

CONSTAR INTERNATIONAL INC

Form 10-Q

August 14, 2009

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For Quarterly Period Ended June 30, 2009

**OR**

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

For the transition period from                      to

Commission file number 000-16496

**Constar International Inc.**

(Exact name of registrant as specified in its charter)

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|  |  |
|--|--|
| <b>Delaware</b><br>(State or other jurisdiction of<br>incorporation or organization) | <b>13-1889304</b><br>(IRS Employer<br>Identification Number) |
| <b>One Crown Way, Philadelphia, PA</b><br>(Address of principal executive offices)   | <b>19154</b><br>(Zip Code)                                   |
| <b>(215) 552-3700</b><br>(Registrant's telephone number, including area code)        |  |

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

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

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

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/>   | Accelerated filer <input type="checkbox"/>                    |
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> |

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

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

As of August 10, 2009, 1,750,000 shares of the Registrant's Common Stock were outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Constar International Inc.****Condensed Consolidated Balance Sheets****(In thousands, except par value)****(Unaudited)**

|  | <b>Successor<br/>June 30,<br/>2009</b> | <b>Predecessor<br/>December 31,<br/>2008</b> |
|--|--|--|
| <b>ASSETS</b>  |  |  |
| <b>Current Assets:</b>   |  |  |
| Cash and cash equivalents  | \$ 2,726                               | \$ 14,292                                    |
| Accounts receivable, net   | 53,248                                 | 45,695                                       |
| Accounts receivable - related party  |  | 109  |
| Inventories, net   | 60,678                                 | 49,765                                       |
| Prepaid expenses and other current assets  | 7,364                                  | 24,307                                       |
| Deferred income taxes  | 82                                     | 896  |
| Current assets of discontinued operations  | 330                                    | 342  |
| <b>Total current assets</b>  | <b>124,428</b>                         | <b>135,406</b>                               |
| Property, plant and equipment, net   | 175,079                                | 132,371                                      |
| Goodwill and intangible assets   | 153,465                                | 148,813                                      |
| Restricted cash  | 11,812                                 |  |
| Other assets   | 1,429                                  | 1,626  |
| <b>Total assets</b>  | <b>\$ 466,213</b>                      | <b>\$ 418,216</b>                            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>  |  |  |
| <b>Current Liabilities:</b>  |  |  |
| Short-term debt  | \$                                     | \$ 20,000                                    |
| Current portion of long-term debt  |  | 220,000                                      |
| Accounts payable (includes book overdrafts of \$14,998 and \$-0- at June 30, 2009 and December 31, 2008, respectively) | 93,466                                 | 61,747                                       |
| Accrued expenses and other current liabilities   | 28,978                                 | 29,994                                       |
| Accounts payable and accrued expenses - related party  |  | 3,765  |
| Current liabilities of discontinued operations   | 146                                    | 87   |
| <b>Total current liabilities</b>   | <b>122,590</b>                         | <b>335,593</b>                               |
| Long term debt, net of current portion   | 157,578                                |  |
| Pension and postretirement liabilities   | 30,375                                 | 38,512                                       |
| Deferred income taxes  | 37,312                                 | 896  |
| Other liabilities  | 13,370                                 | 17,315                                       |
| Non-current liabilities of discontinued operations   | 863                                    | 773  |
| Liabilities subject to compromise  |  | 186,229                                      |

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|   |                   |                   |
|---|-------------------|-------------------|
| <b>Total liabilities</b>  | 362,088           | 579,318           |
| Commitments and contingencies   |                   |                   |
| <b>Stockholders' Equity (Deficit):</b>  |                   |                   |
| Predecessor preferred stock, \$.01 par value - none issued or outstanding at December 31, 2008                          |                   |                   |
| Predecessor common stock, \$.01 par value - 13,297 shares issued, 12,922 shares outstanding at December 31, 2008        |                   | 125               |
| Successor common stock, \$.01 par value, 75,000 shares authorized, 1,750 shares issued and outstanding at June 30, 2009 | 18                |                   |
| Additional paid-in capital  | 101,466           | 277,371           |
| Accumulated other comprehensive income (loss), net of tax   | (11)              | (50,317)          |
| Predecessor treasury stock, at cost - 375 shares at December 31, 2008   |                   | (1,033)           |
| Retained earnings (accumulated deficit)   | 2,652             | (387,248)         |
| Total stockholders' equity (deficit)  | 104,125           | (161,102)         |
| <b>Total liabilities and stockholders' equity (deficit)</b>   | <b>\$ 466,213</b> | <b>\$ 418,216</b> |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Table of Contents****Constar International Inc.****Condensed Consolidated Statements of Income****(In thousands, except per share data)****(Unaudited)**

|   | Successor                               | Predecessor                             |   |
|---|---|---|---|
|   | Two Months<br>Ended<br>June 30,<br>2009 | One Month<br>Ended<br>April 30,<br>2009 | Three Months<br>Ended<br>June 30,<br>2008 |
| Net customer sales  | \$ 121,206                              | \$ 57,055                               | \$ 242,552                                |
| Net affiliate sales   |   | 676                                     | 1,717                                     |
| <b>Net sales</b>  | 121,206                                 | 57,731                                  | 244,269                                   |
| Cost of products sold, excluding depreciation                       | 104,058                                 | 47,616                                  | 223,493                                   |
| Depreciation and amortization                                       | 7,064                                   | 2,477                                   | 8,622                                     |
| <b>Gross profit</b>   | 10,084                                  | 7,638                                   | 12,154                                    |
| Selling and administrative expenses                                 | 3,139                                   | 1,832                                   | 4,827                                     |
| Research and technology expenses                                    | 1,229                                   | 832                                     | 2,309                                     |
| Provision for restructuring   | 265                                     | 133                                     | 725                                       |
| Gain on disposal of assets  | (3)                                     | (76)                                    | (38)                                      |
| <b>Total operating expenses</b>                                     | 4,630                                   | 2,721                                   | 7,823                                     |
| <b>Operating income</b>   | 5,454                                   | 4,917                                   | 4,331                                     |
| Interest expense  | (5,788)                                 | (1,255)                                 | (9,501)                                   |
| Interest expense - related party                                    |   | (15)                                    |   |
| Reorganization items, net   | (1,167)                                 | 147,723                                 |   |
| Other income (expense), net   | 3,408                                   | 1,382                                   | 2   |
| <b>Income (loss) from continuing operations before income taxes</b> | 1,907                                   | 152,752                                 | (5,168)                                   |
| (Provision for) benefit from income taxes                           | 805                                     | (37,825)                                | 118                                       |
| <b>Income (loss) from continuing operations</b>                     | 2,712                                   | 114,927                                 | (5,050)                                   |
| Income (loss) from discontinued operations, net of taxes            | (60)                                    | (19)                                    | 33  |
| <b>Net income (loss)</b>  | \$ 2,652                                | \$ 114,908                              | \$ (5,017)                                |
| <b>Basic and diluted income (loss) per common share:</b>            |   |   |   |
| Continuing operations   | \$ 1.55                                 | \$ 9.23                                 | \$ (0.41)                                 |
| Discontinued operations   | (0.03)                                  |   |   |

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|                             |    |      |    |      |    |        |
|-----------------------------|----|------|----|------|----|--------|
| Net income (loss) per share | \$ | 1.52 | \$ | 9.23 | \$ | (0.41) |
|-----------------------------|----|------|----|------|----|--------|

## Weighted average common shares outstanding:

|                   |       |        |        |
|-------------------|-------|--------|--------|
| Basic and diluted | 1,750 | 12,455 | 12,394 |
|-------------------|-------|--------|--------|

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.



**Table of Contents****Constar International Inc.****Condensed Consolidated Statements of Income****(In thousands, except per share data)****(Unaudited)**

|   | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>Four Months<br>Ended<br>April 30,<br>2009 | Six Months<br>Ended<br>June 30,<br>2008 |
|---|--|--|---|
| Net customer sales  | \$ 121,206   | \$ 213,925   | \$ 454,813                              |
| Net affiliate sales   |  | 3,256  | 2,834                                   |
| <b>Net sales</b>  | 121,206  | 217,181  | 457,647                                 |
| Cost of products sold, excluding depreciation                       | 104,058  | 189,537  | 417,702                                 |
| Depreciation and amortization                                       | 7,064  | 9,733  | 15,816                                  |
| <b>Gross profit</b>   | 10,084   | 17,911   | 24,129                                  |
| Selling and administrative expenses                                 | 3,139  | 7,005  | 11,588                                  |
| Research and technology expenses                                    | 1,229  | 2,698  | 4,355                                   |
| Provision for restructuring   | 265  | 648  | 806                                     |
| Gain on disposal of assets  | (3)  | (396)  | (38)                                    |
| <b>Total operating expenses</b>                                     | 4,630  | 9,955  | 16,711                                  |
| <b>Operating income</b>   | 5,454  | 7,956  | 7,418                                   |
| Interest expense  | (5,788)  | (5,512)  | (19,377)                                |
| Interest expense - related party                                    |  | (54)   |   |
| Reorganization items, net   | (1,167)  | 144,168  |   |
| Other income (expense), net   | 3,408  | 1,543  | (567)                                   |
| <b>Income (loss) from continuing operations before income taxes</b> | 1,907  | 148,101  | (12,526)                                |
| (Provision for) benefit from income taxes                           | 805  | (37,807)   | 32                                      |
| <b>Income (loss) from continuing operations</b>                     | 2,712  | 110,294  | (12,494)                                |
| Loss from discontinued operations, net of taxes                     | (60)   | (96)   | (54)                                    |
| <b>Net income (loss)</b>  | \$ 2,652   | \$ 110,198   | \$ (12,548)                             |
| <b>Basic and diluted income (loss) per common share:</b>            |  |  |   |
| Continuing operations   | \$ 1.55  | \$ 8.86  | \$ (1.01)                               |
| Discontinued operations   | (0.03)   | (0.01)   |   |
| <b>Net income (loss) per share</b>                                  | \$ 1.52  | \$ 8.85  | \$ (1.01)                               |

**Weighted average common shares outstanding:**

|                   |       |        |        |
|-------------------|-------|--------|--------|
| Basic and diluted | 1,750 | 12,455 | 12,385 |
|-------------------|-------|--------|--------|

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Table of Contents****Constar International Inc.****Condensed Consolidated Statements Cash Flows****(In thousands)****(Unaudited)**

|  | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>Four Months<br>Ended<br>April 30,<br>2009 | Six Months<br>Ended<br>June 30,<br>2008 |
|--|--|--|---|
| <b>Cash flows from operating activities:</b>   |  |  |   |
| Net income (loss)  | \$ 2,652   | \$ 110,198   | \$ (12,548)                             |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  |  |   |
| Depreciation and amortization  | 10,423   | 10,060   | 16,870                                  |
| Bad debt expense (recovery)  | (39)   | (483)  | 514                                     |
| Stock-based compensation   |  | 591  | 472                                     |
| Gain on disposal of assets   | (3)  | (396)  | (38)                                    |
| Changes in operating assets and liabilities:   |  |  |   |
| Accounts receivable  | (1,379)  | (11,480)   | (27,795)                                |
| Inventories  | (2,728)  | (5,432)  | (8,709)                                 |
| Prepaid expenses and other current assets  | 1,087  | 977  | (394)                                   |
| Accounts payable   | 3,482  | 6,727  | 21,946                                  |
| Change in book overdrafts  | 4,545  | 10,453   | 2,022                                   |
| Accrued expenses and other current liabilities   | (5,696)  | 4,905  | (1,289)                                 |
| Deferred income taxes  | (923)  | 37,835   |   |
| Pension and postretirement benefits  | (15)   | 954  | (345)                                   |
| Fresh start accounting adjustments   |  | (68,109)   |   |
| Reorganization items, net  | (404)  | (79,299)   |   |
| <b>Net cash provided by (used in) operating activities</b>   | <b>11,002</b>  | <b>17,501</b>  | <b>(9,294)</b>                          |
| <b>Cash flows from investing activities:</b>   |  |  |   |
| Restricted cash  | (2,485)  | (9,327)  |   |
| Purchases of property, plant and equipment   | (2,653)  | (5,723)  | (14,789)                                |
| Proceeds from sale of property, plant, and equipment   |  | 149  | 38                                      |
| <b>Net cash used in investing activities</b>   | <b>(5,138)</b>                                       | <b>(14,901)</b>  | <b>(14,751)</b>                         |
| <b>Cash flows from financing activities:</b>   |  |  |   |
| Costs associated with debt financing   | (101)  |  |   |
| Proceeds from short-term financing   | 125,000  | 212,723  | 400,482                                 |
| Repayment of short-term financing  | (130,000)  | (227,723)  | (377,163)                               |
| <b>Net cash provided by (used in) financing activities</b>   | <b>(5,101)</b>                                       | <b>(15,000)</b>  | <b>23,319</b>                           |
| Effect of exchange rate changes on cash and cash equivalents                                       | 79   | (8)  | 75                                      |

