



Tekni-Plex, Inc.

Quarterly Report For the Period Ended December 30, 2011

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

TEKNI-PLEX, INC.
Quarterly Report
for the Period Ended December 30, 2011
Table of Contents

PART I

ITEM 1. FINANCIAL INFORMATION

UNAUDITED CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 30, 2011 AND JULY 1, 2011

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE QUARTER AND SIX MONTHS ENDED DECEMBER 30, 2011 AND DECEMBER 31, 2010

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 30, 2011 AND DECEMBER 31, 2010

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II

ITEM 1. LEGAL PROCEEDINGS

ITEM 1A. RISK FACTORS

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

ITEM 4. MINE SAFETY DISCLOSURES

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS

SIGNATURES

PRESENTATION OF THIS QUARTERLY REPORT

Pursuant to Section 4.03 of the Indenture dated November 21, 2003 with respect to the 8.75% Senior Secured Notes due 2013 (“**8.75% Notes**”) (“**8.75% Indenture**”), 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 Indenture 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 December 30, 2011 (“**Quarterly Report**”) has been prepared accordingly.

This Quarterly Report should be read in conjunction with the Company’s Annual Report for fiscal year 2011 (“**2011 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; and the term “**Restructuring**” refers to the restructuring consummated on May 30, 2008 which resulted in a change in 100% of the Company’s outstanding common stock. 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 2012**” refers to the period ending June 29, 2012; “**fiscal year 2011**” refers to the period ended July 1, 2011; “**fiscal year 2010**” refers to the period ended July 2, 2010.

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 2011 Annual Report, as well as elsewhere in the 2011 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 may be 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)

ASSETS	December 30, 2011	July 1, 2011
Current assets:		
Cash	\$ 20,931	\$ 10,944
Accounts receivable, net of allowances of \$591 and \$845	47,335	84,671
Inventories, net	83,465	83,381
Deferred taxes	4,085	4,109
Prepaid expenses and other current assets	7,385	5,437
Total current assets	163,201	188,542
Property, plant and equipment, net	178,429	185,145
Goodwill	125,091	126,833
Intangible assets, net of accumulated amortization of \$118,495 and \$104,194	125,106	145,206
Deferred charges, net of accumulated amortization of \$1,625 and \$871	7,017	7,771
Other long-term assets	2,342	2,455
Total assets	\$ 601,186	\$ 655,952
 LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Current portion of debt	\$ 3,654	\$ 10,314
Accounts payable	38,398	49,245
Accrued payroll and benefits	10,885	12,685
Accrued interest	8,081	8,007
Income taxes payable	5,868	7,056
Other current liabilities	13,203	14,913
Total current liabilities	80,089	102,220
Long-term debt	501,750	499,008
Deferred taxes	26,686	26,471
Deferred sale proceeds	16,248	16,302
Other long-term liabilities	39,856	39,651
Total liabilities	664,629	683,652
Commitments and contingencies		
Stockholders' deficit:		
Common stock (\$0.01 par value; authorized 10,000,000 shares; issued and outstanding 3,500,000 shares)	35	35
Additional paid-in capital	303,436	303,339
Accumulated other comprehensive loss	(26,328)	(19,238)
Accumulated deficit	(340,586)	(311,836)
Total stockholders' deficit	(63,443)	(27,700)
Total liabilities and stockholders' deficit	\$ 601,186	\$ 655,952

See accompanying notes to unaudited consolidated financial statements.

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

	Quarter Ended		Six Months Ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010 (Restated)
Net sales	\$ 138,378	\$ 132,197	\$ 288,041	\$ 271,307
Cost of goods sold	108,067	103,838	228,833	212,035
Gross profit	30,311	28,359	59,208	59,272
Operating expenses:				
Selling, general and administrative	24,493	25,669	52,449	51,980
Restructuring	304	329	335	852
Income from operations	5,514	2,361	6,424	6,440
Other expense (income):				
Interest expense, net	15,320	16,608	30,493	31,962
Loss on extinguishment of debt	-	10,211	-	10,211
Other (income) expense	(594)	301	(117)	566
Loss before income taxes	(9,212)	(24,759)	(23,952)	(36,299)
Provision for (benefit from) income taxes	3,019	(1,293)	4,798	3,221
Net loss	\$ (12,231)	\$ (23,466)	\$ (28,750)	\$ (39,520)
Net loss	\$ (12,231)	\$ (23,466)	\$ (28,750)	\$ (39,520)
Other comprehensive income				
Currency translation adjustments	(2,710)	(3,705)	(7,090)	5,577
Comprehensive loss	\$ (14,941)	\$ (27,171)	\$ (35,840)	\$ (33,943)

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended	
	December 30, 2011	December 31, 2010 (Restated)
OPERATING ACTIVITIES:		
Net loss	\$ (28,750)	\$ (39,520)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Loss on extinguishment of debt	-	5,695
Depreciation	12,012	10,874
Amortization of intangible assets	16,888	16,754
Amortization of deferred charges, debt premiums and discounts	5,359	4,812
Capitalized interest on junior lien credit agreement	-	206
Accretion of restructuring and asset retirement obligations	244	362
Change in fair value of equity instruments	(630)	505
Stock based compensation	97	-
Provision for bad debts	(77)	28
Deferred income taxes	1,792	3,674
Loss on disposal of assets	111	273
Changes in assets and liabilities:		
Accounts receivable	35,315	22,105
Inventories	(2,822)	(19,516)
Prepaid expenses and other current assets	(2,244)	(1,306)
Accounts payable	(9,181)	(4,971)
Accrued payroll and benefits	(1,138)	(3,273)
Accrued interest	75	(4,574)
Other current liabilities	746	2,426
Income taxes payable	(660)	(1,760)
Other long-term liabilities	(573)	(880)
Net cash provided by (used in) operating activities	<u>26,564</u>	<u>(8,086)</u>
INVESTING ACTIVITIES:		
Business acquisitions	-	(1,537)
Capital expenditures	(8,480)	(12,520)
Other	(5)	(114)
Net cash used in investing activities	<u>(8,485)</u>	<u>(14,171)</u>
FINANCING ACTIVITIES:		
Short-term borrowings and cash overdrafts, net	(6,369)	8,496
Borrowings under line of credit	45,022	68,046
Repayments under line of credit	(45,022)	(91,164)
Borrowings under long-term debt	-	278,176
Repayments of long-term debt	(1,643)	(233,507)
Deferred sale proceeds	(183)	-
Debt financing costs	-	(8,292)
Net cash (used in) provided by financing activities	<u>(8,195)</u>	<u>21,755</u>
Effect of exchange rate changes on cash	103	944
Net increase in cash and cash equivalents	9,987	442
Cash and cash equivalents beginning of period	10,944	10,403
Cash and cash equivalents end of period	<u>\$ 20,931</u>	<u>\$ 10,845</u>

See accompanying notes to unaudited consolidated financial statements.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

NOTE 1. BASIS OF PRESENTATION

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.

Restatement of Consolidated Financial Statements

We restated our unaudited consolidated financial statements for the fiscal quarter ended October 1, 2010 and the six months ended December 31, 2010. Prior period financial information included in this quarterly report contains the restatement of such financial information as applicable. Refer to Note 3 for information regarding the restatement.

Basis of Presentation

In the opinion of management, the accompanying Unaudited Consolidated Balance Sheets and related interim Unaudited Consolidated Statements of Operations and Unaudited Consolidated Statements of Cash Flows include all adjustments, consisting of normal recurring items, necessary for their fair presentation in conformity with U.S. generally accepted accounting principles (GAAP) for interim financial reporting 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 the financial statements, as well as the reported amounts of revenues 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 our audited financial statements and notes thereto included in our 2011 Annual Report for the fiscal year ended July 1, 2011.

During fiscal year 2011, we identified errors while reconciling our deferred income tax general ledger accounts that affected our reported consolidated financial position, results of operations and cash flows for fiscal years 2010 and 2009. Management evaluated the magnitude of these errors, and concluded that the consolidated financial statements for corresponding periods were materially misstated. Certain out-of-period adjustments included in the restatement of the consolidating statement of operations and consolidated statement of cash flows for the fourth quarter of fiscal year 2010 had an impact on the first quarter of fiscal year 2011. Management determined it was necessary to restate the financial statements for the affected periods. The identified out of period errors as they pertain to this Quarterly Report for the period ended December 30, 2011 are discussed in Note 3.

NOTE 2. RECENTLY ISSUED ACCOUNTING STANDARDS

Recently Adopted Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update “ASU” No. 2011-08 – Goodwill Impairment Testing which provides additional guidance related to the impairment testing of goodwill. ASU No. 2011-08 allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The revised guidance is effective for fiscal years beginning after December 15, 2011 but early adoption is permitted. We adopted the new guidelines in the first quarter of fiscal 2012. There was no impact as a result of the adoption.

Recent Accounting Pronouncements Not Yet Adopted

In May 2011, the FASB issued authoritative guidance on fair value measurements and disclosures which becomes effective for interim and annual periods beginning after December 15, 2011. The new guidance enhances disclosures and refines certain aspects of fair value measurement that primarily affect financial instruments. The adoption of this guidance is not expected to have a material effect on our consolidated financial position or results of operations.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

NOTE 3. RESTATEMENT OF THE UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS AND CASH FLOWS FOR THE SIX MONTHS ENDED DECEMBER 31, 2010

During fiscal year 2011, we identified certain out-of-period adjustments that impacted both the fourth quarter of fiscal year 2010 and the first quarter of fiscal year 2011. Management evaluated the magnitude of these errors, and elected to correct these errors in conjunction with a restatement of the consolidated financial statements for fiscal years 2010 and 2009. The identified out of period adjustments are discussed below.

Restructuring: During the fourth quarter of fiscal year 2010, we incorrectly reduced our restructuring reserves by \$1,700. This was initially corrected in the first quarter of fiscal year 2011. The error resulted in an overstatement of restructuring expense in the first quarter of fiscal year 2011.

