>50,020</u>	<u>-</u>	<u>145,739</u>
Loss from continuing operations	(16,594)	(102,873)	(44,460)	-	(163,927)
Other expense (income):					
Interest	46,772	(8)	1,329	-	48,093
Other expense (income)	<u>(178)</u>	<u>(1,738)</u>	<u>3,023</u>	<u>-</u>	<u>1,107</u>
Loss before income taxes	(63,188)	(101,127)	(48,812)	-	(213,127)
(Benefit) expense from provision for income taxes	(13,166)	(8,133)	3,028	-	(18,271)
Equity in loss of subsidiaries	<u>(157,527)</u>	<u>-</u>	<u>-</u>	<u>157,527</u>	<u>-</u>
Loss from continuing operations	(207,549)	(92,994)	(51,840)	157,527	(194,856)
Discontinued operations:					
Loss from discontinued operations, net of income taxes	<u>-</u>	<u>(12,693)</u>	<u>-</u>	<u>-</u>	<u>(12,693)</u>
Net loss	<u>\$ (207,549)</u>	<u>\$ (105,687)</u>	<u>\$ (51,840)</u>	<u>\$ 157,527</u>	<u>\$ (207,549)</u>

Tekni-Plex, Inc. and Subsidiaries
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(in thousands)

Condensed Consolidating Statement of Cash Flows
Nine Months Ended March 27, 2009

	Issuer	Guarantors	Non-Guarantors	Total
NET CASH FLOWS PROVIDED BY (USED IN):				
OPERATING ACTIVITIES	\$ (37,266)	\$ 12,583	\$ 21,965	\$ (2,718)
INVESTING ACTIVITIES				
Capital expenditures	(3,519)	-	(9,362)	(12,881)
Proceeds from disposal of assets	-	3,595	-	3,595
Other	(264)	(1)	(1,975)	(2,240)
Net cash (used in) provided by investing activities	(3,783)	3,594	(11,337)	(11,526)
FINANCING ACTIVITIES				
Intercompany financing	61,034	(17,508)	(43,526)	-
Borrowings under line of credit	122,049	-	-	122,049
Repayments under line of credit	(148,717)	-	(413)	(149,130)
Borrowings under long-term debt	15,000	-	36,883	51,883
Repayments of long-term debt	-	-	(254)	(254)
Debt financing costs	(8,975)	-	-	(8,975)
Net cash (used in) provided by financing activities	40,391	(17,508)	(7,310)	15,573
Effect of exchange rate changes on cash	-	-	(8,024)	(8,024)
Net increase (decrease) in cash and cash equivalents	(658)	(1,331)	(4,706)	(6,695)
Cash and cash equivalents, beginning of period	661	2,067	17,779	20,507
Cash and cash equivalents, end of period	\$ 3	\$ 736	\$ 13,073	\$ 13,812

NOTE 15. SUBSEQUENT EVENT

On April 23, 2010, we notified participants in the Welfare Plan, originally established under a collective bargaining agreement, that we were terminating the Welfare Plan, effective June 30, 2010. The collective bargaining agreement is set to expire June 23, 2010 and will not be renewed since the Burlington plant was closed during fiscal year 2009. The plant is currently being dismantled with no continuing operations or employees eligible to participate in the Welfare Plan. The termination of the Welfare Plan will be accounted for as a settlement as of June 30, 2010. Accordingly, the related liabilities and accumulated other comprehensive loss associated with the Welfare Plan will be eliminated from the Consolidated Balance Sheet as of July 2, 2010 and a corresponding gain in the range of \$4,000 to \$4,400 on termination will be recognized during the fourth quarter.

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

EXECUTIVE SUMMARY

We are a vertically integrated manufacturer of a diversified range of packaging and tubing products with manufacturing operations in the United States, Canada, Belgium, Italy, Northern Ireland, Germany, Argentina and China. The product range of the Packaging segment includes polystyrene food packaging, aerosol and pump packaging components, closure liners, medical and pharmaceutical blister films, heat seal and pressure sensitive liner solutions, highly engineered rubber compounds and PVC films. Our Tubing Products segment manufactures vinyl medical and industrial tubing as well as garden, aeration and irrigation hose. Our Other segment manufactures PVC compounds for specialized applications in the medical and industrial markets.