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|  |          |          |          |
|--|----------|----------|----------|
| Net increase (decrease) in cash and cash equivalents | 842      | (12,408) | (651)    |
| Cash and cash equivalents at beginning of period     | 1,884    | 14,292   | 4,254    |
| Cash and cash equivalents at end of period           | \$ 2,726 | \$ 1,884 | \$ 3,603 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

**Table of Contents****Constar International Inc.****Condensed Consolidated Statements of Stockholders Equity (Deficit)****(In thousands)****(Unaudited)**

|  | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Retained<br>Earnings<br>(Accumulated<br>Deficit) | Total<br>Stockholders<br>Equity (Deficit) |
|--|-----------------|----------------------------------|---|-------------------|--|---|
| <b>Balance, December 31, 2007 (Predecessor)</b>  | \$ 125          | \$ 276,546                       | \$ (18,620)   | \$ (945)          | \$ (329,413)                                     | \$ (72,307)                               |
| Net loss   |                 |                                  |   |                   | (12,548)   | (12,548)                                  |
| Foreign currency translation adjustments   |                 |                                  | 1,429   |                   |  | 1,429                                     |
| Amortization of prior service cost   |                 |                                  | (141)   |                   |  | (141)                                     |
| Amortization of actuarial net loss   |                 |                                  | 1,574   |                   |  | 1,574                                     |
| Revaluation of cash flow hedge   |                 |                                  | 113   |                   |  | 113                                       |
| <b>Comprehensive loss</b>  |                 |                                  |   |                   |  | <b>(9,573)</b>                            |
| Treasury stock purchased   |                 |                                  |   | (46)              |  | (46)                                      |
| Stock-based compensation   |                 | 497                              |   |                   |  | 497                                       |
| <b>Balance, June 30, 2008 (Predecessor)</b>  | \$ 125          | \$ 277,043                       | \$ (15,645)   | \$ (991)          | \$ (341,961)                                     | \$ (81,429)                               |
| <b>Balance, December 31, 2008 (Predecessor)</b>  | \$ 125          | \$ 277,371                       | \$ (50,317)   | \$ (1,033)        | \$ (387,248)                                     | \$ (161,102)                              |
| Net income   |                 |                                  |   |                   | 110,198  | 110,198                                   |
| Foreign currency translation adjustments   |                 |                                  | (1,134)   |                   |  | (1,134)                                   |
| Amortization of prior service cost   |                 |                                  | (97)  |                   |  | (97)                                      |
| Amortization of actuarial net loss   |                 |                                  | 2,016   |                   |  | 2,016                                     |
| Revaluation of cash flow hedge   |                 |                                  | 951   |                   |  | 951                                       |
| <b>Comprehensive income</b>  |                 |                                  |   |                   |  | <b>111,934</b>                            |
| Stock-based compensation   |                 | 597                              |   |                   |  | 597                                       |
| <b>Balance, April 30, 2009 (Predecessor)</b>   | 125             | 277,968                          | (48,581)  | (1,033)           | (277,050)  | (48,571)                                  |
| <b>Fresh Start Adjustments:</b>  |                 |                                  |   |                   |  |   |
| Cancellation of Predecessor common stock   | (125)           | (277,968)                        | (10)  | 1,033             | 277,050  | (20)                                      |
| Elimination of Predecessor accumulated deficit and accumulated other comprehensive loss      |                 |                                  | 48,591  |                   |  | 48,591                                    |
| <b>Balance, May 1, 2009 (Predecessor)</b>  |                 |                                  |   |                   |  |   |
| Issuance of 1.75 million shares of common stock in connection with emergence from Chapter 11 | 18              | 101,466                          |   |                   |  | 101,484                                   |
| <b>Balance, May 1, 2009 (Successor)</b>  | 18              | 101,466                          |   |                   |  | 101,484                                   |
| Net income   |                 |                                  |   |                   | 2,652  | 2,652                                     |
| Foreign currency translation adjustments   |                 |                                  | (489)   |                   |  | (489)                                     |
| Revaluation of cash flow hedge, net of tax   |                 |                                  | 478   |                   |  | 478                                       |

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|                      |       |
|----------------------|-------|
| Comprehensive income | 2,641 |
|----------------------|-------|

|   |    |    |    |         |    |      |    |       |    |         |
|---|----|----|----|---------|----|------|----|-------|----|---------|
| <b>Balance, June 30, 2009 (Successor)</b> | \$ | 18 | \$ | 101,466 | \$ | (11) | \$ | 2,652 | \$ | 104,125 |
|---|----|----|----|---------|----|------|----|-------|----|---------|

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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**Constar International Inc.**

**Notes to Condensed Consolidated Financial Statements**

**(Dollar and share amounts in thousands, unless otherwise noted)**

**(Unaudited)**

**1. Emergence from Voluntary Reorganization Under Chapter 11 Proceedings**

**Background** - On December 30, 2008 (the *Petition Date* ), Constar and certain of its subsidiaries (collectively, the *Debtors* ) filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the *Bankruptcy Court* ) seeking reorganization relief under the provisions of Chapter 11 of Title 11 of the United States Code (the *Bankruptcy Code* ). These Chapter 11 cases were jointly administered for procedural purposes under the caption *In re Constar International Inc., et al.*, Chapter 11 Case No. 08-13432 (PJW) (the *Chapter 11 Cases* ).

**Plan of Reorganization** - The Debtors' Second Amended Joint Plan of Reorganization (the *Plan* ) provided as follows (capitalized terms used in the bullets below are defined in the Plan):

Holders of Allowed Administrative Claims, Priority Tax Claims, Other Priority Claims, and Other Secured Claims would receive full payment in cash;

The DIP Credit Facility would be converted into the Company's Exit Facility;

Holders of Senior Secured Floating Rate Notes would be deaccelerated and reinstated in full as of the date immediately preceding the *Petition Date*;

Holders of Other Secured Claims, except to the extent that a Holder agrees otherwise, would receive one of the following treatments, in full satisfaction, settlement, release and discharge of and in exchange for each Allowed Other Secured Claim, at the sole discretion of the Debtors: (i) payment in full in Cash; (ii) delivery of the collateral securing any such Allowed Other Secured Claim; (iii) deacceleration and reinstatement in full; or (iv) any other treatment rendering the claim unimpaired.

Holders of Senior Subordinated Notes would receive 100% of the new Common Stock of the reorganized Company (except for stock reserved for incentive plans) in full satisfaction, settlement, and release, and discharge of such notes;

Holders of Allowed General Unsecured Claims would receive full payment in cash in the ordinary course of business;

Section 510(b) Claims (which are subordinated securities law claims as further described in the Plan) would be extinguished; and

Holders of our Common Stock would not receive any distribution under the Plan and their shares would be cancelled on the effective date of the Plan.

Payment of claims is subject to the claims resolution process described below.

**Confirmation and Consummation of the Plan** - A hearing on the confirmation of the Plan was held on May 4, 2009. On May 14, 2009, the Bankruptcy Court entered an order approving and confirming the Plan that was presented in substance during the May 4, 2009 hearing. The Plan

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became effective and the Debtors emerged from Chapter 11 on May 29, 2009 (the Effective Date ).

In connection with the consummation of the Plan, on the Effective Date, the Company's existing Senior Secured Super-Priority Debtor in Possession and Exit Credit Agreement, dated as of December 31, 2008 (the Credit Agreement ) was converted into exit financing in accordance with its terms. See Note 11 Debt to the Condensed Consolidated Financial Statements for additional information.

Pursuant to the Plan, all existing shares of the Predecessor Company's (as defined below) capital stock were canceled. In addition, all of the Company's Senior Subordinated 11% Notes Due 2012 were canceled and the related indenture was terminated (except for purposes of allowing the note holders to receive distributions under the Plan). Pursuant to the Restated Certificate of Incorporation of the Company, 75 million shares of common stock in the Successor Company were authorized for issuance, par value \$0.01 per share and according to the Plan, a total of



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1.75 million shares of the Company's Common Stock were distributed to the holders of Senior Subordinated Note Claims. Holders of the Senior Subordinated Note Claims received ten shares of new Common Stock per one thousand dollars face amount of the Senior Subordinated Notes.

In addition, upon the Effective Date, the following incentive plans were terminated (and any and all awards granted under such plans were terminated and will no longer be of any force or effect): (1) the 2007 Non-Employee Directors' Equity Incentive Plan; (2) the 2007 Stock-Based Incentive Compensation Plan; (3) Constar International Inc. Non-Employee Directors' Equity Incentive Plan; (4) Constar International Inc. 2002 Stock-Based Incentive Compensation Plan; (5) the Amended and Restated Constar International Inc. Supplemental Executive Retirement Plan; and (6) the Amended and Restated Constar International Inc. Annual Incentive and Management Stock Purchase Plan, which was replaced by the Constar International Inc. Annual Incentive Plan, adopted May 26, 2009 (the "AIP"). For a description of the AIP, please see the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 1, 2009.

Under the Plan, the Company reduced its total pre-petition liabilities by \$186.2 million through the elimination of the Senior Subordinated Notes plus accrued interest thereon. The elimination of the Senior Subordinated Notes will result in a reduction to cash interest expense of approximately \$19.3 million annually.

**Claims Resolution Process** - On January 28, 2009, the Bankruptcy Court entered an order (the "Bar Date Order") requiring any person or entity holding or asserting a prepetition claim(s) against the Debtors to file a written proof of claim with the Debtors' claims processing agent on or before March 30, 2009 (the "Bar Date"), and, for Governmental Units (as defined in the Bankruptcy Code) holding a prepetition claim(s) against the Debtors to file a written proof of claim with the Debtors' claims processing agent on or before June 29, 2009. With certain enumerated exceptions, the Bar Date Order further provides that any person or entity which fails to timely file a proof of claim will, among other things, be forever barred, estopped and enjoined from asserting a prepetition claim against the Debtors.

The following table summarizes cumulative activity for claims that have been filed with the Bankruptcy Court as of June 30, 2009:

|                      | <b>General<br/>Unsecured<br/>Claims</b> |
|----------------------|---|
| <i>(in millions)</i> |   |
| Claims filed         | \$ 21.6                                 |
| Claims resolved      | (21.4)                                  |
| Unresolved claims    | \$ 0.2                                  |

Throughout the Chapter 11 proceedings, the Company has resolved many claims through settlements. The Company will continue to settle claims and, if necessary, file additional objections with the Bankruptcy Court. With respect to unsecured claims, once a claim is allowed consistent with the claims resolution process, the claimant is entitled to payment of cash in full settlement of the claim. Differences between claim amounts filed and the Company's estimates are being investigated and will be resolved in connection with the claims resolution process. In addition, new and amended claims may be filed in the future, including claims amended to assign dollar values or recharacterize the legal nature of claims already on file. In light of the number of claims filed, the claims resolution process may take considerable time to complete, and we expect that it will continue for some time. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor is the exact recovery with respect to allowed claims presently known.

The Company estimates that the probable range of remaining unresolved general unsecured claims to be allowed will be between \$0.1 million and \$0.2 million. The Company has identified, and expects to continue to identify, claims that we believe should be disallowed by the Bankruptcy Court because they are duplicative, have been later amended or superseded, are without merit, are overstated or for other reasons. As of August 11, 2009, the Company has filed objections with respect to approximately \$1.1 million in claims, but it may take some time before the Bankruptcy Court rules on these Constar's objections to these disputed claims. Because the process of analyzing and objecting to claims is ongoing, the amount of disallowed claims may increase in the future.

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The Company has recognized \$21.4 million of these claims (including a reserve of \$0.1 million to cover the estimated final reconciliation of these claims) in the financial statements as of June 30, 2009. In addition, for the four months ended April 30, 2009, a charge to income of \$0.3 million was recorded for claims the Company has resolved but had not previously recognized as a liability. Based upon an evaluation of the impact of these under accruals, both individually and in the aggregate, the Company concluded that both the qualitative and quantitative impact were not material to the previously issued financial statements. These claims have been accrued by the Company based upon the best available estimates of amounts to be paid. However, it should be noted that the claims resolution process is uncertain and could result in material adjustments to the Successor Company's (as defined below) financial statements.