Other corrections: Certain other errors were identified during the first quarter of fiscal year 2011 that should have been reported in the fourth quarter of fiscal year 2010. The impact on the Unaudited Consolidated Statement of Operations for the first quarter of fiscal year 2011 was a \$180 overstatement of other expense, a \$787 understatement of revenue and a \$569 understatement of cost of goods sold.

Tax impact: The tax impact of the change in the restructuring expense and the other corrections was an increase in the provision for income taxes of \$1,103 in the first quarter of fiscal year 2011.

Impact of the restatements: The effect of these changes in the Unaudited Consolidated Statement of Operations, along with their associated impact on the Unaudited Consolidated Balance Sheet, had the following effects on the previously reported Unaudited Consolidated Statements of Operations and Cash Flows.

	<u>Six Months Ended December 31, 2010</u>		
	<u>Previously reported</u>	<u>Adjustments</u>	<u>Restated</u>
Net sales	\$ 270,520	\$ 787	\$ 271,307
Cost of goods sold	211,466	569	212,035
Gross profit	59,054	218	59,272
Operating expenses:			
Selling, general and administrative	51,980	-	51,980
Restructuring	2,552	(1,700)	852
Income from operations	4,522	1,918	6,440
Other expense:			
Interest expense, net	31,962	-	31,962
Loss on extinguishment of debt	10,211	-	10,211
Other expense	746	(180)	566
Loss before income taxes	(38,397)	2,098	(36,299)
Provision for income taxes	2,118	1,103	3,221
Net loss	<u>\$ (40,515)</u>	<u>\$ 995</u>	<u>\$ (39,520)</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

	Six Months Ended December 31, 2010		
	Previously reported	Adjustments	Restated
OPERATING ACTIVITIES:			
Net loss	\$ (40,515)	\$ 995	\$ (39,520)
Adjustments to reconcile net loss to cash provided by operating activities:			
Loss on extinguishment of debt	5,695	-	5,695
Depreciation	10,874	-	10,874
Amortization of intangible assets	16,754	-	16,754
Amortization of debt costs	4,812	-	4,812
Capitalized interest in junior lien credit agreement	206	-	206
Accretion of restructuring and asset retirement obligations	362	-	362
Change in fair value of equity instruments	505	-	505
Provision for bad debts	28	-	28
Deferred income taxes	2,571	1,103	3,674
Loss on disposal of assets	273	-	273
Changes in assets and liabilities:			
Accounts receivable	22,941	(836)	22,105
Inventories	(20,093)	577	(19,516)
Prepaid expenses and other current assets	(1,333)	27	(1,306)
Accounts payable	(4,971)	-	(4,971)
Accrued payroll and benefits	(3,273)	-	(3,273)
Accrued interest	(4,574)	-	(4,574)
Other current liabilities	2,426	-	2,426
Income taxes payable	(1,760)	-	(1,760)
Other long-term liabilities	820	(1,700)	(880)
Net cash used in by operating activities	<u>(8,252)</u>	<u>166</u>	<u>(8,086)</u>
INVESTING ACTIVITIES:			
Business acquisitions	(1,537)	-	(1,537)
Capital expenditures	(12,520)	-	(12,520)
Other	(114)	-	(114)
Net cash used in investing activities	<u>(14,171)</u>	<u>-</u>	<u>(14,171)</u>
FINANCING ACTIVITIES:			
Short-term borrowings and cash overdrafts	8,496	-	8,496
Borrowings under line of credit	68,046	-	68,046
Repayments under line of credit	(91,164)	-	(91,164)
Borrowings under long-term debt	278,176	-	278,176
Repayments of long-term debt	(233,507)	-	(233,507)
Debt financing costs	(8,292)	-	(8,292)
Net cash provided by financing activities	<u>21,755</u>	<u>-</u>	<u>21,755</u>
Effect of exchange rate changes on cash	934	10	944
Net increase in cash and cash equivalents	266	176	442
Cash and cash equivalents beginning of period	10,579	(176)	10,403
Cash and cash equivalents end of period	<u>\$ 10,845</u>	<u>\$ -</u>	<u>\$ 10,845</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

NOTE 4. EXIT AND DISPOSAL ACTIVITIES

During December 2011, we implemented a reduction in force resulting in an elimination of 27 employees. Charges related to the reduction in force, included as restructuring in the Consolidated Statement of Operations, represented severance and benefits of approximately \$265, substantially all of which was paid prior to December 30, 2011.

During fiscal year 2011, we closed our hose manufacturing facility located in Bucyrus, Ohio, which is part of our Tubing Segment. Both the reduction in force and the closure was part of our on-going plans and efforts to reduce costs and improve efficiency.

Exit and disposal costs at December 30, 2011 of \$1,160 and \$3,301 are included in the Current Liabilities and Other Long-Term Liabilities, respectively. Exit and disposal costs at July 1, 2011 of \$2,119 and \$3,225 were included in Other Current Liabilities and Other Long-Term Liabilities, respectively. The components of these liabilities, the changes in the balances and the ending balance are as follows:

	Employee Severance	Contractual Obligations	Environmental	Plant Closures	Total
Balance at July 1, 2011	\$ 90	\$ 2,933	\$ 1,543	\$ 778	\$ 5,344
Fiscal year 2012 reduction in force	265	-	-	-	265
Payments made	(243)	(932)	(22)	(28)	(1,225)
Adjustments and reclassifications	-	-	534	(534)	-
Accretion	-	77	-	-	77
Balance at December 30, 2011	<u>\$ 112</u>	<u>\$ 2,078</u>	<u>\$ 2,055</u>	<u>\$ 216</u>	<u>\$ 4,461</u>

The environmental liability included in our exit and disposal liability accrual is solely related to our closed specialty resins business in Burlington, New Jersey.

NOTE 5. BUSINESS COMBINATIONS

On October 16, 2009 we acquired 100% of the assets of two affiliated packaging entities for total consideration of \$9,422, of which \$7,885 was paid at closing. An additional payment of \$1,537 was made on November 26, 2010 based on the acquired entities having achieved certain earnings within a one year period of the acquisition. The acquisition was made primarily to extend our manufacturing and processing capabilities for specific products within our Packaging Segment.

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. ACCOUNTS RECEIVABLE

We have entered into an arrangement with a third party financial institution to sell certain accounts receivable of a domestic customer. Under the terms of the agreement, accounts receivable that have been accepted by and approved for payment by our customer, and which related accounts receivable we have irrevocably offered to sell, are paid by the financial institution, generally on the following business day, in full less a fee as defined in the agreement. During the six months ended December 30, 2011, we sold accounts receivable with a fair value of \$7,198 and received proceeds of \$7,093. The difference represents fees paid of \$47 and cash of \$58 which was received on January 3, 2012 for accounts receivable sold on the last day of our fiscal quarter. During the six months ended December 31, 2010, we sold accounts receivable with a fair value of \$6,212 and received proceeds of \$6,145. The difference represents fees paid of \$41 and cash of \$26, which was received on January 2, 2011 for accounts receivable sold on the last day of our fiscal quarter.

During December 2011, our indirect, wholly owned Belgian subsidiary entered into a factoring agreement with a third party financial institution that replaced the prior collection and processing agreement with the financial institution. Under the new agreement, trade receivables generated by the subsidiary, which meet certain eligibility requirements are sold to the financial

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

institution. The structure of these transactions provides for a legal true sale under the accounting guidelines of Accounting Standards Codification (“ASC”) 860 “Transfers and Servicing.” The financial institution funds an initial purchase price of 90% of approved accounts receivable. The remaining deferred purchase price is settled upon collection of the receivables, less fees and expenses. At each balance sheet date, we remove from accounts receivable the amount of proceeds received from the initial purchase prices as they meet the applicable criteria of ASC 860, and we continue to recognize the deferred purchase price in our accounts receivable. The receivables are sold on a non-recourse basis. The maximum amount of aggregate receivables that may be sold under this agreement is €8,500 (approximately \$11,000 at December 30, 2011). Expenses incurred under both Belgian agreements amounted to \$59 and are included in interest expense.

We have two additional international agreements with a third party financial institution to outsource the collection and processing functions of certain non-U.S. receivables for customers that have been pre-approved by the financial institution. These agreements relate to the receivables of our Northern Ireland and Italian operations. The agreements also allow us to seek advances of up to 85% of the receivables that have been accepted by the financial institution for collection and processing. The maximum allowable advances under the agreements are approximately \$3,100 for Northern Ireland and approximately \$3,200 for Italy. Collections made by the financial institution are transferred to our account on a daily basis or when requested and we are charged an administrative fee as defined in the agreements.

During the six months ended December 30, 2011, Northern Ireland received advances of approximately \$13,151, repaid approximately \$16,269 which included the opening balance payable and incurred fees and expenses of approximately \$84 that were recorded as interest expense. As of December 30, 2011, there were no advances outstanding under this arrangement and cash of approximately \$960 was on deposit pending return to the Northern Ireland bank accounts. Our Italian operation was advanced approximately \$98 during the six months ended December 30, 2011 and repaid approximately \$1,273 which included the opening balance, under its arrangement. There were no amounts outstanding at December 30, 2011 and we incurred interest and fees of approximately \$47 that were recorded as interest expense.

During the six months ended December 31, 2010, our Belgian operation had net advances under its prior collection and processing agreement of approximately \$5,349. Interest and fees charged on the advances amounted to \$165 during the six months ended December 31, 2010. Our Northern Ireland operation had net advances of approximately \$1,809 during the six months ended December 31, 2010 and paid interest and fees under the arrangement of \$42. Our Italian operation had net advances of approximately \$1,337 during the six months ended December 31, 2010 and paid interest and fees of \$53. As of December 31, 2010, net advances of \$8,495 have been classified as a component of Current Portion of Long-Term Debt.