Raw materials – In recent years we, along with the entire packaging and tubing industries, were impacted by volatility in raw material commodity costs, particularly for polystyrene, polyolefins, PVC resins and plasticizers. Resin prices are influenced by other input prices such as crude oil and natural gas and various derivatives such as benzene and ethylene. The price of most of these commodities rose significantly at the end of fiscal year 2008 and remained high during the first quarter of fiscal year 2009 and then gradually decreased starting in the second quarter of fiscal year 2009. Raw material costs have significantly increased during fiscal year 2010.

Economic recession – A decline in consumer and industrial spending during the current period of economic downturn does not affect all products in the Company's diversified portfolio equally. While sales volumes in our food packaging business have not decreased significantly, products for discretionary consumer spending such as garden hose and packaging products for personal care end markets saw a marked decline in sales volumes. More recently sales of our medical tubing products and vinyl compounds for medical uses have been affected by lower demand from medical device manufacturers in the United States. This downturn was partially offset by a recovery in demand for medical tubing and aerosol and pump packaging components in Europe.

Operational improvements – We are continuing our efforts to identify and implement improvements in our operations in order to reduce controllable costs and align manufacturing capacities with market demand. We identified unprofitable parts of our business and in fiscal year 2009 we executed a plan to exit certain market segments, as well as various manufacturing and distribution locations. This consolidation of our manufacturing and supply chain footprint had a significant impact on our fiscal year 2009 and fiscal year 2010 financial position, results of operations and cash flows. We continue to evaluate opportunities which may offer further cost structure benefits.

QUARTER ENDED APRIL 2, 2010 COMPARED TO QUARTER ENDED MARCH 27, 2009

	Three Months Ended April 2, 2010	Three Months Ended March 27, 2009	Favorable (unfavorable) Change
Net sales	\$ 162,855	\$ 155,305	\$ 7,550
Cost of goods sold	134,764	126,270	(8,494)
Gross profit	28,091	29,035	(944)
<i>as % of net sales</i>	<i>17.2%</i>	<i>18.7%</i>	
Operating expenses			
Selling, general and administrative	27,136	21,224	(5,912)
<i>as % of net sales</i>	<i>16.7%</i>	<i>13.7%</i>	
Restructuring	2,452	633	(1,819)
Impairment charge	13,429	-	(13,429)
Income (loss) from operations	(14,926)	7,178	(22,104)
Other expense (income)			
Interest, net	15,581	16,821	1,240
Other (income) expense	582	(3,636)	(4,218)
Loss before income taxes	(31,089)	(6,007)	(25,082)
Expense (benefit) from provision for income taxes	(5,357)	(1,029)	4,328
Net loss from continuing operations	(25,732)	(4,978)	(20,754)
Loss from discontinued operations, net of income taxes	-	(4,175)	4,175
Net loss	\$ (25,732)	\$ (9,153)	(16,579)

Net Sales

Net sales increased \$7.6 million, or 4.9%, to \$162.9 million in the third quarter of fiscal year 2010 compared to \$155.3 million in the third quarter of fiscal year 2009. The higher net sales are driven by our Packaging businesses in the European market where there was strong demand for our aerosol and pump packaging products. In addition the packaging business in Germany, which was acquired during fiscal year 2010, contributed \$2.6 million in net sales in the third quarter of fiscal year 2010 as compared to the same period in the prior year.

Net Sales by Segment

	Three Months Ended April 2, 2010	Three Months Ended March 27, 2009	Favorable (unfavorable) Change	Favorable (unfavorable) Change
Packaging	\$ 100,183	\$ 91,117	\$ 9,066	9.9%
Tubing Products	37,207	40,002	(2,795)	(7.0%)
Other	25,465	24,186	1,279	5.3%
Totals	\$ 162,855	\$ 155,305	\$ 7,550	4.9%

Net sales in our Packaging segment increased \$9.1 million or 9.9% to \$100.2 million in the third quarter of fiscal year 2010 compared to \$91.1 million in the third quarter of fiscal year 2009. Selling prices, particularly for our food packaging and closure liner products are lower in the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009. These lower sales of our Packaging businesses in the United States were more than offset by strong demand for our aerosol and pump packaging products, particularly in the European market. In addition, the packaging business in Germany, which was acquired during fiscal year 2010, contributed \$2.6 million in net sales in the third quarter of fiscal year 2010.