Additionally, secured claims were deemed unimpaired under the Plan. Pursuant to the Plan those claims were satisfied upon either reinstatement of the obligations in the Successor Company or by making full payment in cash to the holder of such claim.

**Appointment of New Board of Directors** - Upon the Effective Date, in connection with the Company's emergence from bankruptcy, the following individuals became members of the Successor Company's Board of Directors by operation of the Plan: Michael J. Balduino, Eric A. Balzer, Lawrence V. Jackson, Ruth J. Mack, L. White Matthews III, and Jason L. Pratt (collectively with Michael J. Hoffman, the New Board). Mr. Hoffman, the Company's President and Chief Executive Officer, was a member of the Predecessor Company's Board of Directors and continues to serve on the new Board.

**Trading of Common Stock** - The Predecessor Company's common stock ceased trading on the NASDAQ stock market on January 8, 2009 and began trading in the over-the-counter market under the symbol CNSTQ.PK. Upon the Effective Date of the Plan, the outstanding common stock of the Predecessor Company was cancelled for no consideration. Consequently, the Predecessor Company's stockholders no longer have any interest as stockholders in the Successor Company by virtue of their ownership of the Predecessor Company's common stock prior to emergence from bankruptcy. The common stock of the Successor Company is not listed on an exchange and was available for trading over-the-counter under the symbol CNRN.PK on May 29, 2009.

## **2. Basis of Presentation and Significant Accounting Policies**

### **Basis of Presentation**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America and in accordance with Securities and Exchange Commission (SEC) regulations for interim financial reporting. In the opinion of management, these consolidated financial statements contain all adjustments of a normal and recurring nature necessary to provide a fair statement of the financial position, results of operations and cash flows for the periods presented. Results for interim periods should not be considered indicative of results for a full year. These financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in Constar International Inc.'s (the Company or Constar) Annual Report on Form 10-K for the year ended December 31, 2008 (however, see the discussion below regarding fresh start accounting). The Condensed Consolidated Financial Statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained.

The American Institute of Certified Public Accountants' Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* (SOP 90-7) applies to the Company's financial statements for the periods that the Company operated under the provisions of Chapter 11. SOP 90-7 does not change the application of generally accepted accounting principles in the preparation of financial statements. However, for periods including and subsequent to the filing of the Chapter 11 petition SOP 90-7 does require that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain revenues, expenses, gains, and losses that were realized or incurred during the Chapter 11 proceedings have been classified as reorganization items, net on the accompanying condensed consolidated statements of operations. In addition, pre-petition obligations that were impacted by the Plan were classified as liabilities subject to compromise on the condensed consolidated balance sheet as of December 31, 2008.

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As of May 1, 2009, the Company adopted fresh-start accounting in accordance with SOP 90-7. The Company selected May 1, 2009 as the date to effectively apply fresh-start accounting based on the absence of any material contingencies at the May 4, 2009 confirmation hearing and the immaterial impact of transactions between May 1, 2009 and May 4, 2009. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. Accordingly, the financial statements prior to May 1, 2009 are not comparable with the financial statements for periods on or after May 1, 2009. References to Successor or Successor Company refer to the Company on or after May 1, 2009, after giving effect to the cancellation of Constar common stock issued prior to the Effective Date, the issuance of new Constar common stock in accordance with the Plan, and the application of fresh-start accounting. References to Predecessor or Predecessor Company refer to the Company prior to May 1, 2009. See Note 4 Fresh-Start Accounting in the notes to these Condensed Consolidated Financial Statements for further details.

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS 144 ), the Company has classified the results of operations of its Italian operation as a discontinued operation in the condensed consolidated statements of operations for all periods presented. In addition, the assets and related liabilities of this entity have been classified as assets and liabilities of discontinued operations on the condensed consolidated balance sheets. See Note 6 Discontinued Operations for further discussion of the divestiture. Unless otherwise indicated, amounts provided throughout this report relate to continuing operations only.

Certain reclassifications have been made to prior year balances in order to conform these balances to the current year's presentation.

## **Use of Estimates**

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses in the consolidated financial statements and accompanying notes. Actual results may differ materially from management's estimates.

Under fresh-start accounting, the Company's asset values are remeasured and allocated in conformity with Statement of Financial Accounting Standards ( SFAS ) No. 141 (revised 2007), *Business Combinations* ( SFAS No. 141R ). In addition, fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, be reported at fair value or the present values of the amounts to be paid using appropriate market interest rates. Deferred taxes are reported in conformity with SFAS No. 109, *Accounting for Income Taxes* ( SFAS No. 109 ). Pension and postretirement liabilities are remeasured in conformity with SFAS No. 87, *Employers' Accounting for Pensions* ( SFAS No. 87 ) and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* ( SFAS No. 106 ), respectively.

Estimates of fair value represent the Company's best estimates based on independent appraisals and valuations and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, we cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. Any adjustments to the recorded fair values of these assets and liabilities may impact the amount of recorded goodwill.

## **Property, Plant and Equipment**

For the Predecessor Company, property, plant and equipment are carried at cost and include expenditures for new facilities and equipment and those costs which substantially increase the useful lives of existing assets. For the Successor Company, property, plant, and equipment were adjusted to fair value as of May 1, 2009, and are currently stated at that value less accumulated depreciation and amortization. Property, plant and equipment acquired after May 1, 2009, are stated at acquisition cost less accumulated depreciation and amortization. The Company capitalizes interest costs associated with significant capital projects using its average borrowing rate. When property, plant or equipment is retired or otherwise disposed of, the net carrying amount is eliminated with any gain or loss on disposition recognized in earnings at that time. Maintenance and repairs are expensed as incurred.

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Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

| <i>(In years)</i>                        | <b>Successor</b>                            | <b>Predecessor</b>                       |
|--|---|--|
| Land improvements                        | 25  | 25                                       |
| Building and building improvements       | 3 to 40                                     | 25 to 40                                 |
| Machinery and equipment                  | 2 to 10                                     | 10                                       |
| Furniture, computer equipment, and tools | 2 to 10                                     | 5 to 10                                  |
| Molds                                    | Shorter of the useful life or contract term | 5  |
| Leasehold improvements                   | Shorter of the useful life or lease term    | Shorter of the useful life or lease term |

If non land assets are idled, the Company accelerates depreciation over its expected remaining useful life considering its estimated salvage value.

**Impairment of Long-Lived Assets**

The Company evaluates the carrying value of long-lived tangible assets to be held and used and finite-lived intangible assets when events or changes in circumstances indicate the carrying value may not be recoverable. The carrying amount of an asset or asset group is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. In that event, an impairment loss is recognized based on the amount by which the carrying value exceeds the fair market value of the asset.

**Goodwill and Intangible Assets**

Goodwill reflects the excess of the reorganization value of the Successor over the fair value of tangible and identifiable intangible assets as determined upon the adoption of fresh-start accounting. The Company recorded \$117.3 million of goodwill upon emergence from bankruptcy. The goodwill is not deductible for tax purposes.

Identifiable intangible assets consist of the Company's trade name, technology, and leasehold interests. The Company's trade name is an indefinite-lived asset and consequently is not amortized. Technology and leasehold interests are finite-lived intangible assets and are amortized over their useful lives of between four and twelve years.

The Company's annual impairment reviews for goodwill and indefinite-lived intangible assets will be performed as of October 1 in conjunction with the timing of the completion of the Company's annual strategic business plan. The Company also undertakes interim reviews when the Company determines that a triggering event that would more likely than not reduce the fair value of the reporting unit below its carrying value has occurred.

The Company uses a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized (if any) in accordance with SFAS No. 142 *Goodwill and Other Intangible Assets*. The Step 1 calculation used to identify potential impairment compares the calculated fair value for the Company's single reporting unit to its book value, including goodwill, on the measurement date. If the fair value of the reporting unit is less than carrying value, then Step 2 is performed to measure the amount of the impairment loss (if any) for the reporting unit.

The Step 2 calculation of the impairment test compares the implied fair value of the goodwill to the carrying value of goodwill. The implied fair value of goodwill is equal to the excess of the fair value of the reporting unit above the fair value of identified assets and liabilities. If the carrying value of goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized in an amount equal to the excess (not to exceed the carrying value of goodwill).

See Note 10 for a description of the Company's interim impairment test at June 30, 2009.

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### **Subsequent Events**

Subsequent events have been evaluated for potential recognition or disclosure in the financial statements through August 14, 2009, the date the financial statements were issued.

### **3. New Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2 ( FSP 157 ) which delays the effective date of SFAS 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 and FSP 157 are effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 and FSP 157 did not have a material impact on the Company's results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R provides revised guidance on how acquirors recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests, and goodwill acquired in a business combination. In addition, SFAS 141R expands required disclosures surrounding the nature and financial effects of business combinations. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The impact of SFAS No. 141R on consolidated financial statements could be material for business combinations which may be consummated subsequent to the adoption of SFAS 141R. The application of SFAS 141R as a result of applying the fresh-start accounting provisions of SOP 90-7 upon emergence from Chapter 11 has resulted in material adjustments to the historical carrying amounts of the Predecessor Company's assets and liabilities. The impact of these adjustments is summarized in Note 4 Fresh Start Accounting in the notes to these Condensed Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual periods ending after June 15, 2009 and is to be applied prospectively. The adoption of this standard did not have a material impact on the Condensed Consolidated Financial Statements.

In April 2009, three FASB Staff Positions ( FSPs ) were issued addressing fair value of financial instruments: FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ; FSP FAS 115-2, *Recognition and Presentation of Other Than Temporary Impairments* ; and FSP FAS 107-1, *Interim Disclosure about Fair Value of Financial Instruments*. These standards are effective for interim or annual periods ending after June 15, 2009. The adoption of these FSPs did not have a material impact on the Company's results of operations or financial condition.

In June 2009, the FASB issued SFAS No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* . This Statement establishes the FASB Accounting Standards Codification, ( Codification ) as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Company is required to adopt this standard in the third quarter of 2009. The Company does not believe the adoption of SFAS No. 168 will have a material impact on the Company's results of operations or financial condition.

### **4. Fresh-Start Accounting**

On May 1, 2009, the Company adopted fresh-start accounting in accordance with SOP 90-7. Fresh-start accounting results in the Company becoming a new entity for financial reporting purposes. Accordingly, the Company's consolidated financial statements for periods prior to May 1, 2009 are not comparable to consolidated financial statements presented on or after May 1, 2009.

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Under SOP 90-7, the Successor Company must determine a value to be assigned to the equity of the emerging company as of the date of adoption of fresh-start accounting. To facilitate this calculation the Company first determined the enterprise value of the Successor Company. The valuation methods included (i) a discounted cash flow analysis, considering a range of the weighted average cost of capital between 12.5% and 13.5% and multiples of projected earnings of between 5 and 7 times for its terminal value, (ii) a market multiples analysis, considering multiple ranges of between 5 and 6.5 times and (iii) precedent transaction multiples of between 7 and 8 times. This analysis resulted in an estimated enterprise value of between \$260 million and \$300 million. Due to prevailing economic conditions, the Company used the low end of this range for purposes of applying fresh-start accounting.

The estimated enterprise value, and corresponding equity value, is highly dependent upon achieving the future financial results set forth in the financial projections included in the Company's Plan, as filed with the Bankruptcy Court. These projections were limited by the information available to the Company as of the date of the preparation of the projections and reflected numerous assumptions concerning anticipated future performance and prevailing and anticipated market and economic conditions that were and continue to be beyond the Company's control and that may not materialize. Projections are inherently subject to uncertainties and to a wide variety of significant business, economic and competitive risks. Therefore variations from the projections may be material.

After deducting the fair value of the Senior Secured Floating Rate Notes (as determined by quoted market prices) and the outstanding Exit Facility balance (net of cash), the equity value of the Company was calculated to be \$101.5 million. The estimates and assumptions made in this valuation are inherently subject to significant uncertainties. Accordingly, there can be no assurance that the estimates, assumptions, and amounts reflected in the valuations will be realized, and actual results could vary materially. Moreover, the market value of the Company's common stock may differ materially from the equity valuation used for accounting purposes.