NOTE 7. INVENTORIES

Inventories are summarized as follows:

	<u>December 30, 2011</u>	<u>July 1, 2011</u>
Raw materials	\$ 33,849	\$ 40,111
Work-in-process	8,049	8,531
Finished goods	<u>41,567</u>	<u>34,739</u>
	<u>\$ 83,465</u>	<u>\$ 83,381</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

NOTE 8. GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill attributable to each reportable operating segment and changes therein follow:

	<u>Packaging</u>	<u>Tubing</u>	<u>Polymers</u>	<u>Total</u>
Balance as of July 1, 2011				
Goodwill	\$ 178,232	\$ 52,811	\$ 34,908	\$ 265,951
Accumulated impairment losses	<u>(66,205)</u>	<u>(39,319)</u>	<u>(33,594)</u>	<u>(139,118)</u>
	112,027	13,492	1,314	126,833
Currency translation and other adjustments	<u>(1,697)</u>	<u>-</u>	<u>(45)</u>	<u>(1,742)</u>
Balance as of December 30, 2011	<u>\$ 110,330</u>	<u>\$ 13,492</u>	<u>\$ 1,269</u>	<u>\$ 125,091</u>
Balance as of December 30, 2011				
Goodwill	\$ 167,255	\$ 52,811	\$ 34,086	\$ 254,152
Accumulated impairment losses	<u>(56,925)</u>	<u>(39,319)</u>	<u>(32,817)</u>	<u>(129,061)</u>
	<u>\$ 110,330</u>	<u>\$ 13,492</u>	<u>\$ 1,269</u>	<u>\$ 125,091</u>

Goodwill is tested for impairment at least annually or as events or changes in circumstances occur indicating that the carrying value of the Goodwill may not be recoverable. We completed our annual assessment as of May 27, 2011 and determined that there was no impairment of our Goodwill at that time. The excess of the concluded enterprise value over the carrying value of the four reporting units with Goodwill ranges from 11.1% to 140.5%. There can be no assurance that we will not be required to recognize impairment in the future due to market conditions or other factors related to our performance. These events could include a decline over a period of time of our concluded enterprise value, a decline over a period of time in valuation multiples of comparable companies, the lack of an increase in our concluded enterprise value consistent with peer companies or decreases in control premiums. A decline in the forecasted results in our business plan, such as changes in forecasted on-going profitability or capital investment budgets or changes in our interest rates, could also result in an impairment charge.

Intangible Assets

The components of our identifiable intangible assets were as follows:

	<u>December 30, 2011</u>			<u>July 1, 2011</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Customer relationships	\$ 224,380	\$ (113,991)	\$ 110,389	\$ 229,649	\$ (100,199)	\$ 129,450
Trade names and trademarks	7,454	(1,767)	5,687	7,647	(1,562)	6,085
Developed technology and other	<u>11,767</u>	<u>(2,737)</u>	<u>9,030</u>	<u>12,104</u>	<u>(2,433)</u>	<u>9,671</u>
Total	<u>\$ 243,601</u>	<u>\$ (118,495)</u>	<u>\$ 125,106</u>	<u>\$ 249,400</u>	<u>\$ (104,194)</u>	<u>\$ 145,206</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

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

	Customer relationships	Trade names and trademarks	Developed technology and other	Total
Balance at July 1, 2011	\$ 229,649	\$ 7,647	\$ 12,104	\$ 249,400
Additions to intangibles	-	-	131	131
Currency translation adjustments	(5,269)	(193)	(468)	(5,930)
Balance at December 30, 2011	<u>\$ 224,380</u>	<u>\$ 7,454</u>	<u>\$ 11,767</u>	<u>\$ 243,601</u>

NOTE 9. DEBT

Our debt consists of the following:

	December 30, 2011	July 1, 2011
Senior Secured Notes at 8.75%, due November 15, 2013 (less unamortized discount of \$18,561 and \$22,680)	\$ 226,439	\$ 222,320
Revolving line of credit term (ABL Facility), due November 19, 2015	-	-
Term debt, floating rate, due November 19, 2016 (less unamortized discount of \$6,128 and \$6,615)	275,309	276,247
Capital lease obligation	1,587	2,000
Receivable-based borrowings	-	6,475
Other, primarily foreign term loans, with interest rates ranging from 1.0% to 6.5% and maturities through 2021	2,069	2,280
	<u>505,404</u>	<u>509,322</u>
Less: current maturities	<u>(3,654)</u>	<u>(10,314)</u>
	<u>\$ 501,750</u>	<u>\$ 499,008</u>

In connection with the refinancing of a portion of our debt during the second quarter of fiscal year 2011, the unamortized debt costs of approximately \$3,674, the unamortized debt discount and premium of approximately \$2,021 and the call premiums on the redeemed notes of \$4,516, were recorded as a loss on extinguishment of debt of \$10,211.

At December 30, 2011, the estimated fair value of our debt was approximately \$469,107 based upon the recent market prices of the 8.75% Notes and the Term Debt. The estimated fair value of our debt was approximately \$505,353 at July 1, 2011.

Gross availability under the ABL Facility was \$39,767 as of December 30, 2011. There were \$8,115 in outstanding letters of credit as of December 30, 2011.

NOTE 10. INCOME TAXES

Our effective tax rate is likely to vary materially both from the statutory tax rate and from period to period. While within a period there may be discrete items that impact our effective tax rate, the impact of increases or decreases to uncertain tax benefits, foreign earnings, state income taxes and different rates in foreign jurisdictions and the relative amount of income we earn in those jurisdictions consistently have an impact. In addition, as from the fourth quarter of fiscal year 2010, valuation allowances now apply to domestic operating losses as we no longer believe that we will recover our net deferred tax assets in the US.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Our income tax expense rate for the quarter ended December 30, 2011 was -32.8% compared to an income tax benefit rate of 5.2% for the quarter ended December 31, 2010. These rates are primarily impacted by adjustments related to changes in the annual forecasted rate of tax as calculated at the end of the respective second quarters versus the respective first quarters in each year.

The income tax expense rate of -32.8% for the quarter ended December 30, 2011 reflects a change in the annual forecasted tax rate from -15.0% for the quarter ended September 30, 2011 to -20.3% for the quarter ended December 30, 2011. This rate change is primarily attributable to a reduction in forecasted US losses with a corresponding reduction in the domestic valuation allowance.

The income tax benefit rate of 5.2% for the quarter ended December 31, 2010 was due to the actual calculated tax expense for the six months ended December 31, 2010 being lower than the actual calculated income tax expense for the three months ended October 1, 2010. An increase in forecast US losses, with a corresponding increase in the domestic valuation allowance, was the primary reason for this result.

The income tax provision for the six months ended December 30, 2011 was an effective tax expense rate of -20.0% compared to an effective income tax expense rate of -8.9% for the six months ended December 31, 2010. The primary cause of the increased tax expense rate for the six months ended December 30, 2011 is the mix of US and non US pre-tax losses in conjunction with the impact of the domestic valuation allowance.

We do not expect that our unrecognized tax benefits will significantly change over the next twelve months and we are not aware of any new uncertain tax positions for fiscal year 2012.

NOTE 11. PENSION PLANS

We sponsor the Tekni-Plex, Inc. Pension Plan ("Pension Plan") that covered employees at several of our domestic facilities. Benefits for all employees covered under the Pension Plan were frozen as of December 31, 2008 or earlier.

Our current funding policy is to contribute to the Pension Plan 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. During fiscal year 2012, we expect to contribute \$805 to the Pension Plan. Contributions to the Pension Plan for the six months ended December 30, 2011 and December 31, 2010 were \$430 and \$350, respectively.

The components of net periodic pension costs are as follows:

	Quarter Ended		Six Months Ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
Interest cost	\$ 361	\$ 357	\$ 722	\$ 714
Expected return on plan assets	(464)	(437)	(928)	(874)
Amortization of unrecognized:				
Actuarial loss	15	53	30	106
Total	<u>\$ (88)</u>	<u>\$ (27)</u>	<u>\$ (176)</u>	<u>\$ (54)</u>

NOTE 12. COMMITMENTS AND CONTINGENCIES

Commitments

We lease building space and certain equipment throughout the United States, Asia, and Europe under long-term non-cancelable operating leases. These building leases generally have initial terms of 10 years and most have renewal options for additional periods. Equipment leases typically have a term of five years. Additionally, we have a management and services agreement in Argentina that requires minimum monthly payments.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Contingencies

We are party to various legal proceedings arising in the normal conduct of business, including compliance with environmental regulations 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.

We are party to a case before the United States District Court for the District of Massachusetts captioned *Evergreen Partnering Group, Inc. and Michael Forrest vs. Pactiv Corporation; Genpack, LLC; Solo Cup Company; Dolco Packaging, a Tekni-Plex Company; Dart Container Corporation; American Chemistry Council; and Polystyrene Food service Packaging Group*. The plaintiffs allege that the defendants participated in a group effort to disseminate false information about plaintiffs' recycling system and to block plaintiff's entry into the market. Based on these allegations, the plaintiffs assert various federal and state claims for false advertising, unfair trade practices and tortious interference. The complaint seeks injunctive relief and unspecified monetary damages. We believe that the complaint is without merit and continue to defend against it vigorously.

We are party to a case before the United States District Court for the District of New Jersey captioned *Conseco Life Insurance Company v. Occidental Petroleum Corporation et al.* The complaint alleges that an insurance policy cashed out by Tekni-Plex in 2007 was in fact owned by Occidental Petroleum Corporation. The complaint seeks a declaration whether Occidental or Tekni-Plex was the owner of such policy. In the event that Occidental is declared to be the owner of such policy, the complaint further seeks reimbursement of the approximately \$370 paid to Tekni-Plex as the cash value of the policy, plus prejudgment interest. The parties are currently in the discovery process.

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, as of December 30, 2011 we were 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, possibly resulting in additional investigations and remediation costs. As of December 30, 2011, we were also conducting remediation at a formerly owned New Jersey facility under a voluntary cleanup agreement with the state.

As of December 30, 2011, we had a \$2,055 reserve associated with environmental remediation at the Burlington, New Jersey site and a \$257 reserve associated with other environmental matters.