Net sales in the Tubing Products segment decreased \$2.8 million or 7.0% to \$37.2 million in the third quarter of fiscal year 2010 compared to \$40.0 million in the third quarter of fiscal year 2009. The decrease in net sales in our Tubing Products segment was due to the negative impact from economic factors on the demand for medical tubing products. We saw decreased demand from medical device manufacturers, who are our main customers for vinyl medical tubing, which we attribute to decreased healthcare spending related to higher unemployment levels. Sales in the garden hose business in the third quarter of fiscal year 2010 also lagged sales during the same period in the prior year. The decrease in sales of garden hoses is primarily attributable to major retailers

delaying their inventory purchases for the spring and summer selling season in comparison to the timing of these inventory purchases in the prior year.

Net sales in the Other segment increased \$1.3 million or 5.3% to \$25.5 million in the third quarter of fiscal year 2010 compared to \$24.2 million in the third quarter of fiscal year 2009. The increase is primarily attributed to increased volume in the compound business in Ireland, partially offset by lower average selling prices of our domestic PVC compounds in the third quarter of fiscal year 2010 as compared to the third quarter of fiscal year 2009. Our Other segment manufactures PVC compounds primarily for medical applications and is subject to similar market forces as our vinyl medical tubing products business.

Gross Profit

Gross profit decreased by \$0.9 million or 3.3% to \$28.1 million in the third quarter of fiscal year 2010 compared to \$29.0 million in the third quarter of fiscal year 2009. The gross profit as a percentage of net sales decreased to 17.2% in the third quarter of fiscal year 2010 from 18.7% in the third quarter of fiscal year 2009. The decrease is primarily attributed to higher average raw material costs in the third quarter of fiscal year 2010 compared to the same period in the prior year.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses increased to \$27.1 million in the third quarter of fiscal year 2010, from \$21.2 million in the third quarter of fiscal year 2009. As a percentage of net sales our SG&A expenses increased to 16.7 % in the third quarter of fiscal year 2010 from 13.7 % in the third quarter of fiscal year 2009. The increase in SG&A expenses was primarily due to the addition of personnel in the corporate functions such as finance and human resources. These additions have been instrumental in achieving the level of internal control, financial reporting, and analysis of the business required by new management. In the third quarter of the fiscal year 2010 we also incurred increased professional fees when compared to the same period in the prior year. These expenses were the result of continued assistance from outside consultants to support the expanded corporate functions.

Restructuring

Restructuring expenses increased to \$2.5 million in the third quarter of fiscal year 2010 compared to \$0.6 million in the third quarter of fiscal year 2009. Restructuring expense was incurred in connection with the improvement of the Company's operations by reducing cost and realigning manufacturing capacity to the lower market demand.

Impairment Charge

In the third quarter of fiscal year 2010 the Company recorded an impairment charge of \$13.4 million. The impairment charge was a result of a decline in projected cash flows of our hose business that no longer supported the carrying value of our recorded definite-lived intangible assets and plant and equipment.

Interest Expense

Interest expense decreased by \$1.2 million or 7.4% to \$15.6 million in the third quarter of fiscal year 2010 compared to \$16.8 million in the third quarter of fiscal year 2009. The decrease was primarily driven by lower debt balances on our ABL Facility and our foreign debt at the end of the third quarter of fiscal year 2010 compared to the third quarter of fiscal year 2009.

Other (Income) Expense

Other expense was \$0.6 million in the third quarter of fiscal year 2010 compared to other income of (\$3.6) million in the third quarter of fiscal year 2009. Other income and expense was primarily driven by foreign exchange gains and losses on outstanding foreign currency positions.

Income Tax Provision

The income tax provision for the third quarter of fiscal 2010 reflects an effective income tax benefit of 17.2% compared to an effective income tax benefit of 17.1% for the third quarter of fiscal 2009. The effective income tax benefit for the third quarter of fiscal 2010 was impacted by a discrete item relating to the correction of the fiscal year 2009 tax provision.