Fresh-start accounting reflects the value of the Company as determined in the confirmed Plan. Under fresh-start accounting, the Company's asset values are remeasured and allocated in conformity with SFAS No. 141R. The excess of reorganization value over the fair value of tangible and identifiable intangible assets is recorded as goodwill in the accompanying condensed consolidated balance sheet. Fresh-start accounting also requires that all liabilities, other than deferred taxes and pension and other postretirement benefit obligations, should be stated at fair value. Deferred taxes are determined in conformity with SFAS No. 109. Pension and postretirement liabilities are remeasured in conformity with SFAS No. 87 and SFAS No. 106, respectively.

Estimates of fair value included in the Successor Company financial statements represent the Company's best estimates based on independent appraisals and valuations and, where the foregoing have not yet been completed or are not available, industry data and trends and by reference to relevant market rates and transactions. The foregoing estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially.

The following fresh-start Condensed Consolidated Balance Sheet presents the financial effects on the Company of the implementation of the Plan and the adoption of fresh-start accounting. The effect of the consummation of the transactions contemplated in the Plan includes the settlement of liabilities and the issuance of common stock.

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The effects of the Plan and fresh-start reporting on the Company's Condensed Consolidated Balance Sheet are as follows:

|   | Predecessor<br>April 30,<br>2009 | Reclassifications<br>and Plan of<br>Reorganization |         | Fresh Start<br>Accounting<br>Adjustments |      | Successor<br>May 1,<br>2009 |
|---|----------------------------------|--|---------|--|------|-----------------------------|
| <b>ASSETS</b>   |                                  |  |         |  |      |                             |
| <b>Current Assets:</b>                                |                                  |  |         |  |      |                             |
| Cash and cash equivalents                             | \$ 1,884                         |  |         |  |      | \$ 1,884                    |
| Accounts receivable, net                              | 48,021                           | 876  | a       | (26)                                     | g    | 48,871                      |
| Accounts receivable - related party                   | 876                              | (876)  | a       |  |      |                             |
| Inventories, net                                      | 55,179                           |  |         | 1,621                                    | g    | 56,800                      |
| Prepaid expenses and other current assets             | 23,626                           | (13,870)   | b, k    | (1,132)                                  | g    | 8,624                       |
| Deferred income taxes                                 | 1,594                            |  |         | (714)                                    | i    | 880                         |
| Current assets of discontinued operations             | 310                              |  |         |  |      | 310                         |
| <b>Total current assets</b>                           | <b>131,490</b>                   | <b>(13,870)</b>                                    |         | <b>(251)</b>                             |      | <b>117,369</b>              |
| Property, plant and equipment, net                    | 128,938                          | 11,216   | k       | 37,385                                   | g    | 177,539                     |
| Goodwill  | 148,813                          |  |         | (31,500)                                 | g, h | 117,313                     |
| Intangible assets                                     |                                  |  |         | 36,404                                   | g, h | 36,404                      |
| Restricted cash                                       | 9,327                            |  |         |  |      | 9,327                       |
| Other assets  | 1,265                            | 2,654  | b       | (2,654)                                  | g    | 1,265                       |
| <b>Total assets</b>                                   | <b>\$ 419,833</b>                | <b>\$</b>  |         | <b>\$ 39,384</b>                         |      | <b>\$ 459,217</b>           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b> |                                  |  |         |  |      |                             |
| <b>Current Liabilities:</b>                           |                                  |  |         |  |      |                             |
| Short-term debt                                       | \$ 5,000                         | \$   |         | \$                                       |      | \$ 5,000                    |
| Current portion of long-term debt                     | 220,000                          | (220,000)  | b       |  |      |                             |
| Accounts payable                                      | 83,407                           | 850  | a       |  |      | 84,257                      |
| Accrued expenses and other current liabilities        | 27,165                           | 4,148  | a, c, d | (459)                                    | g    | 30,854                      |
| Accounts payable and accrued expenses - related party | 4,108                            | (4,108)  | a       |  |      |                             |
| Deferred income taxes                                 | 1,594                            |  |         | (1,594)                                  | i    |                             |
| Current liabilities of discontinued operations        | 131                              |  |         |  |      | 131                         |
| <b>Total current liabilities</b>                      | <b>341,405</b>                   | <b>(219,110)</b>                                   |         | <b>(2,053)</b>                           |      | <b>120,242</b>              |
| Long-term debt, net of current portion                |                                  | 220,000  | b       | (65,725)                                 | g    | 154,275                     |
| Pension and postretirement liabilities                | 37,545                           | (367)  | d       | (7,424)                                  | g    | 29,754                      |
| Deferred income taxes                                 |                                  |  |         | 38,715                                   | i    | 38,715                      |
| Other liabilities                                     | 16,919                           |  |         | (2,984)                                  | g    | 13,935                      |
| Non-current liabilities of discontinued operations    | 812                              |  |         |  |      | 812                         |
| Liabilities subject to compromise                     | 186,229                          | (186,229)  | e       |  |      |                             |
| <b>Total liabilities</b>                              | <b>582,910</b>                   | <b>(185,706)</b>                                   |         | <b>(39,471)</b>                          |      | <b>357,733</b>              |

Commitments and contingencies

**Stockholders' Equity (Deficit):**

Predecessor preferred stock

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|   |                   |           |         |                  |                   |
|---|-------------------|-----------|---------|------------------|-------------------|
| Predecessor common stock                                    | 125               | (125)     | f       |                  |                   |
| Predecessor additional paid-in capital                      | 277,968           | (277,968) | f       |                  |                   |
| Predecessor treasury stock                                  | (1,033)           | 1,033     | f       |                  |                   |
| Successor common stock                                      |                   | 18        | e       |                  | 18                |
| Successor additional paid-in capital                        |                   | 101,466   | e       |                  | 101,466           |
| Accumulated other comprehensive loss, net of tax            | (48,581)          |           |         | 48,581           | j                 |
| Accumulated deficit   | (391,556)         | 361,282   | c, e, f | 30,274           | j                 |
| Total stockholders' equity (deficit)                        | (163,077)         | 185,706   |         | 78,855           | 101,484           |
| <b>Total liabilities and stockholders' equity (deficit)</b> | <b>\$ 419,833</b> | <b>\$</b> |         | <b>\$ 39,384</b> | <b>\$ 459,217</b> |



**Table of Contents****Notes to Plan of Reorganization and fresh-start accounting adjustments**

- (a) At April 30, 2009, Crown Holdings, Inc. ( Crown ) owned approximately 10% of the Predecessor Company's outstanding common stock. As of May 1, 2009, as a result of the cancellation of the Predecessor Company's common stock, Crown is no longer considered a related party. This adjustment reflects the reclassification of amounts formerly classified as related party transactions.
- (b) These adjustments reflect the reclassification to long-term debt of the \$220 million Senior Secured Floating Rate Notes that had been classified as a current liability on the Predecessor Company's balance sheet due the Chapter 11 proceedings and the reclassification of the related deferred financing fees from current assets to non-current assets.
- (c) This adjustment reflects an accrual of \$523 for damages due as a result of a contract that was rejected as part of the Chapter 11 proceedings.
- (d) As a result of the termination of the Supplemental Executive Retirement Plan the Company reclassified the outstanding liability under the plan to current liabilities. The liability was paid in full in June 2009.
- (e) This adjustment reflects the discharge of \$186.2 million of liabilities subject to compromise in accordance with the terms of the Plan of Reorganization and the issuance of 1.75 million shares of Successor Company common stock to the holders of Senior Subordinated Notes in satisfaction of such claims.
- (f) This adjustment reflects the cancellation of the Predecessor Company's common stock.
- (g) To record assets and liabilities at their estimated fair values:

|  |                  |
|--|------------------|
| Accounts receivable                            | \$ (26)          |
| Inventories                                    | 1,621            |
| Prepaid expenses and other current assets      | (1,132)          |
| Property, plant, and equipment                 | 37,385           |
| Goodwill                                       | (80,081)         |
| Intangible assets                              | 36,404           |
| Other assets                                   | (2,654)          |
| Accrued expenses and other current liabilities | 459              |
| Long-term debt                                 | 65,725           |
| Pension and postretirement liabilities         | 7,424            |
| Other liabilities                              | 2,984            |
| Gain on fresh start adjustments before tax     | 68,109           |
| Elimination of other comprehensive income      | 48,581           |
| Less: tax effect on fresh-start adjustments    | (37,835)         |
| <b>Total change in equity</b>                  | <b>\$ 78,855</b> |

- (h) To eliminate Predecessor goodwill.
- (i) To adjust deferred taxes to reflect the impact of fresh-start accounting fair value adjustments.
- (j) To reset accumulated other comprehensive loss and accumulated deficit to zero.
- (k) To reclassify pallets used for shipping products to customers from prepaid expenses to property, plant, and equipment.

**5. Liabilities Subject to Compromise and Reorganization Items**

Liabilities subject to compromise refers to pre-petition obligations that were impacted by the Chapter 11 reorganization process. At June 30, 2009, there were no liabilities subject to compromise due to our emergence from bankruptcy. For further information regarding the discharge of liabilities subject to compromise, see Note 4 - Fresh-Start Accounting in the notes to these Condensed Consolidated Financial Statements.



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Liabilities subject to compromise at December 31, 2008, are summarized in the following table:

|  | <b>Predecessor<br/>December 31, 2008</b> |
|--|--|
| Subordinated Notes                     | \$ 175,000                               |
| Accrued interest on Subordinated Notes | 11,229                                   |
|  | <b>\$ 186,229</b>                        |

Subsequent to its Chapter 11 filing, the Company recorded post-petition interest expense on its prepetition obligations only to the extent it believed the interest would be paid during the bankruptcy proceeding or that it was probable that the interest would be an allowed claim. Had the Company recorded interest expense on its prepetition obligations, interest expense would have been higher by \$1.6 million and \$6.4 million for the one and four months ended April 30, 2009, respectively.

The Company incurred certain professional fees and other expenses directly associated with the bankruptcy proceedings. In addition, the Company has made adjustments to the carrying value of certain prepetition liabilities. Such costs and adjustments are classified as reorganization items in the accompanying condensed consolidated statements of operations and consist of the following:

|  | <b>Successor<br/>Two Months<br/>Ended<br/>June 30,<br/>2009</b> | <b>Predecessor<br/>One Month<br/>Ended<br/>April 30,<br/>2009</b> | <b>Predecessor<br/>Four Months<br/>Ended<br/>April 30,<br/>2009</b> |
|--|---|---|---|
| Gain from discharge of debt                              | \$  | \$ 84,745   | \$ 84,745   |
| Gain from fresh-start accounting adjustments             |   | 68,109  | 68,109  |
| Contract termination damages                             |   | (523)   | (523)   |
| Professional fees associated with bankruptcy proceedings | (1,027)   | (4,190)   | (6,905)   |
| DIP and Exit Financing fees                              |   |   | (100)   |
| Other, net   | (140)   | (418)   | (1,158)   |
| <b>Total reorganization items, net</b>                   | <b>\$ (1,167)</b>   | <b>\$ 147,723</b>   | <b>\$ 144,168</b>   |

The gain from discharge of debt is the result of the settlement of the Senior Subordinated Notes in exchange for 1.75 million shares of the Successor Company's common stock.

**6. Discontinued Operations**

In 2006, the Company closed its Italian operation since its principal customer notified the Company that the customer would not renew its contract effective January 1, 2007. In accordance with SFAS No. 144, the assets and related liabilities of the discontinued entity have been classified as assets and liabilities of discontinued operations on the condensed consolidated balance sheets and the results of operations of the entity have been classified as discontinued operations in the condensed consolidated statements of operations for all periods presented.