NOTE 13. SUPPLEMENTAL CASH FLOW INFORMATION

	<u>Six Months Ended</u>	
	<u>December 30, 2011</u>	<u>December 31, 2010</u>
Non-Cash Investing Activities:		
Capital expenditures included in liabilities	\$ 2,305	\$ 616
Cash Paid:		
Interest	\$ 24,929	\$ 31,299
Income Taxes	2,628	1,169

NOTE 14. RELATED PARTY TRANSACTIONS

An affiliate of Oaktree Capital Management ("Oaktree") owns 66% of our outstanding common stock.

In November, 2008 we entered into a Junior Lien Credit Agreement with an investment fund managed by Oaktree. The Junior Lien Credit Agreement provided for a \$15,000 five year term loan, guaranteed by all of our domestic subsidiaries. The Junior Lien Credit Agreement bore interest at 15%, with 10% payable in cash and the remaining 5% payable-in-kind. The Junior Lien Credit Agreement was paid in full in November 2010. During the six months ended December 31, 2010 we incurred interest expense of \$954 under this agreement.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

In November, 2008, our indirect wholly owned subsidiary, Tekni-Plex Europe NV entered into a five year, unsecured Term Loan Agreement (the "TPE Loan Agreement") with an investment fund managed by Oaktree. The TPE Loan Agreement provided for €6,361 (approximately \$32,900 at the date of the borrowings). Interest, at the rate of 15%, was payable quarterly. The TPE Loan Agreement was repaid in full in November 2010. During the six months ended December 31, 2010 we incurred interest expense of \$2,060 under this agreement.

There are no amounts outstanding that are payable to or receivable from related parties as of December 30, 2011.

NOTE 15. SEGMENT INFORMATION

We review our operating plants to evaluate performance and allocate resources. We have aggregated our operating plants into three primary industry segments: Tubing Products, Packaging and Polymers. The Tubing Products segment principally produces garden and irrigation hoses, medical tubing and pool hoses. The Packaging segment principally produces foam egg cartons, pharmaceutical blister films, poultry and meat processor trays, closure liners, and aerosol and pump packaging components. Our Polymers segment includes PET and vinyl compounds. The Tubing Products and Packaging segments have operations in the United States, Europe, Canada, China, India and Argentina. The Polymers segment has operations in the United States, Northern Ireland and China.

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Financial information concerning our business segments are as follows:

Six Months Ended December 30, 2011

	Tubing				Totals
	Products	Packaging	Polymers	Corporate	
Revenues from external customers	\$ 46,864	\$ 190,271	\$ 50,906	\$ -	\$ 288,041
Depreciation and amortization	4,322	19,622	4,084	1,116	29,144
Segment (loss) income from continuing operations	(242)	18,138	1,270	(12,742)	6,424
Provision for (benefit from) income taxes	206	(1,125)	(1,121)	6,838	4,798
Capital expenditures	996	3,973	408	3,103	8,480
Total assets	177,722	785,933	86,054	(448,523)	601,186

Six Months Ended December 31, 2010

	Tubing				Totals
	Products	Packaging	Polymers	Corporate	
(restated)					
Revenues from external customers	\$ 39,401	\$ 184,464	\$ 47,442	\$ -	\$ 271,307
Depreciation and amortization	4,308	18,998	4,060	624	27,990
Segment (loss) income from continuing operations	(3,562)	22,524	1,787	(14,309)	6,440
Provision for (benefit from) income taxes	869	(21)	795	1,578	3,221
Capital expenditures	2,827	7,116	525	2,052	12,520

Quarter Ended December 30, 2011

	Tubing				Totals
	Products	Packaging	Polymers	Corporate	
Revenues from external customers	\$ 18,202	\$ 95,325	\$ 24,851	\$ -	\$ 138,378
Depreciation and amortization	2,176	10,050	2,038	568	14,832
Segment (loss) income from continuing operations	(661)	10,244	1,342	(5,411)	5,514
(Benefit from) provision for income taxes	(12)	(755)	(218)	4,004	3,019

Quarter ended December 31, 2010

	Tubing				Totals
	Products	Packaging	Polymers	Corporate	
Revenues from external customers	\$ 17,451	\$ 92,823	\$ 21,923	\$ -	\$ 132,197
Depreciation and amortization	2,164	9,870	2,044	386	14,464
Segment (loss) income from continuing operations	(2,025)	11,695	(370)	(6,939)	2,361
Provision for (benefit from) income taxes	390	734	733	(3,150)	(1,293)

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. Corporate identifiable assets consist primarily of cash, prepaid expenses, deferred income taxes and fixed assets.

NOTE 16. SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Tekni-Plex, Inc. issued 8.75% Senior Secured Notes in November 2003 and 10.875% Senior Secured Notes in June 2008 that are guaranteed by all domestic subsidiaries of Tekni-Plex. The 10.875% Notes were redeemed in full in November 2010. 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
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Unaudited Condensed Consolidating Balance Sheet
December 30, 2011

	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Total</u>
ASSETS					
Total current assets	\$ 39,504	\$ 63,385	\$ 60,312	\$ -	\$ 163,201
Property, plant and equipment, net	69,765	62,799	45,865	-	178,429
Goodwill	70,680	36,578	17,833	-	125,091
Intangible assets, net	51,387	42,886	30,833	-	125,106
Deferred charges, net	7,017	-	-	-	7,017
Advances to (from) subsidiaries	311,616	(309,849)	(1,767)	-	-
Equity in subsidiaries	(127,309)	1,703	8,258	117,348	-
Other long-term assets	606	791	945	-	2,342
Total assets	<u>\$ 423,266</u>	<u>\$ (101,707)</u>	<u>\$ 162,279</u>	<u>\$ 117,348</u>	<u>\$ 601,186</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY					
Total current liabilities	\$ 32,657	\$ 17,657	\$ 29,775	\$ -	\$ 80,089
Long-term debt	499,063	-	2,687	-	501,750
Deferred taxes	(11,858)	26,965	11,579	-	26,686
Deferred sale proceeds	-	16,248	-	-	16,248
Other long-term liabilities	5,187	13,449	21,220	-	39,856
Total liabilities	525,049	74,319	65,261	-	664,629
Stockholders' (deficit) equity	(101,783)	(176,026)	97,018	117,348	(63,443)
Total liabilities and stockholders' equity (deficit)	<u>\$ 423,266</u>	<u>\$ (101,707)</u>	<u>\$ 162,279</u>	<u>\$ 117,348</u>	<u>\$ 601,186</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Unaudited Condensed Consolidating Statement of Operations
Quarter Ended December 30, 2011

	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Total</u>
Net sales	\$ 50,367	\$ 50,616	\$ 37,395	\$ -	\$ 138,378
Cost of goods sold	38,606	40,542	28,919	-	108,067
Gross profit	11,761	10,074	8,476	-	30,311
Operating expenses:					
Selling, general and administrative	11,999	6,637	5,857	-	24,493
Restructuring	265	39	-	-	304
(Loss) income from operations	(503)	3,398	2,619	-	5,514
Other (income) expense:					
Interest expense, net	14,273	344	703	-	15,320
Other (income) expense	(267)	(919)	592	-	(594)
(Loss) income before income taxes	(14,509)	3,973	1,324	-	(9,212)
(Benefit from) provision for income taxes	4,006	(865)	(122)	-	3,019
Equity in income of subsidiaries	6,283	-	-	(6,283)	-
Net (loss) income	<u>\$ (12,232)</u>	<u>\$ 4,838</u>	<u>\$ 1,446</u>	<u>\$ (6,283)</u>	<u>\$ (12,231)</u>

Unaudited Condensed Consolidating Statement of Operations
Six Months Ended December 30, 2011

	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Total</u>
Net sales	\$ 96,641	\$ 111,743	\$ 79,657	\$ -	\$ 288,041
Cost of goods sold	75,608	91,371	61,854	-	228,833
Gross profit	21,033	20,372	17,803	-	59,208
Operating expenses:					
Selling, general and administrative	26,401	14,299	11,749	-	52,449
Restructuring	265	70	-	-	335
(Loss) income from operations	(5,633)	6,003	6,054	-	6,424
Other (income) expense:					
Interest expense, net	28,375	693	1,425	-	30,493
Other (income) expense	(277)	(1,429)	1,589	-	(117)
(Loss) income before income taxes	(33,731)	6,739	3,040	-	(23,952)
Provision for (benefit from) income taxes	6,839	(1,687)	(354)	-	4,798
Equity in income of subsidiaries	11,820	-	-	(11,820)	-
Net (loss) income	<u>\$ (28,750)</u>	<u>\$ 8,426</u>	<u>\$ 3,394</u>	<u>\$ (11,820)</u>	<u>\$ (28,750)</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Unaudited Condensed Consolidating Statement of Cash Flows
Six Months Ended December 30, 2011

	Issuer	Guarantors	Non-Guarantors	Total
NET CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES	\$ (15,270)	\$ 20,860	\$ 20,974	\$ 26,564
INVESTING ACTIVITIES				
Capital expenditures	(5,059)	(1,782)	(1,639)	(8,480)
Other	(114)	117	(8)	(5)
Net cash used in investing activities	(5,173)	(1,665)	(1,647)	(8,485)
FINANCING ACTIVITIES				
Short-term borrowings and cash overdrafts - net	-	-	(6,369)	(6,369)
Borrowings under line of credit	45,022	-	-	45,022
Repayments under line of credit	(45,022)	-	-	(45,022)
Borrowings under long-term debt	-	-	-	-
Repayments of long-term debt	(1,432)	-	(211)	(1,643)
Deferred sale proceeds	-	(183)	-	(183)
Debt financing costs	-	-	-	-
Intercompany financing	28,410	(19,017)	(9,393)	-
Net cash provided by (used in) financing activities	26,978	(19,200)	(15,973)	(8,195)
Effect of exchange rate changes on cash	-	-	103	103
Net increase (decrease) in cash and cash equivalents	6,535	(5)	3,457	9,987
Cash and cash equivalents, beginning of period	4,007	-	6,937	10,944
Cash and cash equivalents, end of period	\$ 10,542	\$ (5)	\$ 10,394	\$ 20,931