NINE MONTHS ENDED APRIL 2, 2010 COMPARED TO NINE MONTHS ENDED MARCH 27, 2009

	Nine Months Ended April 2, 2010	Nine Months Ended March 27, 2009	Favorable (unfavorable) Change	Favorable (unfavorable) Change
Net sales	\$ 421,583	\$ 442,514	\$ (20,931)	(4.7%)
Cost of sales	<u>324,135</u>	<u>369,597</u>	45,462	12.3%
Gross profit	97,448	72,917	24,531	33.6%
<i>as a % of net sales</i>	<i>23.1%</i>	<i>16.5%</i>		
Operating expenses				
Selling, general and administrative	81,356	73,411	(7,945)	(10.8%)
<i>as % of net sales</i>	<i>19.3%</i>	<i>16.6%</i>		
Restructuring	8,130	17,694	9,564	54.1%
Impairment charges	<u>13,429</u>	<u>145,739</u>	132,310	
Income (loss) from operations	(5,467)	(163,927)	158,460	
Other expense (income)				
Interest, net	48,100	48,093	(7)	(0.0%)
Other (income) expense	<u>(345)</u>	<u>1,107</u>	1,452	
Loss before income taxes	(53,222)	(213,127)	159,905	
Expense (benefit) from provision for income taxes	<u>(5,152)</u>	<u>(18,271)</u>	(13,119)	71.8%
Net loss from continuing operations	(48,070)	(194,856)	146,786	
Loss from discontinued operations, net of income taxes	<u>-</u>	<u>(12,693)</u>	12,693	100.0%
Net loss	<u>\$ (48,070)</u>	<u>\$ (207,549)</u>	159,479	

Net Sales

Net sales decreased \$20.9 million, or 4.7%, to \$421.6 million in the first nine months of fiscal year 2010 compared to \$442.5 million in the first nine months of fiscal year 2009. A share of our total sales is subject to pricing that is tied to commodity price indices. Average commodity prices for the first nine months of fiscal year 2010 were significantly below the average prices in the first nine months of fiscal year 2009. General weaknesses in the economy had a negative impact on the sales of some of our products in the first nine months of fiscal year 2010 compared to the same period in the prior year.

Net Sales by Segment

	Nine Months Ended April 2, 2010	Nine Months Ended March 27, 2009	Favorable (unfavorable) Change	Favorable (unfavorable) Change
Packaging	\$ 282,143	\$ 277,728	\$ 4,415	1.6%
Tubing Products	75,414	88,919	(13,505)	(15.2%)
Other	<u>64,026</u>	<u>75,867</u>	(11,841)	(15.6%)
Totals	<u>\$ 421,583</u>	<u>\$ 442,514</u>	<u>\$ (20,931)</u>	<u>(4.7%)</u>

Net sales in our Packaging segment increased \$4.4 million or 1.6% to \$282.1 million in the first nine months of fiscal year 2010 compared to \$277.7 million in the first nine months of fiscal year 2009. Average selling prices particularly for our food packaging and closure liner products were lower in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009 due to lower raw material commodity costs. These lower sales of our Packaging businesses in the United States were offset by increased demand for aerosol and pump packaging components from European and Asian markets in the first nine months of fiscal year 2010 when compared to the same period in the prior year. In addition the packaging business in Germany, which was acquired in fiscal year 2010, contributed \$4.5 million in net sales in fiscal year 2010.

Net sales in the Tubing Products segment decreased \$13.5 million or 15.2% to \$75.4 million in the first nine months of fiscal year 2010 compared to \$88.9 million in the first nine months of fiscal year 2009. The decrease in net sales in the Tubing Products segment was due primarily to reduced volumes in the garden, aeration and irrigation hose business as well as lower demand for our vinyl medical tubing products. The decrease in sales of garden hoses is primarily attributable to major retailers delaying their inventory purchases for the spring and summer selling season in comparison to the timing of this inventory purchases in the prior year.