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The following summarizes the assets and liabilities of discontinued operations:

|  | Successor<br>June 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|--|-------------------------------|-------------------------------------|
| <b>Assets of Discontinued Operations:</b>            |                               |                                     |
| Accounts receivable, net                             | \$                            | \$ 14                               |
| Prepaid expenses and other current assets            | 330                           | 328                                 |
| Total current assets of discontinued operations      | \$ 330                        | \$ 342                              |
| <b>Liabilities of Discontinued Operations:</b>       |                               |                                     |
| Accounts payable and accrued expenses                | \$ 146                        | \$ 87                               |
| Total current liabilities of discontinued operations | 146                           | 87                                  |
| Other liabilities                                    | 863                           | 773                                 |
| Total liabilities of discontinued operations         | \$ 1,009                      | \$ 860                              |

The following summarizes the results of operations for discontinued operations:

|   | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>One Month<br>Ended<br>April 30,<br>2009 | Predecessor<br>Three Months<br>Ended<br>June 30,<br>2008 |
|---|--|--|--|
| Net sales   | \$   | \$   | \$   |
| Loss from discontinued operations before income taxes | (59)   | (19)   | (16)   |
| (Provision for) benefit from income taxes             | (1)  |  | 49   |
| <b>Income (loss) from discontinued operations</b>     | <b>\$ (60)</b>                                       | <b>\$ (19)</b>   | <b>\$ 33</b>   |

|   | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>Four Months<br>Ended<br>April 30,<br>2009 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2008 |
|---|--|--|--|
| Net sales   | \$   | \$   | \$   |
| Loss from discontinued operations before income taxes | (59)   | (17)   | (70)   |
| (Provision for) benefit from income taxes             | (1)  | (79)   | 16   |
| <b>Loss from discontinued operations</b>              | <b>\$ (60)</b>                                       | <b>\$ (96)</b>   | <b>\$ (54)</b>   |

**7. Accounts Receivable**

|                                       | <b>Successor<br/>June 30,<br/>2009</b> | <b>Predecessor<br/>December 31,<br/>2008</b> |
|---------------------------------------|--|--|
| Trade and notes receivable            | \$ 44,989                              | \$ 40,796                                    |
| Less: allowance for doubtful accounts | (421)                                  | (1,904)                                      |
| Net trade and notes receivables       | 44,568                                 | 38,892                                       |
| Value added taxes recoverable         | 4,935                                  | 4,331  |
| Miscellaneous receivables             | 3,745                                  | 2,472  |
| Total                                 | \$ 53,248                              | \$ 45,695                                    |

**Table of Contents****8. Inventories**

|                            | Successor<br>June 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|----------------------------|-------------------------------|-------------------------------------|
| Finished goods             | \$ 45,024                     | \$ 34,021                           |
| Raw materials and supplies | 15,654                        | 15,744                              |
| <b>Total</b>               | <b>\$ 60,678</b>              | <b>\$ 49,765</b>                    |

The inventory balance has been reduced by reserves for obsolete and slow-moving inventories of \$38 and \$707 as of June 30, 2009 and December 31, 2008, respectively.

**9. Property, Plant and Equipment**

|   | Successor<br>June 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|---|-------------------------------|-------------------------------------|
| Land and improvements                           | \$ 15,790                     | \$ 3,438                            |
| Buildings and improvements                      | 49,945                        | 93,405                              |
| Machinery and equipment                         | 109,283                       | 578,062                             |
|   | 175,018                       | 674,905                             |
| Less: accumulated depreciation and amortization | (6,781)                       | (545,647)                           |
|   | 168,237                       | 129,258                             |
| Construction in progress                        | 6,842                         | 3,113                               |
| Property, plant and equipment, net              | \$ 175,079                    | \$ 132,371                          |

**10. Goodwill and Intangible Assets**

The Company performed an interim impairment assessment as of June 30, 2009 since the trading value of its common stock of \$26.3 million was less than the carrying value of its equity of \$104.1 million.

In performing the interim impairment assessment as of June 30, 2009, the estimated fair value was based on a combination of the following valuation techniques:

1. Discounted cash flow models based upon the Company's internal forecasts.
2. Market multiples of companies in the packaging industry.
3. Precedent transaction multiples of companies in the packaging industry.

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### 4. Quoted market prices for its debt and equity securities.

The first valuation technique calculated the net present value of projected cash flows using a range of weighted average cost of capital of between 13.8% and 30% and terminal value earnings multiples of between 5.5 and 6.5 times.

The second valuation technique applied peer multiples calculated using the average trading prices of securities of comparable publicly-traded packaging companies using multiples of between 5.0 and 6.7 times.

The third technique used multiples calculated based upon the value of previous transactions in the packaging industry, using multiples of between 7 and 8 times.

The fourth technique considered the quoted market price of the Company's debt and equity securities and an estimated control premium. The estimated control premium represents the incremental premium a buyer is willing to pay to acquire a controlling, majority interest in the Company. In estimating the control premium, management principally considered the current market conditions and historical premiums paid in packaging industry acquisitions observed in the marketplace.

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The Company completed its interim impairment assessment as of June 30, 2009 and does not believe that the Company's goodwill balance was impaired. However, there can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable packaging companies, the lack of an increase in the Company's market price consistent with its 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. Recognition of impairments of a significant portion of goodwill would negatively affect the Company's reported results of operations and total capitalization, the effect of which could be material and could have a negative impact on the Company's ability to raise capital on attractive terms.

In making the determination, the Company considered both qualitative and quantitative factors, including the effect of its recent emergence from bankruptcy and the limited volume of trading of its securities in the equity and debt markets. As such, the Company believes that the use of several techniques is more appropriate than relying solely on the current trading market value of the Company's securities.

The determination of estimated fair value required the exercise of judgment and is highly sensitive to the Company's assumptions. The estimated fair value exceeded the carrying value of the reporting unit by approximately \$5.6 million at June 30, 2009.

The following table presents a summary of goodwill and indefinite-lived intangible assets:

|              | Successor<br>June 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|--------------|-------------------------------|-------------------------------------|
| Goodwill     | \$ 117,313                    | \$ 148,813                          |
| Trade name   | 25,500                        |                                     |
| <b>Total</b> | <b>\$ 142,813</b>             | <b>\$ 148,813</b>                   |

The following table presents a summary of finite-lived intangible assets:

|                     | Estimated<br>Life<br>(in years) | Successor<br>June 30, 2009<br>Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Net<br>Book<br>Value |
|---------------------|---------------------------------|---|-----------------------------|----------------------|
| Technology          | 4 to 12                         | \$ 9,700  | \$ 202                      | \$ 9,498             |
| Leasehold interests | 4                               | 1,204   | 50                          | 1,154                |
| <b>Total</b>        |                                 | <b>\$ 10,904</b>  | <b>\$ 252</b>               | <b>\$ 10,652</b>     |

Amortization expense was \$252 for the two months ended June 30, 2009, and is recorded within cost of goods sold in the accompanying condensed consolidated statements of income.



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The following table summarizes the expected amortization expense for finite-lived intangible assets:

|                                     |                  |
|-------------------------------------|------------------|
| Six months ending December 31, 2009 | \$ 755           |
| 2010                                | 1,509            |
| 2011                                | 1,509            |
| 2012                                | 1,509            |
| 2013                                | 909              |
| After 2013                          | 4,461            |
|                                     | <b>\$ 10,652</b> |

**11. Debt**

In connection with the consummation of the Plan, on the Effective Date, the Company's existing Senior Secured Super-Priority Debtor in Possession and Exit Credit Agreement (the "DIP Credit Facility") was converted into a \$75 million exit facility (the "Exit Facility") with substantially the same terms as the DIP Credit Facility. The Exit Facility's scheduled expiration date is December 31, 2011. Also in connection with the consummation of the Plan, the Company and its lenders entered into Amendment No. 2 to the DIP Credit Agreement, primarily for the purposes of updating certain schedules to the DIP Credit Agreement and permitting the Company's Dutch subsidiary, Constar International Holland (Plastics) B.V., which is neither a party to nor a guarantor of the Credit Agreement, to enter into separate financing arrangements.

The Company's outstanding long-term debt at June 30, 2009, consists of \$220.0 million of Senior Secured Floating Rate Notes due February 15, 2012 ("Secured Notes"). The Secured Notes bear interest at the rate of three-month LIBOR plus 3.375% per annum. Interest on the Secured Notes is reset and payable quarterly. Pursuant to an interest rate swap executed in May 2005 with Citigroup Financial Products Inc., \$100.0 million face amount of the Secured Notes have an effective interest rate of 7.9%.

In connection with the Company's reorganization and emergence from bankruptcy, on the Effective Date, all of the Company's Senior Subordinated 11% Notes Due 2012 were canceled and the related indenture was terminated. Pursuant to the Plan the holders of Class 4 Senior Subordinated Note Claims (as defined in the Plan) received ten shares of new Common Stock per one thousand dollars in face amount of the Senior Subordinated Notes. In addition, upon the adoption of fresh-start accounting, the Company adjusted the Secured Notes to fair value based upon their quoted market price. The Company currently expects to record accretion expense of approximately \$13.6 million in 2009, \$22.8 million in 2010, \$25.8 million in 2011, and \$3.5 million in 2012. For the two months ended June 30, 2009, the Company recorded \$3.3 million of accretion expense which is included in interest expense in the accompanying condensed consolidated statement of income.

A summary of short-term and long-term debt follows:

|                         | <b>Successor<br/>June 30,<br/>2009</b> | <b>Predecessor<br/>December 31,<br/>2008</b> |
|-------------------------|--|--|
| <b>Short-term:</b>      |  |  |
| Revolver                | \$                                     | \$ 20,000                                    |
| <b>Secured notes</b>    |  | 220,000                                      |
|                         |  | 240,000                                      |
| <b>Long-term:</b>       |  |  |
| Secured notes           | \$ 157,578                             | \$ 220,000                                   |
| Less current maturities |  | (220,000)                                    |

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|                   |            |    |
|-------------------|------------|----|
| Long-term portion | \$ 157,578 | \$ |
|-------------------|------------|----|

At June 30, 2009 and December 31, 2008, there was \$6.1 and \$10.1 million outstanding under letters of credit, respectively.

**Table of Contents****12. Other Liabilities**

|                              | Successor<br>June 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|------------------------------|-------------------------------|-------------------------------------|
| Asset retirement obligations | \$ 4,518                      | \$ 3,665                            |
| Deferred rent                | 792                           | 3,435                               |
| Post-employment benefits     | 1,233                         | 1,623                               |
| Interest rate swap           | 6,827                         | 8,512                               |
| Other                        |                               | 80                                  |
|                              | \$ 13,370                     | \$ 17,315                           |

**13. Restructuring**

On October 10, 2008, the Company executed a new four-year cold fill supply agreement (the "New Agreement") with Pepsi-Cola Advertising and Marketing, Inc. ("Pepsi"). Under the terms of the New Agreement, effective January 1, 2009, the Company currently estimates that there will be an approximately 25% reduction in cold fill volume in 2009 as compared to 2008 with a mix shift towards fewer bottles and more preforms, but on improved economic terms. In conjunction with the signing of the New Agreement, on October 10, 2008 a committee of the Company's Board of Directors approved a plan of restructuring to reduce the Company's manufacturing overhead cost structure that will involve the closure of two U.S. manufacturing facilities and a reduction of operations in four other U.S. manufacturing facilities. In addition, as a result of previously disclosed customer losses and a strategic decision to exit the limited extrusion blow-molding business the Company closed its manufacturing facility in Houston, Texas in May 2008. The Company will continue to service the Houston plant's PET business using existing assets at the Company's Dallas, Texas facility.

In connection with the restructuring actions described above, (the "2008 Restructuring"), the Company expects to incur total charges of approximately \$9.0 \$10.0 million, depending on the Company's ability to enter into a sublease agreement for a leased facility. The total charges include (i) an estimated \$1.4 million related to costs to exit facilities, (ii) an estimated \$1.5 million related to employee severance and other termination benefits the majority of which was paid in the fourth quarter of 2008 and the remainder will be paid in 2009, and (iii) approximately \$6.3 million of accelerated depreciation and other non-cash charges. Per SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities*, the Company's estimated future rental cost due under the current facility lease agreement has been reduced by the potential of a sublease agreement. If the Company is unable to negotiate a sublease, the estimated cash costs associated with the lease agreements, including executory and other exit costs, would be approximately \$1.1 million in 2009 and \$0.8 million in 2010.

The estimated annual cash savings as a result of reducing manufacturing overhead is expected to be approximately \$28-30 million. Based upon the Company's current estimates, the Company believes that the impact of the New Agreement, when combined with the annual cash overhead savings from the 2008 Restructuring, will result in higher cash flows from operating activities, net of investing activities as compared to those realized from the Pepsi cold fill business in 2008. These restructuring actions are expected to be completed by the end of 2009.

In November of 2007, the Company terminated its agreement for the supply of bottles and preforms with its supplier in Salt Lake City. As a result, the Company recorded restructuring charges for the costs to remove its equipment from this location and for severance benefits that will be paid to terminated personnel. Expenditures related to this restructuring totaled approximately \$0.5 million in 2008. The customer sales volume provided by the Salt Lake City supply agreement has been shifted to other production facilities.