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Unaudited Condensed Consolidating Balance Sheet
July 1, 2011

	Issuer	Guarantors	Non-Guarantors	Eliminations	Total
ASSETS					
Total current assets	\$ 33,749	\$ 75,738	\$ 79,055	\$ -	\$ 188,542
Property, plant and equipment, net	70,575	65,983	48,587	-	185,145
Goodwill	70,680	36,578	19,575	-	126,833
Intangible assets, net	58,257	48,643	38,306	-	145,206
Deferred charges, net	7,771	-	-	-	7,771
Advances to (from) subsidiaries	340,340	(328,866)	(11,474)	-	-
Equity in subsidiaries	(119,037)	1,703	8,258	109,076	-
Other long-term assets	605	790	1,060	-	2,455
Total assets	<u>\$ 462,940</u>	<u>\$ (99,431)</u>	<u>\$ 183,367</u>	<u>\$ 109,076</u>	<u>\$ 655,952</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY					
Total current liabilities	\$ 32,281	\$ 26,827	\$ 43,112	\$ -	\$ 102,220
Long-term debt	495,890	-	3,118	-	499,008
Deferred taxes	(18,697)	28,488	16,680	-	26,471
Deferred sale proceeds	-	16,302	-	-	16,302
Other long-term liabilities	6,505	13,404	19,742	-	39,651
Total liabilities	<u>515,979</u>	<u>85,021</u>	<u>82,652</u>	<u>-</u>	<u>683,652</u>
Stockholders' (deficit) equity	<u>(53,039)</u>	<u>(184,452)</u>	<u>100,715</u>	<u>109,076</u>	<u>(27,700)</u>
Total liabilities and stockholders' equity (deficit)	<u>\$ 462,940</u>	<u>\$ (99,431)</u>	<u>\$ 183,367</u>	<u>\$ 109,076</u>	<u>\$ 655,952</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Unaudited Condensed Consolidating Statement of Operations
Quarter Ended December 31, 2010

	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Total</u>
Net sales	\$ 49,397	\$ 46,386	\$ 36,414	\$ -	\$ 132,197
Cost of goods sold	36,821	38,816	28,201	-	103,838
Gross profit	12,576	7,570	8,213	-	28,359
Operating expenses:					
Selling, general and administrative	13,091	7,203	5,375	-	25,669
Restructuring	255	76	(2)	-	329
(Loss) income from operations	(770)	291	2,840	-	2,361
Other expense (income):					
Interest expense, net	15,655	2	951	-	16,608
Loss on extinguishment of debt	10,211	-	-	-	10,211
Other expenses (income)	19	(414)	696	-	301
(Loss) income before income taxes	(26,655)	703	1,193	-	(24,759)
(Benefit from) provision for income taxes	(3,150)	908	949	-	(1,293)
Equity in income of subsidiaries	38	-	-	(38)	-
Net (loss) income	<u>\$ (23,467)</u>	<u>\$ (205)</u>	<u>\$ 244</u>	<u>\$ (38)</u>	<u>\$ (23,466)</u>

Unaudited Condensed Consolidating Statement of Operations
Six Months Ended December 31, 2010
(restated)

	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Eliminations</u>	<u>Total</u>
Net sales	\$ 96,082	\$ 100,279	\$ 74,946	\$ -	\$ 271,307
Cost of goods sold	72,836	82,410	56,789	-	212,035
Gross profit	23,246	17,869	18,157	-	59,272
Operating expenses:					
Selling, general and administrative	27,096	14,105	10,779	-	51,980
Restructuring	255	756	(159)	-	852
(Loss) income from operations	(4,105)	3,008	7,537	-	6,440
Other expenses (income):					
Interest expense, net	29,881	2	2,079	-	31,962
Loss on extinguishment of debt	10,211	-	-	-	10,211
Other expenses (income)	(158)	(1,078)	1,802	-	566
(Loss) income before income taxes	(44,039)	4,084	3,656	-	(36,299)
(Benefit from) provision for income taxes	1,577	666	978	-	3,221
Equity in income of subsidiaries	5,311	-	-	(5,311)	-
Net (loss) income	<u>\$ (40,305)</u>	<u>\$ 3,418</u>	<u>\$ 2,678</u>	<u>\$ (5,311)</u>	<u>\$ (39,520)</u>

Tekni-Plex, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
For the Quarter Ended December 30, 2011
(Dollar amounts in thousands)

Unaudited Condensed Consolidating Statement of Cash Flows
Six Months Ended December 31, 2010
(restated)

	<u>Issuer</u>	<u>Guarantors</u>	<u>Non-Guarantors</u>	<u>Total</u>
NET CASH FLOWS PROVIDED BY (USED IN)				
OPERATING ACTIVITIES	\$ (29,999)	\$ 12,418	\$ 9,495	\$ (8,086)
INVESTING ACTIVITIES				
Business acquisitions	-	-	(1,537)	(1,537)
Capital expenditures	(6,181)	(2,980)	(3,359)	(12,520)
Other	(9)	(69)	(36)	(114)
Net cash used in investing activities	<u>(6,190)</u>	<u>(3,049)</u>	<u>(4,932)</u>	<u>(14,171)</u>
FINANCING ACTIVITIES				
Short-term borrowings and cash overdrafts, net	117	-	8,379	8,496
Borrowings under line of credit	68,046	-	-	68,046
Repayments under line of credit	(91,040)	-	(124)	(91,164)
Borrowings under long-term debt	278,176	-	-	278,176
Repayments of long-term debt	(197,202)	-	(36,305)	(233,507)
Debt financing costs	(8,292)	-	-	(8,292)
Intercompany financing	(12,619)	(9,835)	22,454	-
Net cash provided by (used in) financing activities	<u>37,186</u>	<u>(9,835)</u>	<u>(5,596)</u>	<u>21,755</u>
Effect of exchange rate changes on cash	-	-	944	944
Net increase (decrease) in cash and cash equivalents	997	(466)	(89)	442
Cash and cash equivalents, beginning of period	1,383	462	8,558	10,403
Cash and cash equivalents, end of period	<u>\$ 2,380</u>	<u>\$ (4)</u>	<u>\$ 8,469</u>	<u>\$ 10,845</u>

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

EXECUTIVE SUMMARY

Tekni-Plex, Inc., a Delaware corporation, is a global, diversified manufacturer of packaging, packaging products and materials, and tubing products. We primarily serve the healthcare, food and consumer markets. The Company enjoys leadership positions in its core markets. Management believes that our end market and product line diversity reduces the overall risk associated with any single product or customer. Our operations are aligned under three business segments: Packaging, Tubing Products and Polymers. The Packaging and Tubing Products segments have operations in the United States, Belgium, Italy, Germany, Canada, China, India and Argentina. The Polymers segment has operations in the United States, Northern Ireland and China.

Raw materials – In recent years the Company, along with the entire packaging and tubing industries, has been impacted by volatility in raw material commodity costs, particularly for polyolefin materials, 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 Company has made numerous improvements to the way it manages its raw material cost exposure; however raw material prices have generally continued to increase, having an unfavorable impact on margins.

The following table includes U.S. industry average market prices per pound of three significant materials included in our cost of goods sold during the periods indicated:

	Year Ended December 31,		
	2011	2010	2009
Polystyrene	\$ 1.06	\$ 0.99	\$ 0.90
Polyvinyl Chloride	\$ 0.78	\$ 0.69	\$ 0.53
Plasticizer	\$ 1.19	\$ 1.03	\$ 0.76

Operational improvements – The Company continuously evaluates opportunities to enhance operational efficiency, reduce controllable costs and increase profitability. In furtherance of these efforts, during the second quarter of fiscal year 2012, the Company eliminated 40 positions. This action is expected to produce a continuing benefit in the form of reduced labor costs across the organization.

During the first six months of fiscal year 2012, the Company has experienced an increase in revenues primarily driven by higher volumes in the Tubing Products business, together with generally higher average selling prices and a strengthening of the average U.S. dollar versus the Euro exchange rate as compared to the first six months of fiscal year 2011. All of this was minimally offset by slightly lower volumes from the Polymers business. Gross profit, however, remained relatively flat with margins declining in part due to the continued lag in realizing selling price increases as an offset to raw material cost inflation and a slightly unfavorable shift in product mix from higher margin products in the Packaging segment to lower margin products in the Tubing Products segment.

QUARTER ENDED DECEMBER 30, 2011 COMPARED TO QUARTER ENDED DECEMBER 31, 2010

	Quarter Ended		Favorable	Favorable
	December 30, 2011	December 31, 2010	(unfavorable) Change	(unfavorable) Change
Net sales	\$ 138,378	\$ 132,197	\$ 6,181	4.7 %
Cost of sales	108,067	103,838	(4,229)	(4.1) %
Gross profit	30,311	28,359	1,952	6.9 %
% of net sales	21.9%	21.5%		
Operating expenses				
Selling, general and administrative	24,493	25,669	1,176	4.6 %
% of net sales	17.7%	19.4%		
Restructuring	304	329	25	7.6 %
Income from operations	5,514	2,361	3,153	133.5 %
Other expense (income):				
Interest expense, net	15,320	16,608	1,288	7.8 %
Loss on extinguishment of debt	-	10,211	10,211	N/A
Other (income) expense	(594)	301	895	297.3 %
Loss before income taxes	(9,212)	(24,759)	15,547	62.8 %
Provision for (benefit from) income taxes	3,019	(1,293)	(4,312)	(333.5) %
Net loss	\$ (12,231)	\$ (23,466)	\$ 11,235	47.9%

Net Sales

Net sales increased \$6.2 million, or 4.7%, to \$138.4 million in the second quarter of fiscal year 2012 compared to \$132.2 million in the second quarter of fiscal year 2011. The higher net sales for the second quarter were the result of generally higher average selling prices against relatively flat volumes in the Packaging and Polymers businesses with a slight decline in volume within the Tubing Products segment. Average foreign exchange rates remained essentially flat for the quarter, comparatively. The higher average selling prices were largely the result of the continued pass-through of raw material cost increases to our customers.