Net sales in the Other segment decreased \$11.8 million or 15.6% to \$64.0 million in first nine months of fiscal year 2010 compared to \$75.9 million in the first nine months of fiscal year 2009. This decrease was due primarily to lower average selling prices and partially to lower sales volumes of our PVC compounds. Some of the selling prices for our PVC compounds are tied to raw material commodity indices. The average cost of commodities were lower in the first nine months of fiscal year 2010 compared to the first nine months of fiscal year 2009 due to lower raw material commodity cost. Sales volumes for PVC compounds decreased in the first nine months of fiscal year 2010 when compared to the same period in the previous year due to lower demand from medical device and component manufacturers who are the main customers for our PVC compounds.

Gross Profit

Gross profit increased by \$24.5 million or 33.6% to \$97.4 million in the first nine months of fiscal year 2010 compared to \$72.9 million in the first nine months of fiscal year 2009. The gross profit as a percentage of net sales increased to 23.1% in the first nine months of fiscal year 2010 from 16.5% in the first nine months of fiscal year 2009. The improvement was due primarily to lower average raw material costs in the first nine months of fiscal year 2010 when compared to the same period in the prior year. Additionally, our operational improvement initiatives have resulted in cost reductions that more than offset the lost absorption from lower production volumes as a result of the negative impact of the economic downturn.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses increased to \$81.4 million in the first nine months of fiscal year 2010 from \$73.4 million in the first nine months of fiscal year 2009. As a percentage of net sales our SG&A expenses increased to 19.3% in first nine months of fiscal year 2010 from 16.6% in first nine months of fiscal year 2009. The increase in SG&A expenses is primarily due to the addition of personnel in the corporate functions such as procurement, finance, information technology and human resources. These additions have been instrumental to achieving the successful execution of operational improvement plans. In the first nine months of fiscal year 2010 the Company also incurred increased audit and professional fees compared to the same period the prior year. These expenses were the result of publishing financial statements for the fiscal years 2008 and 2009, which were completed during the month of December 2009 and continued assistance from outside consultants to support the expanded corporate functions.

Restructuring Expense

Restructuring expense decreased to \$8.1 million in the first nine months of fiscal year 2010 compared to \$17.7 million in the first nine months of fiscal year 2009. Restructuring expense was incurred in connection with the improvement of the our operations by reducing cost and realigning manufacturing capacity to the lower market demand.

Impairment Charges

In the third quarter of fiscal year 2010 the Company recorded an impairment charge of \$13.4 million. The impairment charge was a result of a decline in projected cash flows of our hose business that no longer supported the carrying value of our recorded definite-lived intangible assets and plant and equipment.

In the second quarter of fiscal year 2009 the Company recorded goodwill impairment charges of \$145.7 million. The impairment charge was a result of forecasted future growth rates and cash flows that no longer supported the carrying value of our recorded goodwill. This was primarily a result of the economic downturn in the second quarter of fiscal year 2009. The effect was a marked decline in our garden hose and pump and aerosol packaging businesses, which are reliant on discretionary consumer spending.

Other (Income) Expense

Other income was (\$0.3) million in the first nine months of fiscal year 2010 compared to other expense of \$1.1 million in the first nine months of fiscal year 2009. Other income and expense is primarily driven by foreign exchange gains and losses on outstanding foreign currency positions.

Income Tax Provision

The income tax provision for the first nine months of fiscal year 2010 reflects an effective income tax benefit of 9.7 % compared to an effective income tax benefit of 8.6% for the first nine months of fiscal year 2009. The effective income tax benefit for the first nine months of fiscal year 2010 was impacted by a discrete item relating to the correction of the fiscal year 2009 tax provision while the effective income tax benefit for the first nine months of fiscal year 2009 was impacted by a discrete item relating to impairment of goodwill, the significant portion of which is non-deductible.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

The following sets forth a summary of our cash flows for the first nine months ended of fiscal year 2010 and the first nine months of fiscal year 2009.