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The following tables present a summary of the restructuring reserve activity:

|                            | 2007 Holland Plan                  |             | 2007 Salt Lake City Plan             |                                    | 2008 Houston Plan                    |                                    | Total   |
|----------------------------|------------------------------------|-------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|---------|
|                            | Severance and Termination Benefits | Other Costs | Contract and Lease Termination Costs | Severance and Termination Benefits | Contract and Lease Termination Costs | Severance and Termination Benefits |         |
| Balance, December 31, 2007 | \$ 214                             | \$ 228      | \$ 488                               | \$ 14                              | \$                                   | \$                                 | \$ 944  |
| Charges to income          |                                    |             | 117                                  |                                    | 428                                  | 396                                | 941     |
| Payments                   | (107)                              | (136)       | (407)                                |                                    | (148)                                | (232)                              | (1,030) |
| Adjustments                | 15                                 | 14          | (152)                                |                                    |                                      |                                    | (123)   |
| Balance, June 30, 2008     | \$ 122                             | \$ 106      | \$ 46                                | \$ 14                              | \$ 280                               | \$ 164                             | \$ 732  |

|  | 2007 Plan                          |                                      | 2008 Plans                         |             | Total   |
|--|------------------------------------|--------------------------------------|------------------------------------|-------------|---------|
|  | Severance and Termination Benefits | Contract and Lease Termination Costs | Severance and Termination Benefits | Other Costs |         |
| Balance, January 1, 2009 (Predecessor) | \$ 14                              | \$ 127                               | \$ 554                             | \$ 21       | \$ 716  |
| Charges to income                      |                                    | 320                                  | 34                                 | 298         | 652     |
| Payments                               |                                    | (336)                                | (451)                              | (238)       | (1,025) |
| Adjustments                            |                                    |                                      |                                    |             |         |
| Balance, April 30, 2009 (Predecessor)  | 14                                 | 111                                  | 137                                | 81          | 343     |
| Charges to income                      |                                    | 80                                   | 26                                 | 159         | 265     |
| Payments                               |                                    | (94)                                 | (53)                               | (185)       | (332)   |
| Adjustments                            |                                    |                                      |                                    |             |         |
| Balance, June 30, 2009 (Successor)     | \$ 14                              | \$ 97                                | \$ 110                             | \$ 55       | \$ 276  |

**14. Commitments and Contingencies**

As discussed in Note 1 Emergence from Voluntary Reorganization under Chapter 11 Proceedings in the notes to these Condensed Consolidated Financial Statements, on December 30, 2008 (the Petition Date), Constar and certain of its subsidiaries (collectively, the Debtors) filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware seeking reorganization relief under the provisions of Chapter 11 of Title 11 of the United States Code. The Chapter 11 Cases were jointly administered under the caption *In re Constar International Inc., et al.*, Chapter 11 Case No. 08-13432 (PJW). The Debtors emerged from Chapter 11 on May 29, 2009.

The Company and certain of its present and former directors, along with Crown Holdings, Inc., as well as various underwriters, have been named as defendants in a consolidated securities class action lawsuit filed in the United States District Court for the Eastern District of Pennsylvania, *In re Constar International Inc. Securities Litigation* (Master File No. 03-CV-05020). This action consolidates previous lawsuits, namely *Parkside Capital LLC v. Constar International Inc et al.* (Civil Action No. 03-5020), filed on September 5, 2003 and *Walter Frejek v. Constar International Inc. et al.* (Civil Action No. 03-5166), filed on September 15, 2003. The consolidated and amended complaint, filed June 17, 2004, generally alleges that the registration statement and prospectus for the Company's initial public offering of its common stock on November 14, 2002 contained material misrepresentations and/or omissions. Plaintiffs claim that defendants in these lawsuits violated Sections 11 and 15 of the Securities Act of 1933. Plaintiffs seek class action certification and an award of damages and litigation costs and expenses. Under the Company's charter documents, an agreement with Crown and an underwriting agreement with Crown and the underwriters, Constar incurred certain indemnification and contribution obligations to the other defendants with respect to this lawsuit. On May 7, 2007, the Special Master issued a Report and Order granting plaintiffs' motion for class certification. The Company filed objections to the Special Master's Report

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and Order. On March 5, 2008, the Court entered an Order overruling the Company's objections, adopting the Special Master's Report and Order, and granting plaintiffs' motion for class certification. On March 18, 2008, the Company filed a Rule 23(f) Petition with the United States Court of Appeals for the Third Circuit seeking leave to take an immediate appeal from the class certification ruling. On April 30, 2008, the Third Circuit entered an Order granting the Company's Rule 23(f) Petition. The parties have briefed the appeal, and oral argument was held on July 13, 2009. At the Company's request, the Special Master and the District Court have agreed to stay all further proceedings before the District Court pending the outcome of the appeal, with the exception of certain limited discovery. The Company believes the claims in the action are without merit and intends to defend against them vigorously. In connection with the Company's emergence from Chapter 11 and in accordance with the Plan, all such claims are to be subordinated pursuant to Section 510(b) of the Bankruptcy Code and treated as equity interests. The Plan further provides that all pre-petition equity interests in Constar will be extinguished, as will any claims relating to, or arising in connection with, such equity interests (or the purchase or sale of such interests), including all indemnification and contribution obligations referred to above. The Company intends to file papers with the District Court asking to be dismissed from the action based on the Plan. The Company does not expect any loss to result from this matter.

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On October 8, 2008, Marshall Packaging Co. LLC filed a complaint in the Eastern District of Texas, C. A. No. 6:08cv394, against the Company, as well as certain bottled water companies, alleging infringement of U.S. Patent No. RE 38,770, entitled Collapsible Container, and seeking injunctive relief and monetary damages. The complaint alleges that the Company has infringed and is infringing the patent by making and selling certain beverage containers, but does not specifically identify the accused containers. The Company does not believe that it is subject to liability in connection with the patent at issue and intends to vigorously defend itself in the action. The Company cannot reasonably estimate the amount of any loss that may result from this matter.

Previously, on March 13, 2007, Marshall Packaging Co. LLC brought suit in the Eastern District of Texas, C. A. No. 6:07cv118, against Amcor PET Packaging USA Inc. and Wal-Mart Stores Inc., alleging infringement of the same patent, U.S. Patent No. RE 38,770, seeking injunctive relief and monetary damages ( the Lawsuit ). On April 5, 2007, Marshall settled with Amcor for an undisclosed amount and Amcor was subsequently dismissed from the Lawsuit. On June 29, 2007, Marshall amended its Complaint to add Premium Waters, Inc., a Wal-Mart supplier, as a defendant. On October 31, 2008, a Stipulation of Dismissal of Claims among Marshall, Premium and Wal-Mart was filed with the Court. On November 3, 2008, the Court entered an order dismissing all claims asserted against Premium and Wal-Mart with prejudice. The Company is a supplier of certain containers to Premium, and Premium previously claimed indemnity from the Company with respect to some as yet unknown portion of the containers that Premium sells to Wal-Mart. The Company does not know which or how many Constar containers are included among those accused in the Lawsuit. The Company does not believe that it is subject to liability in connection with the patent at issue and intends to vigorously defend against any attempt to implicate its containers in the Lawsuit. The Company cannot reasonably estimate the amount of any loss that may result from this matter. The Company is subject to other lawsuits and claims in the normal course of business and related to businesses operated by predecessor corporations. Management believes that the ultimate liabilities resulting from these lawsuits and claims will not materially impact its results of operations or financial position.

Certain judgments against the Company would constitute an event of default under the Company's DIP Credit Facility. See Note 11 in Item 8 Financial Statements and Supplementary Data in our Form 10-K filed on March 31, 2009 for additional information.

The Company is in discussions with the Italian tax authorities regarding the tax returns filed by the Company's Italian subsidiary for fiscal years 2002-2004. The Company is negotiating to reach an out of court settlement, but there can be no assurance that any such settlement will be reached. The Company estimates its maximum exposure, including interest and penalties, at approximately \$3.3 million. The Company intends to defend against this matter vigorously. The Company has established a reserve of \$0.9 million at March 31, 2009, and December 31, 2008, in respect to this matter. These reserves are included in non-current liabilities of discontinued operations on the condensed consolidated balance sheets.

Constar has received requests for information or notifications of potential responsibility from the Environmental Protection Agency ( EPA ), and certain state environmental agencies for certain off-site locations. Constar has not incurred any significant costs relating to these matters. Constar has been identified by the Wisconsin Department of Natural Resources as a potentially responsible party at two adjacent sites in Wisconsin and agreed to share in the remediation costs with one other party. Remediation is ongoing at these sites. Constar has also been identified as a potentially responsible party at the Bush Valley Landfill site in Abingdon, Maryland and entered into a settlement agreement with the EPA in July 1997. The activities required under that agreement are ongoing. Constar's share of the remediation costs has been minimal thus far and no accrual has been recorded for future remediation at these sites.

The Company's Netherlands facility has been identified as impacting soil and groundwater from volatile organic compounds at concentrations that exceed those permissible under Dutch law. The main body of the groundwater plume is beneath the Netherlands facility but it also appears to extend from an up gradient neighboring property. The Company commenced trial remediation in 2007. The Company records an environmental liability on an undiscounted basis when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. The Company has recorded an accrual as of June 30, 2009 and December 31, 2008, of \$0.2 million for estimated costs associated with completing the required remediation activities. As more information becomes available relating to what additional actions may be required at the site, this accrual may be adjusted as necessary, to reflect the new information. There are no other accruals for environmental matters.

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Environmental exposures are difficult to assess for numerous reasons, including the identification of new sites, advances in technology, changes in environmental laws and regulations and their application, the scarcity of reliable data pertaining to identified sites, the difficulty in assessing the involvement and financial capability of other potentially responsible parties and the time periods over which site remediation occurs. It is possible that some of these matters, the outcomes of which are subject to various uncertainties, may be decided in a manner unfavorable to Constar. However, management does not believe that any unfavorable decision will have a material adverse effect on our financial position, cash flows or results of operations.

**15. Other Comprehensive Income (Loss)**

Accumulated other comprehensive income (loss) consisted of the following:

|   | Successor<br>June 30,<br>2009 | Predecessor<br>December 31,<br>2008 |
|---|-------------------------------|-------------------------------------|
| Pension and post-retirement liabilities, net of tax | \$                            | \$ (49,066)                         |
| Cash flow hedge, net of tax                         | 478                           | (8,512)                             |
| Foreign currency translation adjustments            | (489)                         | 7,261                               |
| Accumulated other comprehensive income (loss)       | \$ (11)                       | \$ (50,317)                         |

The components of comprehensive income (loss) were as follows:

|  | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>One Month<br>Ended<br>April 30,<br>2009 | Predecessor<br>Three Months<br>Ended<br>June 30,<br>2008 |
|--|--|--|--|
| Net income (loss)                          | \$ 2,652   | \$ 114,908   | \$ (5,017)   |
| Foreign currency translation adjustments   | (489)  | (474)  | (61)   |
| Postretirement amortization                |  | 462  | 715  |
| Revaluation of cash flow hedge, net of tax | 478  | 743  | 3,824  |
| Comprehensive income (loss)                | \$ 2,641   | \$ 115,639   | \$ (539)   |

|  | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>Four Months<br>Ended<br>April 30,<br>2009 | Predecessor<br>Six Months<br>Ended<br>June 30,<br>2008 |
|--|--|--|--|
| Net income (loss)                          | \$ 2,652   | \$ 110,198   | \$ (12,548)  |
| Foreign currency translation adjustments   | (489)  | (1,134)  | 1,429  |
| Postretirement amortization                |  | 1,919  | 1,433  |
| Revaluation of cash flow hedge, net of tax | 478  | 951  | 113  |
| Comprehensive income (loss)                | \$ 2,641   | \$ 111,934   | \$ (9,573)   |

**16. Stockholder's Equity**

In connection with the Company's reorganization and emergence from bankruptcy, all existing shares of the Predecessor Company's capital stock were canceled. In addition, in the same connection, all of the Company's Senior Subordinated 11% Notes Due 2012 were canceled and the related indenture was terminated (except for purposes of allowing the noteholders to receive distributions under the Plan). The holders of the

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Class 4 Senior Subordinated Note Claims (as defined in the Plan) received ten shares of new Common Stock per one thousand dollars in face amount of the Senior Subordinated Notes.