**Net Sales by Segment
(In thousands)**

	Quarter Ended		Change	Change
	December 30, 2011	December 31, 2010		
Packaging	\$ 95,325	\$ 92,823	\$ 2,502	2.7 %
Tubing Products	18,202	17,451	751	4.3 %
Polymers	24,851	21,923	2,928	13.4 %
Totals	\$ 138,378	\$ 132,197	\$ 6,181	4.7 %

Net sales in our Packaging segment increased \$2.5 million or 2.7% to \$95.3 million in the second quarter of fiscal year 2012 compared to \$92.8 million in the second quarter of fiscal year 2011. The higher net sales are primarily attributable to generally higher average selling prices across the Packaging segment, together with slightly higher volumes in our medical and pharmaceutical blister film product lines, partially offset by lower volumes in the food packaging business. Higher average selling prices were primarily due to the pass-through of raw material cost increases.

Net sales in the Tubing Products segment increased \$0.8 million or 4.3% in the second quarter of fiscal year 2012 to \$18.2 million from \$17.4 million in the second quarter of fiscal year 2011. The higher net sales within the Tubing Products segment were the result of higher average selling prices which were more than sufficient to offset generally lower volumes.

Net sales in the Polymers segment increased \$2.9 million or 13.4% to \$24.8 million in the second quarter of fiscal year 2012 compared to \$21.9 million in the second quarter of fiscal year 2011 which was driven by an increase in average selling price for polymers in the U.S. and in Europe. A large portion of the selling price for our PVC compounds, which comprise the majority of our polymers sales, is tied to movements in certain raw material price indices which trended higher in the second quarter.

Gross Profit

Gross profit increased by \$2.0 million or 6.9% to \$30.3 million in the second quarter of fiscal year 2012 compared to \$28.4 million in the second quarter of fiscal year 2011. The gross profit as a percentage of net sales increased to 21.9% in the second quarter of fiscal year 2012 from 21.5% in the second quarter of fiscal year 2011. The gross profit increase is largely due to higher net sales with gross margin profitability remaining essentially flat on the continued lag between raw material cost inflation and increases in selling price together with a slightly unfavorable shift in product mix from higher margin products in the Packaging segment to lower margin products in the Tubing Products segment.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses decreased to \$24.5 million in the second quarter of fiscal year 2012 or 4.6% from \$25.7 million in the second quarter of fiscal year 2011. The decrease is due to lower employee related costs.

Interest Expense

Interest expense decreased to \$15.3 million in the second quarter of fiscal year 2012 or \$1.3 million and 7.8% from \$16.6 million in the second quarter of fiscal year 2011. The decrease was attributable to a current lower average interest rate and to interest accrued between the November 2010 closing of the Refinancing and the redemption date of the 10.875% Notes and the 8.75% Notes. Interest expense otherwise remained stable as average interest rates decreased during the first six months of fiscal year 2012 compared with the prior year but the average debt outstanding increased as a result of refinancing higher interest debt with lower interest debt and less reliance on short term financing with the ABL facility.

Loss on Extinguishment of Debt

In November 2010, we completed the Refinancing, which is discussed under “Liquidity and Capital Resources – Refinancing Transaction” below. In connection with the Refinancing, we incurred a call premium on the early redemption of the \$150 million 10.875% Senior Secured Notes and \$30 million of the 8.75% Notes redeemed. We also wrote off the associated deferred finance costs and associated debt discount and premium. This resulted in a loss on extinguishment of debt of \$10.2 million of which \$4.5 million was a cash payment for the call premiums. There have been no similar charges during fiscal year 2012.

Income Tax Provision

The income tax provision for the second quarter of fiscal year 2012 reflects an effective tax expense rate of -32.8% compared to an effective income tax benefit of 5.2% for the second quarter of fiscal year 2010. The second quarter tax expense rate is high because the forecasted annual tax expense rate of -20.3% as of December 30, 2011 is higher than the forecasted annual tax expense rate of -15.0% as of September 30, 2011. This rate change is primarily attributable to a reduction in forecasted US losses with a corresponding reduction in the domestic valuation allowance.

The Company realized a tax benefit in the second quarter ended December 31, 2010 rather than a tax expense because the tax expense for the six months ended December 31, 2010 was lower than the tax expense for the three months ended October 1, 2010. An increase in forecast US losses, with a corresponding increase in the domestic valuation allowance, was the primary reason for this result.

SIX MONTHS ENDED DECEMBER 30, 2011 COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2010

	Six Months Ended		Favorable	Favorable
	December 30, 2011	December 31, 2010	(unfavorable)	(unfavorable)
			Change	Change
		(Restated)		
Net sales	\$ 288,041	\$ 271,307	\$ 16,734	6.2 %
Cost of sales	228,833	212,035	(16,798)	(7.9) %
Gross profit	59,208	59,272	(64)	(0.1) %
% of net sales	20.6%	21.8%		
Operating expenses				
Selling, general and administrative	52,449	51,980	(469)	(0.9) %
% of net sales	18.2%	19.2%		
Restructuring	335	852	517	60.7 %
Income from operations	6,424	6,440	(16)	(0.2) %
Other expense (income):				
Interest expense, net	30,493	31,962	1,469	4.6 %
Loss on extinguishment of debt	-	10,211	10,211	N/A
Other (income) expense	(117)	566	683	120.7 %
Loss before income taxes	(23,952)	(36,299)	12,347	34.0 %
Provision for income taxes	4,798	3,221	(1,577)	(49.0) %
Net loss	\$ (28,750)	\$ (39,520)	\$ 10,770	27.3%

Net Sales

Net sales increased \$16.7 million, or 6.2%, to \$288.0 million in the six months ended December 30, 2011 compared to \$271.3 million in the six months ended December 31, 2010. The higher net sales are driven by increased average selling prices in our Packaging and Polymers business offset by lower volumes. Our Tubing Products business experienced higher volumes.

**Net Sales by Segment
(In thousands)**

	Six Months Ended		Change	Change
	December 30, 2011	December 31, 2010		
Packaging	\$ 190,271	\$ 184,464	\$ 5,807	3.1 %
Tubing Products	46,864	39,401	7,463	18.9 %
Polymers	50,906	47,442	3,464	7.3 %
Totals	\$ 288,041	\$ 271,307	\$ 16,734	6.2 %

Net sales in our Packaging segment increased \$5.8 million or 3.1% to \$190.3 million in the first six months of fiscal year 2012 compared to \$184.5 million in the first six months of fiscal year 2011. The higher net sales are largely due to higher average selling prices within the Packaging segment alongside a favorable shift in the average euro exchange rate benefiting our European based operations. These favorable impacts were partially offset by lower volumes in the food packaging business. Higher average selling prices were primarily due to the pass-through of raw material cost increases.

Net sales in the Tubing Products segment increased 18.9% or \$7.5 million to \$46.9 million in the first six months of fiscal year 2012 from \$39.4 million in the first six months of fiscal year 2011. The increase in net sales is primarily the result of increased demand, in particular within the garden, irrigation and aeration hose portion of the Tubing Products segment. This increase was augmented, to a lesser extent, by higher average selling prices while the aggregate positive impacts were partially offset by a somewhat unfavorable shift in product mix.

Net sales in the Polymers segment increased \$3.5 million or 7.3% to \$50.9 million in the first six months of fiscal year 2012 compared to \$47.4 million in the first six months of fiscal year 2011 with the bulk of the increase resulting from higher average selling prices and a favorable shift in the average euro exchange rate benefiting our European based Polymers operation.

Gross Profit

Gross profit decreased by \$0.1 million or 0.1% to \$59.2 million in the first six months of fiscal year 2012 compared to \$59.3 million in the first six months of fiscal year 2011. The gross profit as a percentage of net sales decreased to 20.6% in the first six months of fiscal year 2012 from 21.8% in the first six months of fiscal year 2011. Gross profit declined versus the prior period for several reasons, most notably the combination of a lag in raw material cost inflation and selling price changes and an unfavorable shift in product mix from higher margin products in the Packaging segment to lower margin products in the Tubing Products segment.

Selling, General and Administrative Expenses (SG&A)

SG&A expenses increased \$0.5 million or 0.9% to \$52.5 million during the first six months of fiscal year 2012 from \$52.0 million in the first six months of fiscal year 2011. Increased spending for research and development was partially offset by reductions in employee costs.

Interest Expense

Interest expense decreased by \$1.5 million or 4.6% to \$30.5 million in the first six months of fiscal year 2012 compared to \$32.0 million in the first six months of fiscal year 2011. The decrease was attributable to a current lower average interest rate and to interest accrued between the November 2010 closing of the Refinancing and the redemption date of the 10.875% Notes and the 8.75% Notes. This was partially offset by lower average debt balances on our ABL Facility and our foreign debt during the first six months of fiscal year 2012 compared to the first six months of fiscal year 2011.

Loss on Extinguishment of Debt

In November 2010, we completed the Refinancing, which is discussed under “Liquidity and Capital Resources – Refinancing Transaction” below. In connection with the Refinancing, we incurred a call premium on the early redemption of the \$150 million 10.875% Senior Secured Notes and \$30 million of the 8.75% Notes redeemed. We also wrote off the associated deferred finance costs and associated debt discount and premium. This resulted in a loss on extinguishment of debt of \$10.2 million of which \$4.5 million was a cash payment for the call premiums. There have been no similar charges during fiscal year 2012.

Income Tax Provision

The income tax provision for the six months ended December 30, 2011 reflects an effective income tax expense rate of -20.0% compared to an effective income tax expense rate of -8.9% for the six months ended December 31, 2010. The Company has a tax expense in both fiscal years and not a tax benefit from its losses as a result of valuation allowances reducing the tax benefits attributable to US losses. The primary cause of the increased tax expense rate for the six months ended December 31, 2011 is the mix of US and non US pre-tax losses in conjunction with the impact of the domestic valuation allowance.