	Nine Months Ended April 2, 2010	Nine Months Ended March 27, 2009	Favorable (unfavorable) change
Net cash provided by (used in) operating activities	\$ 19,243	\$ (2,718)	\$ 21,961
Net cash used in investing activities	(22,027)	(11,526)	(10,501)
Net cash (used in) provided by financing activities	(3,115)	15,573	18,688

Cash Flows

At April 2, 2010, we had cash and cash equivalents of \$12.8 million. For the first nine months of fiscal year 2010, positive operating cash flows were utilized to fund investing activities and pay down debt. Total borrowings under the ABL Facility were \$31.0 million and available borrowing capacity was approximately \$24.0 million under the ABL Facility. Outstanding letters of credit at April 2, 2010 totaled \$8.5 million, primarily securing deductibles of our workers compensation insurance program.

Cash Flows from Operating Activities

Net cash provided by operating activities in the first nine months of fiscal year 2010 was \$19.2 million compared to (\$2.7) million cash used in operating activities in the first nine months of fiscal year 2009. Net loss adjusted for non-cash items from operations contributed \$10.3 million and working capital improvements contributed \$8.9 million during fiscal year 2010. During fiscal year 2010 the significant improvement is driven by a lower net loss adjusted for non-cash items from operations, partially offset by an increase in working capital requirements driven primarily by an increase in inventory levels.

Cash Flows from Investing Activities

Net cash used in investing activities for first nine months of fiscal year 2010 was \$22.0 million and was primarily driven by capital expenditures of \$13.6 million and \$7.9 million for the acquisition by Tekni-Plex Europe NV. Net cash used in investing activities was \$10.5 million more than the first nine months of fiscal year 2009. Capital expenditures for first nine months of fiscal year 2010 were used primarily to replace aging equipment as compared to spending in the first nine months of fiscal year 2009, which was primarily for the completion of new production lines in Europe and Asia.

Cash Flows from Financing Activities

Cash used in financing activities in first nine months of fiscal year 2010 was \$3.1 million as a result of debt payments driven by positive trends in working capital and improved net loss adjusted for non-cash items. The payment in debt compares favorably to the previous year by \$18.7 million primarily due to a reduction in our net loss.

Description of the Company's Outstanding Indebtedness

Revolving Credit Agreement

On November 14, 2008, we entered into a second amendment and restatement (the “**Second Amended and Restated Credit Agreement**”) of its Amended and Restated Credit Agreement. The Second Amended and Restated Credit Agreement is an asset based revolving credit facility in the maximum amount of \$110 million. The amendment also, among other things, (i) extended the scheduled maturity date by two years to February 2012, (ii) for fiscal year 2008 and fiscal year 2009, allowed us until December 31, 2009 to deliver audited financial statements for those fiscal year ends, (iii) permitted us and our subsidiaries to enter into affiliate transactions and incur additional indebtedness, (iv) modified the borrowing base to provide for increased availability, (v) modified the pricing of the facility, (vi) permitted unlimited intercompany loans by foreign subsidiaries to loan parties and (vii) modified certain

financial covenants. Except as described above, the material terms of the ABL Facility are substantially unchanged, and the capitalized terms used in this subsection have the meanings assigned to them in the Second Amended and Restated Credit Agreement.

Total borrowings under the ABL Facility were \$31.0 million and availability under the ABL Facility was \$24.0 million after borrowings and outstanding letters-of-credit of \$8.5 million as of April 2, 2010. The excess availability will fluctuate throughout the course of the year based on a variety of factors impacting our borrowing base and outstanding borrowings and other obligations. The borrowing base and the level of outstanding borrowings and other obligations are impacted by the seasonality of our business, specifically the Colorite hose business, as sales and earnings are typically lower during the first and second quarter of each year, while working capital requirements increase prior to the peak selling season as inventory levels increase in advance of the peak selling season.

10 7/8% Notes

We have \$150.0 million in aggregate principal amount of our 10 7/8% Notes outstanding. The 10 7/8% Notes, which mature on August 15, 2012, pay interest semi-annually on August 15th and February 15th. The 10 7/8% Notes are general first lien secured obligations. Payment obligations under the 10 7/8% Notes are fully and unconditionally guaranteed, jointly and severally on a senior secured basis, by our domestic wholly-owned subsidiaries. The 10 7/8% Notes are redeemable at our option, currently at a redemption price of 105.438% plus accrued and unpaid interest to the redemption date. This redemption price declines to 102.719% on August 15, 2010, and declines further to 100% on August 15, 2011 for the remaining life of the notes. This description of certain terms of the 10 7/8% Notes is qualified in its entirety by reference to the 10 7/8% Indenture, as amended.