Pursuant to the Restated Certificate of Incorporation of the Company, 75 million shares of common stock in the Successor Company are authorized for issuance, par value \$0.01 per share, of which 1.75 million shares were



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issued pursuant to the Plan. In addition, 194 shares were reserved for issuance under equity incentive plans. The allocation and grant terms will be set by the Compensation Committee of the Board of Directors. No awards were granted under the management incentive plan as of June 30, 2009.

**17. Stock-Based Compensation**

Prior to the Effective Date, the Company maintained stock-based incentive compensation plans for employees of the Company and stock-based compensation plans for directors. On the Effective Date, the following incentive plans were terminated (and any and all awards granted under such plans were terminated and will no longer be of any force or effect): (1) the 2007 Non-Employee Directors' Equity Incentive Plan; (2) the 2007 Stock-Based Incentive Compensation Plan; (3) Constar International Inc. Non-Employee Directors' Equity Incentive Plan; (4) Constar International Inc. 2002 Stock-Based Incentive Compensation Plan; (5) the Amended and Restated Constar International Inc. Supplemental Executive Retirement Plan and (6) the Amended and Restated Constar International Inc. Annual Incentive and Management Stock Purchase Plan, which was replaced by the AIP on May 26, 2009. On the Effective Date, all outstanding equity awards under the above plans were cancelled in accordance with the terms of the Plan.

**18. Earnings (Loss) Per Common Share**

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share (Diluted EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period after giving effect to all potentially dilutive securities outstanding during the period.

The Company's potentially dilutive securities consist of potential common shares related to our restricted stock. Diluted EPS includes the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would be anti-dilutive. There were no potentially dilutive securities issued or outstanding for the two months ended June 30, 2009. There were no potentially dilutive securities outstanding for the one month ended April 30, 2009, or the four months ended April 30, 2009, due to the cancellation of all outstanding awards pursuant to the Plan.

Diluted EPS excludes approximately 0.6 million shares of restricted stock for the three months and six months ended June 30, 2008, due to losses for those periods.

**19. Pension and Other Postretirement Benefits*****Pension Benefits***

The components of net periodic pension cost were as follows:

| (in thousands)                     | Successor<br>Two Months Ended<br>June 30, 2009 |        |        | Predecessor<br>One Month Ended<br>April 30, 2009 |        |        | Predecessor<br>Three Months Ended<br>June 30, 2008 |        |         |
|------------------------------------|--|--------|--------|--|--------|--------|--|--------|---------|
|                                    | U.S.   | Europe | Total  | U.S.   | Europe | Total  | U.S.   | Europe | Total   |
| Service cost                       | \$ 89  | \$ 94  | \$ 183 | \$ 52  | \$ 31  | \$ 83  | \$ 185   | \$ 177 | \$ 362  |
| Interest cost                      | 901  | 113    | 1,014  | 437  | 31     | 468    | 1,269  | 172    | 1,441   |
| Expected return on plan assets     | (757)  | (104)  | (861)  | (376)  | (30)   | (406)  | (1,558)  | (228)  | (1,786) |
| Amortization of net loss           |  |        |        | 396  | 23     | 419    | 485  | 57     | 542     |
| Amortization of prior service cost |  |        |        | 5  | (2)    | 3      | 15   | (10)   | 5       |
| Total pension expense              | \$ 233   | \$ 103 | \$ 336 | \$ 514   | \$ 53  | \$ 567 | \$ 396   | \$ 168 | \$ 564  |

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| (in thousands)                     | Successor<br>Two Months Ended<br>June 30, 2009 |        |        | Predecessor<br>Four Months Ended<br>April 30, 2009 |        |          | Predecessor<br>Six Months Ended<br>June 30, 2008 |        |          |
|------------------------------------|--|--------|--------|--|--------|----------|--|--------|----------|
|                                    | U.S.   | Europe | Total  | U.S.   | Europe | Total    | U.S.   | Europe | Total    |
| Service cost                       | \$ 89  | \$ 94  | \$ 183 | \$ 207   | \$ 168 | \$ 375   | \$ 370   | \$ 356 | \$ 726   |
| Interest cost                      | 901  | 113    | 1,014  | 1,752  | 171    | 1,923    | 2,538  | 346    | 2,884    |
| Expected return on plan assets     | (757)  | (104)  | (861)  | (1,504)  | (168)  | (1,672)  | (3,116)  | (458)  | (3,574)  |
| Amortization of net loss           |  |        |        | 1,585  | 106    | 1,691    | 970  | 115    | 1,085    |
| Amortization of prior service cost |  |        |        | 18   | (12)   | 6        | 31   | (20)   | 11       |
| Total pension expense              | \$ 233   | \$ 103 | \$ 336 | \$ 2,058   | \$ 265 | \$ 2,323 | \$ 793   | \$ 339 | \$ 1,132 |

In accordance with the adoption of fresh-start accounting, the Company remeasured its pension liabilities as of April 30, 2009, resulting in a net reorganization gain of \$7,250. In addition, pursuant to the Plan, the Supplemental Executive Retirement Plan was terminated. In connection with such termination, four executives received lump sum payments in an aggregate total of \$318.

Weighted-average assumptions used in determining the pension benefit obligations at April 30, 2009, and December 31, 2008, were as follows:

|                               | 2009  | 2008  |
|-------------------------------|-------|-------|
| <b>U.S.</b>                   |       |       |
| Discount rate                 | 7.25% | 6.40% |
| Rate of compensation increase | 3.00% | 3.00% |
| <b>U.K.</b>                   |       |       |
| Discount rate                 | 6.50% | 6.00% |
| Rate of compensation increase | 4.00% | 4.00% |
| <b>Holland</b>                |       |       |
| Discount rate                 | 4.00% | 4.00% |
| Rate of compensation increase | 3.50% | 3.50% |

The Company estimates that its expected total contributions to its pension plans for 2009 will be approximately \$3.7 million of which \$1.7 million was paid during the six months ended June 30, 2009.

**Other Postretirement Benefits**

The components of other postretirement benefits expense were as follows:

| (in thousands)                              | Successor<br>Two Months Ended<br>June 30, 2009 | Predecessor<br>One Month Ended<br>April 30, 2009 | Predecessor<br>Three Months Ended<br>June 30, 2008 |
|---|--|--|--|
| Interest cost                               | \$ 58  | \$ 27  | \$ 91  |
| Amortization of net loss                    |  | 65   | 244  |
| Amortization of prior service cost          |  | (25)   | (77)   |
| Total other postretirement benefits expense | \$ 58  | \$ 67  | \$ 258   |

| (in thousands)           | Successor<br>Two Months Ended<br>June 30, 2009 | Predecessor<br>Four Months Ended<br>April 30, 2009 | Predecessor<br>Six Months Ended<br>June 30, 2008 |
|--------------------------|--|--|--|
| Interest cost            | \$ 58  | \$ 109   | \$ 183   |
| Amortization of net loss |  | 261  | 489  |

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|   |       |        |        |
|---|-------|--------|--------|
| Amortization of prior service cost          |       | (102)  | (153)  |
| Total other postretirement benefits expense | \$ 58 | \$ 268 | \$ 519 |

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In accordance with the adoption of fresh-start accounting, the Company remeasured its postretirement liabilities as of April 30, 2009, resulting in a net reorganization gain of \$224.

The health care accumulated postretirement benefit obligation at April 30, 2009 was determined using a health care cost trend rate of 12.0%, decreasing to 6.5% in 2020. The health care accumulated postretirement benefit obligation at December 31, 2008 was determined using a health care cost trend rate of 12.0%, decreasing to 6.5% in 2019. The discount rate was 7.00% and 6.65% for April 30, 2009 and December 31, 2008, respectively.

## **20. Income Taxes**

The Company recorded a provision for income tax expense of \$37.0 million for the six months ended June 30, 2009 (a provision of \$37.8 million for the four months of the Predecessor ended April 30, 2009 and a benefit of \$0.8 million for the two months of the Successor ended June 30, 2009). Substantially all of the expense is the result of fresh start adjustments. The Company has a net deferred tax liability at June 30, 2009 of \$37.2 million principally in relation to the excess of the basis of its assets pursuant to fresh start accounting over their historic tax bases.

The Successor Company's effective tax rate for the two months ended June 30, 2009 is a negative 42.2%. The income tax benefit is primarily attributable to the realization of net operating loss carryforwards in a foreign jurisdiction due to current period income.

The gain realized by the Company upon the cancellation of indebtedness in the bankruptcy proceeding should be excluded from federal and state income taxation. However, the Company expects to reduce certain tax attributes such as its NOL carryovers in order to avail itself of that exclusion.

Total unrecognized income tax benefits as of June 30, 2009 and December 31, 2008, were \$0.7 million and are included in non-current liabilities of discontinued operations on the condensed consolidated balance sheets. In addition, the Company had accrued approximately \$0.2 million for estimated penalties and interest on uncertain tax positions as of June 30, 2009 and December 31, 2008. The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves in accordance with FIN 48 as events require. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the provision for income taxes.

## **21. Derivative Financial Instruments**

Effective January 1, 2009, the Company implemented the provisions of SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 enhances the disclosure requirements of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) to provide users of financial statements with a better understanding of the objectives of a company's derivative use and the risks managed.

The Company may enter into a derivative instrument by approval of the Company's executive management based on guidelines established by the Company's Board of Directors. Market and credit risks associated with this instrument are regularly reviewed by the Company's executive management.

The Company is exposed to various risks relating to its ongoing operations. The primary risk managed by using derivative instruments is interest rate risk. An interest rate swap was entered into to manage interest rate risk associated with the Company's variable-rate debt. The objective and strategy for undertaking this interest rate swap was to hedge the exposure to variability in expected future cash flows as a result of the floating interest rate associated with the Secured Notes. The notional amount of the interest rate swap is \$100.0 million. By entering into the interest rate swap agreement, the Company effectively exchanged its floating interest rate of LIBOR plus 3.375% for a fixed rate of 7.9% over the remaining term of the underlying notes. The Company accounts for this interest rate swap as a cash flow hedge and assumes that there is no ineffectiveness in the hedging relationship. Consequently, changes in the fair value of the interest rate swap are recognized entirely in other comprehensive income.

As of June 30, 2009, the administrative agent for the Exit Facility required the Company to fully collateralize the swap liability with cash in the amount of \$9.3 million. This cash collateral is presented as restricted cash on the condensed consolidating balance sheet as of June 30, 2009.

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The fair value of derivative contracts is summarized in the following table:

(in thousands)

|  | Derivative Liabilities |               |                   |
|--|------------------------|---------------|-------------------|
|  | Balance                | Fair Value    |                   |
|  | Sheet Location         | June 30, 2009 | December 31, 2008 |
| <b>Derivatives designated as hedging instruments under Statement 133</b> |                        |               |                   |
| Interest rate swap   | Other liabilities      | \$ 6,827      | \$ 8,512          |

The effect of derivative contracts on the statement of operations and on accumulated other comprehensive income (loss) is summarized in the following tables:

|   | Successor<br>Two Months Ended June 30, 2009                       |   |   |
|---|---|---|---|
|   | Location of Gain or (Loss)  | Amount of Gain or (Loss)  |   |
|   | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) |
| <b>Derivatives in Statement 133 cash flow hedging relationships</b> |   |   |   |
| Interest rate swap  | \$ 478  | Interest expense  | \$ 602  |

|   | Predecessor<br>One Month Ended April 30, 2009                     |   |   |
|---|---|---|---|
|   | Location of Gain or (Loss)  | Amount of Gain or (Loss)  |   |
|   | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) |
| <b>Derivatives in Statement 133 cash flow hedging relationships</b> |   |   |   |
| Interest rate swap  | \$ 743  | Interest expense  | \$ 274  |

|   | Predecessor<br>Four Months Ended April 30, 2009                   |   |   |
|---|---|---|---|
|   | Location of Gain or (Loss)  | Amount of Gain or (Loss)  |   |
|   | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) | Reclassified from Accumulated OCI into Income (Effective Portion) |
| <b>Derivatives in Statement 133 cash flow hedging relationships</b> |   |   |   |
| Interest rate swap  | \$ 951  | Interest expense  | \$ 974  |

The Company expects to record reclassifications from accumulated other comprehensive loss to earnings within the next twelve months in the amount of \$4,379.

**22. Fair Value Measurements**

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Financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2009 are summarized in the following table by the type of inputs applicable to the fair value measurements.