Effect of Changes in Exchange Rates

We generally conduct business in our foreign operations in local currencies. Accordingly, our results of operations are affected by changes in foreign exchange rates. Income and expense accounts and cash flow items are translated at average monthly exchange rates during the period. As a result, a decline in the value of the U.S. dollar relative to the local currencies of profitable foreign subsidiaries can have a favorable effect on our profitability, and an increase in the value of the U.S. dollar relative to the local currencies of profitable foreign subsidiaries can have a negative effect on our profitability.

We manage foreign currency exposures (primarily to the euro, Canadian dollar, pound sterling and certain non-U.S. subsidiaries' purchases of raw materials and/or sales of products in U.S. dollars) at the operating unit level. Exposures that cannot be naturally offset within an operating unit are hedged with derivative financial instruments where possible and cost effective. Foreign currency exchange contracts which hedge defined exposures generally mature within one month. We do not hedge our exposure to translation gains or losses on our non-U.S. net assets. Included in other expense were a foreign exchange loss of \$0.6 million and a foreign exchange gain of \$0.2 million for the six months ended December 30, 2011 and December 31, 2010, respectively.

Assets and liabilities are translated at exchange rates in effect at the balance sheet date. Net exchange gains or losses resulting from the translation of foreign financial statements are recorded as a separate component of Stockholders' (deficit) equity under the caption “accumulated other comprehensive income”. Exchange rate fluctuations increased comprehensive loss by \$7.1 million and decreased comprehensive loss by \$5.6 million for the six months ended December 30, 2011 and December 31, 2010, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

The following sets forth a summary of our cash flows for the first six months of fiscal year 2012 and the first six months of fiscal year 2011.

	Six Months Ended		Favorable (unfavorable)
	December 30, 2011	December 31, 2010	Change
Net cash provided by (used in) operating activities	\$ 26,564	\$ (8,086)	\$ 34,650
Net cash used in investing activities	(8,485)	(14,171)	5,686
Net cash (used in) provided by financing activities	(8,195)	21,755	(29,950)

Cash Flows

At December 30, 2011, we had cash and cash equivalents of \$20.9 million. For the first six months of fiscal year 2012, positive operating cash flows were utilized to build cash, fund investing activities and pay down debt. There were no borrowings outstanding under the ABL Facility at December 30, 2011 compared with \$7.3 million at December 31, 2010. Available borrowing capacity was approximately \$39.8 million under the ABL Facility at December 30, 2011. Outstanding letters of credit at December 31, 2011 totaled \$8.1 million, primarily securing deductibles of our workers compensation insurance program.

Cash Flows from Operating Activities

Net cash provided by operating activities in the first six months of fiscal year 2012 was \$26.6 million compared to cash used in operating activities of \$8.1 million in the first six months of fiscal year 2011. During fiscal year 2012, cash provided by operating activities increased by \$34.7 million and the significant advance is driven by working capital improvements. Net loss adjusted for non-cash items from operations contributed \$7.1 million and working capital improvements contributed \$19.5 million. Accounts receivable generated \$35.3 million of cash in fiscal year 2012 compared to \$22.1 million in fiscal year 2011. A new factoring agreement with our Belgian subsidiary involved the sale of certain Belgian accounts receivable thereby accelerating collections of those receivables. Inventory was a cash use of \$2.8 million compared to a cash use of \$19.5 million in fiscal year 2011. The improvement was primarily due to improved inventory management focus at all plant levels.

Cash Flows from Investing Activities

Net cash used in investing activities was driven by capital expenditures of \$8.5 million during the first six months of fiscal year 2012 versus capital expenditures of \$12.5 million and the \$1.5 million final payment for our acquisition of Top Seals during the first six months of fiscal year 2011. Net cash used for capital expenditures decreased \$4.0 million year over year. Capital expenditures for fiscal year 2012 were applied to upgrade existing manufacturing equipment, expand manufacturing capacity for future growth and deploy a new ERP system.

Cash Flows from Financing Activities

Cash used in financing activities in the first six months of fiscal year 2012 was \$8.2 million compared with cash provided by financing activities of \$21.8 million during the first six months of fiscal year 2011. Cash used in financing were primarily related to the repayment of short-term borrowings and scheduled payments of long-term debt during the first six months of fiscal year 2012. We used temporary borrowings under the ABL facility to finance periodic needs but fully repaid such borrowings during the six months of fiscal year 2012. Cash provided by financing activities in the first six months of fiscal year 2011 were the result of borrowing \$285.0 million under the First-Lien Term Loan Credit Agreement offset by the application of proceeds described in "Refinancing Transaction" below.

Refinancing Transaction

On November 19, 2010 we entered into a First-Lien Loan and Security Agreement (the "ABL Loan Agreement" or the "ABL") that provides for a \$60.0 million senior secured revolving line of credit and a First-Lien Term Loan Credit Agreement (the "Term Loan Agreement" or the "Term Loan") that provides for loans to be made in an aggregate principal amount of \$285.0 million (together the "Refinancing"). At the closing of the Refinancing, the Term Loan was fully drawn, whereas no amounts were drawn on the ABL. Under certain conditions commitments under the ABL Loan Agreement can be increased by \$40.0 million and the Term Loan Agreement can be increased by \$60.0 million. The ABL Loan Agreement has an original maturity date of November 19, 2015, although under certain conditions the maturity date can be accelerated to August 2013. The Term Loan Agreement has an original

maturity date of November 19, 2016, although under certain conditions the maturity can be accelerated to August 2013. Under both agreements the potential for the acceleration of the maturity relates to the failure to refinance or repay the remaining \$245.0 million of 8.75% Notes by August 15, 2013.

The proceeds received from the Term Loan, net of \$5.7 million of original issue discount, were used to redeem in full the existing \$150.0 million of 10.875% Notes, including a call premium of \$4.1 million and accrued interest of \$5.7 million, to repay the Junior Lien Credit Agreement (\$16.8 million including accrued interest), to repay the TPE agreement (\$36.0 million including accrued interest), to repay the ABL Facility (\$26.3 million including accrued interest and fees), to redeem \$30.0 million of the existing 8.75% Notes including a call premium of \$0.4 million and accrued interest of \$0.3 million, to pay fees related to the Refinancing (approximately \$9.1 million) and for general corporate purposes.

Liquidity

Our principal liquidity requirements are to service our debt and meet our working capital expenditure needs. We expect to be able to meet our liquidity requirements for at least the next twelve months through internally generated cash flows from operations and availability under the ABL.

Description of the Company's Outstanding Indebtedness

ABL

As of November 19, 2010, the Company entered into the ABL Loan Agreement, with certain domestic subsidiaries of the Company, as borrowers (together with the Company, the "Co-Borrowers"), Bank of America, N.A., as agent, and the other lenders party thereto. The ABL Loan Agreement provides for a \$60.0 million senior secured revolving credit facility. The terms of the ABL Loan Agreement allow the Company, subject to certain conditions, to increase the amount of the commitment by an aggregate incremental amount up to \$40.0 million. As of the date hereof, the Company has not requested an increase in the commitment, nor has such incremental amount been committed to by any lender.

Obligations under the ABL Loan Agreement are secured by (i) first priority liens on substantially all of the following assets of the Co-Borrowers: (a) accounts receivable (excluding rights to payment for property which constitutes Non-Current Asset Collateral (as defined below)); (b) chattel paper; (c) deposit accounts and all cash, checks, other negotiable instruments, funds and other property held therein or credited thereto (except accounts established with respect to Non-Current Asset Collateral or property held therein that constitutes Non-Current Asset Collateral, or cash proceeds of Non-Current Asset Collateral); (d) inventory; (e) to the extent governing or involving the foregoing, all documents, general intangibles, instruments, commercial tort claims, and letter of credit rights; (f) all supporting obligations relating to any of the foregoing items; (g) books and records; and (h) all proceeds of the foregoing (collectively, the "Current Asset Collateral"), and (ii) second-priority liens on all other assets securing the Term Loan Credit Agreement on a first-priority basis, in each of clauses (i) and (ii), subject to permitted liens and certain exceptions.

All amounts outstanding under the ABL will bear interest, at our option, at a rate per year equal to the base rate plus an applicable margin of 1.75%, 2.00% or 2.25% or a LIBOR rate plus an applicable margin of 2.75%, 3.00% or 3.25%. The applicable margin initially is equal to 3.00% for LIBOR loans and 2.00% for base rate loans. The applicable margin will be adjusted quarterly based on our total leverage ratio as defined in the ABL Loan Agreement.

There were no borrowings under the ABL as of December 30, 2011 and availability was \$39.8 million after outstanding letters of credit of \$8.1 million. The 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, primarily attributable to our Colorite hose business, in which sales and earnings are typically lower during the first and second quarter of each fiscal year, while working capital requirements are higher in the second quarter due to an increase in inventory levels in advance of the peak selling season.

Term Loan

The Term Loan Agreement provides for a \$285.0 million senior secured first lien term loan credit facility. The terms of the Term Loan Agreement allow the Company, subject to certain conditions, to increase the amount of the commitment by an aggregate incremental amount up to \$60.0 million. As of the date hereof, the Company has not requested an increase in the commitment, nor has such incremental amount been committed to by any lender.

Obligations under the Term Loan Agreement are guaranteed by all of the Company's current and future domestic restricted subsidiaries. The Company's borrowings under the Term Loan Agreement are secured by (i) first-priority liens on all assets other than Current Asset Collateral, including a pledge of two-thirds of the equity interests of the Company's first-tier foreign subsidiaries ("Non-Current Asset Collateral") and (ii) second-priority liens on the Current Asset Collateral securing obligations under the ABL

Loan Agreement, in each case, subject to permitted liens and certain exceptions.