8 3/4% Notes

We have \$275.0 million in aggregate principal amount of our 8 3/4% Notes outstanding. The 8 3/4% Notes which mature on November 15, 2013, pay interest semi-annually on November 15th and May 15th. The 8 3/4% Notes are general second lien secured obligations. Payment obligations under the 8 3/4% Notes are fully and unconditionally guaranteed, jointly and severally on a senior secured basis, by its domestic wholly-owned subsidiaries. The 8 3/4% Notes are redeemable at our option, at a redemption price of 102.9179% plus accrued and unpaid interest on November 15, 2009, which declines to 101.458% on November 15, 2010, and declines further to 100% on August 15, 2011 for the remaining life of the notes. This description of certain terms of the 8 3/4% Notes is qualified in its entirety by reference to the 8 3/4% Indenture, as amended.

Senior Subordinated Notes

We had \$315.0 million in aggregate principal amount of our Senior Subordinated Notes outstanding. The Senior Subordinated Notes, which mature on June 15, 2010, pay interest semi-annually on June 15th and December 15th. The Senior Subordinated Notes are general unsecured and subordinated obligations. The Senior Subordinated Notes are redeemable at our option. This description of certain terms of the Senior Subordinated Notes is qualified in its entirety by reference to the Indenture dated as of June 21, 2003, as amended. The outstanding balance due at maturity on June 15, 2010 is \$11.5 million.

Supplemental Indentures

On December 5, 2008 we entered into waivers (the "Waivers") under the Indentures providing for (i) waivers of our failure to comply with Section 4.03 of each of the Indentures which require us to file an Annual Report on Form 10-K for the fiscal year ended June 27, 2008 and a Quarterly Report on Form 10-Q for the fiscal period ended September 26, 2008 with the SEC and (ii) waivers of our failure to comply with Section 404 of the Indentures which require us to deliver certain certifications to the Trustee in connection with our fiscal year ended June 27, 2008 stating that, among other things, we are not in default in the performance or observance of any of the terms, provisions and conditions of the Senior Note Indentures or certain other agreements specified in the Senior Note Indentures.

In addition to the Waivers, on December 5, 2008 we entered into Supplemental Indentures, which provided for a suspension, through December 30, 2009 (the "Filing Suspension Period"), of our obligations under each of the Indentures to file Quarterly and Annual Reports on Forms 10-Q and 10-K, respectively, and Current Reports on Form 8-K with the SEC.

On September 30, 2009, we entered into Second Supplemental Indentures which amend certain provisions of the Indentures to permit us to engage in activities in the ordinary course of business that require release of certain collateral, including certain asset dispositions such as entering into permitted factoring transactions. Prior to the execution of the Second Supplemental Indentures, we were required to obtain the consent of the Collateral Agent for each release of certain collateral, including in the ordinary course of business. The Second Supplemental Indentures eliminate this administrative burden and instead permit us to conduct ordinary course activities with respect to Collateral not otherwise prohibited under this Indentures and the related security documents. In connection to obtaining consent of the Collateral Agent, we entered into an amendment to the ABL Facility on December 15, 2009, which, among other things, permits us to enter into certain factoring transactions involving the sale of certain of our accounts receivable.

In connection with the Indentures, we were required to file our Periodic Reports with the SEC on Forms 10-K, 10-Q and 8-K. Our filing obligations under the Indentures were further amended, pursuant to Third Supplemental Indentures on December 8, 2009, such that the Periodic Reports (a) are now posted on our website, rather than filed with the SEC, (b) are not required to contain financial information for periods ending June 30, 2007 or earlier and (c) are not required to contain the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002. We believe that we are in compliance with the Indentures in all material respects.

RELATED PARTY TRANSACTIONS

An affiliate of Oaktree and several affiliates of Avenue Capital Group (collectively "Avenue") control over 80% of the outstanding common stock.

On August 14, 2008, we entered into a note purchase agreement ("Note Purchase Agreement") with Avenue pursuant to which Avenue agreed to purchase all of our First Lien Notes tendered in the Offer ("Tendered Notes"). Avenue purchased the Tendered Notes for 101% of the principal amount of the Tendered Notes (the "Purchase Price") and we paid accrued and unpaid interest on the Tendered Notes. On August 22, 2008, the expiration of the Offer, \$79.8 million principal amount of the total outstanding principal amount of the First Lien Notes were validly tendered and purchased by Avenue in accordance with the Note Purchase Agreement. As consideration, we paid a fee to Avenue of approximately \$7.1 million comprising \$2.3 million commitment fee plus approximately \$4.8 million, or 6% of the Purchase Price actually paid by Avenue. In addition, we paid \$0.7 million in legal and professional fees related to the Tender Offer.

On August 20, 2008, our indirectly wholly-owned subsidiary, Tekni-Plex Europe, NV ("TPE"), organized under the laws of Belgium, entered into an unsecured promissory note (the "Unsecured TPE Note") with Oaktree in which Oaktree agreed to loan approximately \$7.7 million to TPE, which was refinanced pursuant to the TPE Loan Agreement providing for €26.4 million (approximately \$32.9 million at the date of the borrowings).

On August 20, 2008, we entered into an unsecured note promising to pay Oaktree interest on the Unsecured TPE Note ("Interest Note") equal to the excess of 15% of the unpaid principal amount of the Unsecured TPE Note over the interest actually accrued by TPE under the Unsecured TPE Note.

In addition we entered into a Junior Loan Credit Agreement with an investment fund managed by Oaktree. The Junior Loan Credit Agreement provides for a \$15 million five year term loan, guaranteed by all of our domestic subsidiaries. The term loan bears interest at 15%, with 10% payable in cash and the remaining 5% payable-in-kind.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

MARKET RISK

We are exposed to market risk associated with changes in foreign currency exchange rates, certain commodity prices and interest rates. We do not typically hedge our market risk exposures beyond three months and do not anticipate any material changes in our primary market risk exposures in 2010. We typically hedge our cross currency exposures with monthly forward contracts. We do not hold or issue derivative instruments for trading or speculative purposes. We mitigate the risk that the counter-party might default by only entering into financial instruments with major financial institutions, with an investment-grade credit rating, as counterparties.

CURRENCY RATE RISK

We have manufacturing facilities in seven foreign countries and our products are sold throughout the world. As a result, we are exposed to movements in various currencies against the U.S. dollar and against the currencies in countries in which we manufacture. The major foreign currencies in which our foreign currency risk exists are the Euro, British Pound Sterling, Chinese Yuan, Canadian Dollar, and Argentina Peso.

In addition to its direct effect, changes in foreign currency exchange rates will also potentially affect future sales volumes, foreign currency sales prices, and hedging strategies. We manage our foreign currency risks by hedging our foreign currency exposure with foreign currency forward contracts. Through our foreign currency hedging activities, we seek to minimize the risk that cash flows resulting from the sale of products manufactured in a currency different from the currency used by the selling subsidiary will be affected by changes in foreign currency exchange rates. We do not, however, hedge foreign exposures that are considered immaterial or in highly correlated currencies. Foreign currency derivative instruments (forward contracts) are matched to the underlying foreign currency exposures and are executed to minimize foreign exchange transaction costs.

The functional currency for the majority of our foreign operations is the applicable local currency. Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in currency translation adjustments in accumulated other comprehensive income (losses).

ITEM 4(T). CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report, management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation and as of the end of the quarter for which this report is made, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective. Disclosure controls and procedures ensure that information to be disclosed in reports provided to security holders is recorded, processed, summarized and reported timely, and ensure that information required to be disclosed in the reports is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There has been no change in internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information set forth in Item 1 of Part I of this Quarterly Report in Note 12. *Commitments and Contingencies* is incorporated herein by reference. See also Part I, Item 3 *Legal Proceedings* to the 2009 Annual Report, for a discussion regarding legal proceedings, if any, that could materially affect our business, financial condition or future results.

ITEM 1A. RISK FACTORS

See Part I, Item 1A *Risk Factors* to the 2009 Annual Report, for a discussion regarding the factors, if any, that could materially affect our business, financial condition or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES & USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

None.