All amounts outstanding under the Term Loan Agreement will bear interest, at the Company's option, at a rate *per annum* equal to the LIBOR rate plus a margin equal to 7.00%, or the base rate plus a margin equal to 6.00%, as set forth in the Term Loan Agreement.

Subject to exceptions, the Term Loan Agreement requires mandatory prepayments, in amounts equal to (i) 50% (reduced to 25% upon the achievement of a certain specified leverage ratio) of excess cash flow (as defined in the Term Loan Agreement) at the end of each fiscal year, (ii) 100% of the net cash proceeds from certain asset sales by the Company or any guarantor (collectively, the "Loan Parties") and certain casualty and condemnation events (subject to certain exceptions and reinvestment provisions), (iii) 100% of the net cash proceeds from the issuance or incurrence after the closing date of any additional debt by the Company or any of its restricted *subsidiaries* excluding debt permitted under the Term Loan Agreement, and (iv) 100% of the net cash proceeds from the issuance of equity interests of the borrower or its restricted subsidiaries.

Voluntary prepayments of borrowings under the Term Loan Agreement are permitted at any time, in agreed-upon minimum principal amounts, without premium or penalty (except LIBOR breakage costs, if applicable).

The Term Loan Agreement will amortize at a rate of 1% per year, payable in quarterly installments, with the balance due on November 19, 2016.

In connection with the Term Loan Agreement, the Company has made, with respect to itself and certain of its subsidiaries, certain representations and warranties and is required to comply, and to cause such subsidiaries to comply, with various covenants (including maintenance of a maximum leverage ratio and a minimum interest expense coverage ratio), reporting requirements and other customary requirements for similar facilities. The Term Loan Agreement contains customary events of default included in financing transactions, including failure to make payments when due, default under other material indebtedness, breach of covenants, breach of representations and warranties, involuntary or voluntary bankruptcy, and material judgments.

10.875% Notes

Through the Refinancing, the Company paid the \$150.0 million principal amount of our 10.875% Notes outstanding.

8.75% Notes

Through the Refinancing, the Company paid \$30.0 million of the \$275.0 million in aggregate principal amount of our 8.75% Notes outstanding. The \$245.0 million balance of 8.75% Notes will mature on November 15, 2013, and pay interest semi-annually on November 15th and May 15th. The 8.75% Notes are general second lien secured obligations, subordinate to both the ABL and Term Loan. Payment obligations under the 8.75% Notes are fully and unconditionally guaranteed, jointly and severally on a senior secured basis, by the Company's domestic wholly-owned subsidiaries. The 8.75% Notes are redeemable at our option, at a redemption price of 100% plus accrued and unpaid interest for the remaining life of the notes. This description of certain terms of the 8.75% Notes is qualified in its entirety by reference to the 8.75% Indenture, as amended.

Supplemental Indentures

In connection with the 8.75% Notes, 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 related Indentures were further amended on December 7, 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.

In connection with the Refinancing, the Company entered into a fourth Supplemental Indenture to the 8.75% Indenture, that permits the Company, among other things, (i) to increase a limitation on indebtedness from \$275.0 million to an amount equal to \$345.0 million (plus any additional principal amount of indebtedness the proceeds of which are simultaneously used to repay the 8.75% Notes) in order to permit the increase of the ABL and Term Loan amounts, the proceeds of which shall be used (A) to effect the refinancing of certain existing indebtedness, including the Company's existing Priority Lien Debt, (B) to provide a prepayment of at least \$30.0 million of the 8.75% Notes, and (C) for general corporate purposes, and (ii) to provide that holders of Priority Liens may designate that such liens are not Priority Liens.

Covenants

The Term Loan agreement requires compliance on a quarterly basis with a Total Leverage Ratio and an Interest Expense Coverage Ratio. The Total Leverage Ratio is consolidated indebtedness to consolidated EBITDA (as defined by the Term Loan Agreement) for the most recent four consecutive quarters. The Interest Expense Ratio is consolidated EBITDA (as defined by the Term Loan Agreement) for the most recent four consecutive quarters to the interest expense over the same time period. As of December 30, 2011, the Company's calculated Interest Expense Coverage Ratio was 1.73. The minimum level permitted for this period was 1.60. As of December 30, 2011, the Company's Total Leverage Ratio was 6.30. The maximum level permitted for this test period was 6.75. We were in compliance with each of these covenants as of December 30, 2011, and while there can be no assurance, we expect to be in compliance with our covenants during this fiscal year. To bolster the Interest Expense Coverage Ratio and the Total Leverage Ratio, we are deferring certain capital expenditures, improving cash flow through working capital initiatives and adopting other cost-saving measures. Additionally, restrictions on capital expenditures limit expenditures to \$30.0 million between our initial borrowing date under the Term Loan and June 30, 2011, and thereafter to \$25.0 million per fiscal year, subject to certain exceptions and a limited carry-forward of unused permitted expenditures.

The ABL Loan Agreement provides that we must satisfy a Fixed Charge Coverage Ratio during a "Trigger Period." The Fixed Charge Coverage Ratio measures the ratio between (i) consolidated EBITDA minus capital expenditures and (ii) the sum of consolidated interest expense, scheduled amortization payments, cash payments made in respect of income taxes, and cash dividends. During a Trigger Period, the Fixed Charge Coverage Ratio must be at least 1.0:1.0 for any period for which we are required to deliver monthly, quarterly or annual financial statements during such Trigger Period. A Trigger Period is the period (i) commencing on any date when borrowing either (x) an event of default occurs or (y) availability under the ABL is less than the greater of 15% of the lenders' total commitment and \$9.0 million (ii) and ending when, during the preceding 30 consecutive days, borrowing availability has exceeded the greater of such two measures and no event of default has existed. Our daily average borrowing availability under the ABL Loan Agreement was \$44.5 million during the six months ended December 30, 2011. No Trigger Period occurred from the refinancing date through December 30, 2011, and while there can be no assurance, we do not believe we will have a Trigger Period occur during this fiscal year.

RELATED PARTY TRANSACTIONS

An affiliate of Oaktree Capital Management ("Oaktree") owns 66% of our outstanding common stock.

In November, 2008 we entered into a Junior Lien Credit Agreement with an investment fund managed by Oaktree. The Junior Lien Credit Agreement provided for a \$15.0 million five year term loan, guaranteed by all of our domestic subsidiaries. The term loan bore interest at 15%, with 10% payable in cash and the remaining 5% payable-in-kind. The Junior Lien Credit Agreement was paid in full in November, 2010.

Our indirect wholly owned subsidiary, Tekni-Plex Europe NV entered into a five year, unsecured Term Loan Agreement (the "TPE Loan Agreement") with an investment fund managed by Oaktree. The TPE Loan Agreement provided for €26.4 million (approximately \$32.9 million at the date of the borrowings). Interest, at the rate of 15%, was payable quarterly. The TPE Loan Agreement was paid in full in November, 2010.

During the six months ended December 31, 2010 we incurred \$1.0 million and \$2.1 million in interest expense for the Junior Lien Credit Agreement and the TPE Loan Agreement, respectively. There are no amounts outstanding that are payable to or receivable from related parties as of December 30, 2011.

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 fiscal year 2012. We typically hedge our cross currency exposures with monthly forward and option contracts. We do not hold or issue derivative instruments for trading or speculative purposes. We mitigate the risk that the counterparty 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, Argentine peso, Indian rupee and the Hong Kong dollar.

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 and option 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 or option 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). At December 30, 2011, our net assets subject to foreign currencies were approximately \$95.6 million. A 10% change in combined foreign currencies would change our net assets by approximately \$9.6 million.

INTEREST RATE RISK

We are exposed to interest rate risk in connection with our borrowings under our ABL and our Term Loan, which bear interest at floating rates based on LIBOR or a base rate plus an applicable borrowing margin. For variable rate debt, interest rate changes generally do not affect the fair value of the instrument, but do impact future earnings and cash flows, assuming other factors are held constant. In the ordinary course of business, we may enter into contractual arrangements to reduce our exposure to interest rate risks. At current debt levels as of December 30, 2011, a 100 basis point increase in the current per annum interest rate for our ABL would have a de minimis impact on interest expense. Our Term Loan is subject to a LIBOR floor of 2.00%. Based upon current LIBOR rates, a 100 basis point increase in the LIBOR rate would remain less than our LIBOR floor and therefore have no effect to our cash flows or our results of operations.

ITEM 4. 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, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information to be disclosed in reports provided to security holders is recorded, processed, summarized and reported timely, and to ensure that information required to be disclosed in the reports is accumulated and communicated to the management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Solely as a result of the identified material weakness in internal controls over financial reporting, the Chief Executive Officer and Chief Financial Officer have concluded that, as of December 30, 2011, the disclosure controls and procedures were not effective.

Notwithstanding the existence of the material weakness, the Company believes that the consolidated financial statements in this Quarterly Report fairly present, in all material respects, the Company's consolidated financial condition as of December 30, 2011.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected in a timely basis. We identified the following material weakness:

As of July 1, 2011, the Company did not maintain effective controls over the determination of deferred income tax assets and liabilities, income taxes payable and the related income tax provision. Management identified this as a material weakness for fiscal year 2010. To remediate the material weakness in our internal control that existed as of July 2, 2010, the Company hired a Tax Director to facilitate improvements in the internal control over accounting for income taxes, formalized policies and procedures over income taxes and began the process of reconciling and reviewing all tax asset and liability accounts on a regular basis. However, at this time management has determined that this control deficiency remains a material weakness for fiscal year 2011.

To remediate the material weakness identified above, management will continue to implement the controls over tax accounting described above.

Changes in the Company's internal controls over financial reporting during the period ended December 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting have been described above.

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 2011 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 2011 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

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

None.

SIGNATURES

The Company has duly caused this Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEKNI-PLEX, INC.

Date: February 13, 2012

By: _____/s/_____
Paul J. Young
Chief Executive Officer

Date: February 13, 2012

By: _____/s/_____
Graham Sayers
EVP and Chief Financial Officer