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| <i>(in thousands)</i> | Quoted<br>Prices<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair<br>Value |
|-----------------------|-------------------------------|--|--|------------------------|
| <b>Liabilities</b>    |                               |  |  |                        |
| Interest rate swap    | \$                            | \$ 6,827   | \$   | \$ 6,827               |

The fair value measurements of the Company's interest rate swap is a model-derived valuation as of a given date in which all significant inputs are observable in active markets including certain financial information and certain assumptions regarding past, present and future market conditions, such as LIBOR yield curves. The Company does not believe that changes in the fair value of its interest rate swap will materially differ from the amounts that could be realized upon settlement or maturity.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximate fair value. The fair value of debt is based on quoted market prices. The carrying value and fair value of the Company's Secured Notes as of June 30, 2009 and 2008 was \$157,578 and \$170,786, respectively.

**23. Other Income (Expense)**

Other income (expense) consisted of the following:

| <i>(in thousands)</i>           | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>One Month<br>Ended<br>April 30,<br>2009 | Predecessor<br>Three months<br>Ended<br>June 30,<br>2008 |
|---------------------------------|--|--|--|
| Foreign exchange gains (losses) | \$ 3,346   | \$ 1,206   | \$ (302)   |
| Royalty income                  | 109  | 365  | 489  |
| Royalty expense                 | (55)   | (154)  | (200)  |
| Interest income                 | 8  | (10)   | 20   |
| Other expense                   |  | (25)   | (5)  |
| Other income (expense), net     | \$ 3,408   | \$ 1,382   | \$ 2   |

| <i>(in thousands)</i>           | Successor<br>Two Months<br>Ended<br>June 30,<br>2009 | Predecessor<br>Four Months<br>Ended<br>April 30,<br>2009 | Predecessor<br>Six months<br>Ended<br>June 30,<br>2008 |
|---------------------------------|--|--|--|
| Foreign exchange gains (losses) | \$ 3,346   | \$ 1,321   | \$ (1,141)   |
| Royalty income                  | 109  | 418  | 916  |
| Royalty expense                 | (55)   | (185)  | (411)  |
| Interest income                 | 8  | 12   | 94   |
| Other expense                   |  | (23)   | (25)   |
| Other income (expense), net     | \$ 3,408   | \$ 1,543   | \$ (567)   |

**24. Supplemental Sales Information**

The Company has only one operating segment and one reporting unit. The Company has operating plants in the United States and Europe.





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Net sales by country were as follows:

|                       | Successor  | Predecessor |              |
|-----------------------|------------|-------------|--------------|
|                       | Two Months | One Month   | Three months |
|                       | Ended      | Ended       | Ended        |
|                       | June 30,   | April 30,   | June 30,     |
|                       | 2009       | 2009        | 2008         |
| <i>(in thousands)</i> |            |             |              |
| United States         | \$ 95,253  | \$ 46,783   | \$ 190,331   |
| United Kingdom        | 23,279     | 9,886       | 46,135       |
| Other                 | 2,674      | 1,062       | 7,803        |
|                       | \$ 121,206 | \$ 57,731   | \$ 244,269   |

|                       | Successor  | Predecessor |            |
|-----------------------|------------|-------------|------------|
|                       | Two Months | Four Month  | Six months |
|                       | Ended      | Ended       | Ended      |
|                       | June 30,   | April 30,   | June 30,   |
|                       | 2009       | 2009        | 2008       |
| <i>(in thousands)</i> |            |             |            |
| United States         | 95,253     | 180,086     | 360,086    |
| United Kingdom        | 23,279     | 33,733      | 81,231     |
| Other                 | 2,674      | 3,362       | 16,330     |
|                       | \$ 121,206 | \$ 217,181  | \$ 457,647 |

**25. Condensed Consolidating Financial Information**

Each of the Company's domestic and United Kingdom restricted subsidiaries guarantees the Secured Notes, on a senior secured basis. Prior to the cancellation of the Senior Subordinated Notes pursuant to the Plan, the Company's domestic and United Kingdom restricted subsidiaries also guaranteed the Subordinated Notes, on an unsecured senior subordinated basis. The guarantor subsidiaries are 100% owned and the guarantees are made on a joint and several basis and are full and unconditional. The following guarantor and non-guarantor condensed financial information gives effect to the guarantee of the Secured Notes by each of our domestic and United Kingdom restricted subsidiaries. In connection with the 2005 issuance of the Secured Notes, the Company's United Kingdom subsidiary became a guarantor of the Subordinated Notes on an unsecured senior subordinated basis along with the Company's domestic subsidiaries. These statements differ from our historical audited and unaudited interim financial statements for periods prior to the effectiveness of such additional guarantee because they reflect the additional guarantee. The following condensed consolidating financial statements are required in accordance with Regulation S-X Rule 3-10.

**Table of Contents****Condensed Consolidating Balance Sheet****June 30, 2009****(In thousands)****(Unaudited)**

|   | <b>Successor</b> |                   |                       |                     | <b>Total</b>   |
|---|------------------|-------------------|-----------------------|---------------------|----------------|
|   | <b>Parent</b>    | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Company</b> |
| <b>ASSETS</b>   |                  |                   |                       |                     |                |
| <b>Current Assets:</b>                                      |                  |                   |                       |                     |                |
| Cash and cash equivalents                                   | \$               | \$ 2,173          | \$ 553                | \$                  | \$ 2,726       |
| Intercompany receivables                                    |                  | 246,207           | 9,730                 | (255,937)           |                |
| Accounts receivable, net                                    |                  | 50,271            | 2,977                 |                     | 53,248         |
| Inventories, net  |                  | 56,048            | 4,687                 | (57)                | 60,678         |
| Prepaid expenses and other current assets                   | 274              | 6,646             | 444                   |                     | 7,364          |
| Deferred income taxes                                       |                  | 72                | 10                    |                     | 82             |
| Current assets of discontinued operations                   |                  |                   | 330                   |                     | 330            |
| <b>Total current assets</b>                                 | 274              | 361,417           | 18,731                | (255,994)           | 124,428        |
| Property, plant and equipment, net                          |                  | 165,288           | 9,791                 |                     | 175,079        |
| Goodwill and intangible assets                              |                  | 153,465           |                       |                     | 153,465        |
| Investment in subsidiaries                                  | 497,792          | 20,487            |                       | (518,279)           |                |
| Restricted cash   |                  | 11,812            |                       |                     | 11,812         |
| Other assets  | 97               | 1,032             | 300                   |                     | 1,429          |
| <b>Total assets</b>   | \$ 498,163       | \$ 713,501        | \$ 28,822             | \$ (774,273)        | \$ 466,213     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>       |                  |                   |                       |                     |                |
| <b>Current Liabilities:</b>                                 |                  |                   |                       |                     |                |
| Accounts payable and accrued liabilities                    | \$ 7,953         | \$ 110,350        | \$ 4,141              | \$                  | \$ 122,444     |
| Intercompany payable  | 221,678          | 33,135            | 1,181                 | (255,994)           |                |
| Current liabilities of discontinued operations              |                  |                   | 146                   |                     | 146            |
| <b>Total current liabilities</b>                            | 229,631          | 143,485           | 5,468                 | (255,994)           | 122,590        |
| Long-term debt  | 157,578          |                   |                       |                     | 157,578        |
| Pension and postretirement liabilities                      |                  | 29,428            | 947                   |                     | 30,375         |
| Deferred income taxes                                       |                  | 36,255            | 1,057                 |                     | 37,312         |
| Other liabilities   | 6,829            | 6,541             |                       |                     | 13,370         |
| Non-current liabilities of discontinued operations          |                  |                   | 863                   |                     | 863            |
| <b>Total liabilities</b>                                    | 394,038          | 215,709           | 8,335                 | (255,994)           | 362,088        |
| <b>Commitments and contingencies</b>                        |                  |                   |                       |                     |                |
| Stockholders' equity (deficit)                              | 104,125          | 497,792           | 20,487                | (518,279)           | 104,125        |
| <b>Total liabilities and stockholders' equity (deficit)</b> | \$ 498,163       | \$ 713,501        | \$ 28,822             | \$ (774,273)        | \$ 466,213     |



**Table of Contents****Condensed Consolidating Balance Sheet****December 31, 2008****(In thousands)****(Unaudited)**

|  | <b>Predecessor</b> |                   |                       |                     | <b>Total Company</b> |
|--|--------------------|-------------------|-----------------------|---------------------|----------------------|
|  | <b>Parent</b>      | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> |                      |
| <b>ASSETS</b>  |                    |                   |                       |                     |                      |
| <b>Current Assets:</b>                               |                    |                   |                       |                     |                      |
| Cash and cash equivalents                            | \$                 | \$ 13,933         | \$ 359                | \$                  | \$ 14,292            |
| Intercompany receivables                             |                    | 210,818           | 10,375                | (221,193)           |                      |
| Accounts receivable, net                             |                    | 43,466            | 2,338                 |                     | 45,804               |
| Inventories, net                                     |                    | 47,142            | 2,619                 | 4                   | 49,765               |
| Prepaid expenses and other current assets            | 4,692              | 19,078            | 537                   |                     | 24,307               |
| Deferred income taxes                                |                    | 896               |                       |                     | 896                  |
| Current assets of discontinued operations            |                    |                   | 342                   |                     | 342                  |
| <b>Total current assets</b>                          | 4,692              | 335,333           | 16,570                | (221,189)           | 135,406              |
| Property, plant and equipment, net                   |                    | 128,678           | 4,056                 | (363)               | 132,371              |
| Goodwill   |                    | 148,813           |                       |                     | 148,813              |
| Investments in subsidiaries                          | 463,610            | 16,528            |                       | (480,138)           |                      |
| Other assets   |                    | 1,514             | 112                   |                     | 1,626                |
| <b>Total assets</b>                                  | \$ 468,302         | \$ 630,866        | \$ 20,738             | \$ (701,690)        | \$ 418,216           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)</b> |                    |                   |                       |                     |                      |
| <b>Current Liabilities:</b>                          |                    |                   |                       |                     |                      |
| Short-term debt                                      | \$ 20,000          | \$                | \$                    | \$                  | \$ 20,000            |
| Current portion of long-term debt                    | 220,000            |                   |                       |                     | 220,000              |
| Accounts payable and accrued liabilities             | 4,141              | 89,312            | 2,053                 |                     | 95,506               |
| Intercompany payable                                 | 190,523            | 30,549            | 480                   | (221,552)           |                      |
| Current liabilities of discontinued operations       |                    |                   | 87                    |                     | 87                   |
| <b>Total current liabilities</b>                     | 434,664            | 119,861           | 2,620                 | (221,552)           | 335,593              |
| Pension and postretirement liabilities               |                    | 37,695            | 817                   |                     | 38,512               |
| Deferred income taxes                                |                    | 896               |                       |                     | 896                  |
| Other liabilities                                    | 8,511              | 8,804             |                       |                     | 17,315               |
| Non-current liabilities of discontinued operations   |                    |                   | 773                   |                     | 773                  |
| Liabilities subject to compromise                    | 186,229            |                   |                       |                     | 186,229              |
| <b>Total liabilities</b>                             | 629,404            | 167,256           | 4,210                 | (221,552)           | 579,318              |
| Commitments and contingencies                        |                    |                   |                       |                     |                      |
| Stockholders' equity (deficit)                       | (161,102)          | 463,610           | 16,528                | (480,138)           | (161,102)            |

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|  |            |            |           |              |            |
|--|------------|------------|-----------|--------------|------------|
| <b>Total liabilities and stockholders equity (deficit)</b> | \$ 468,302 | \$ 630,866 | \$ 20,738 | \$ (701,690) | \$ 418,216 |
|--|------------|------------|-----------|--------------|------------|

**Table of Contents****Condensed Consolidating Statement of Income****For the two months ended June 30, 2009****(In thousands)****(Unaudited)**

|   |               | <b>Successor</b>  |                       |                     | <b>Total</b>   |
|---|---------------|-------------------|-----------------------|---------------------|----------------|
|   | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Company</b> |
| <b>Net sales</b>  | \$            | \$ 118,532        | \$ 2,674              | \$                  | \$ 121,206     |
| Cost of products sold, excluding depreciation                       |               | 102,103           | 1,955                 |                     | 104,058        |
| Depreciation and amortization                                       |               | 6,980             | 84                    |                     | 7,064          |
| <b>Gross profit</b>   |               | 9,449             | 635                   |                     | 10,084         |
| Selling and administrative expenses                                 |               | 3,001             | 138                   |                     | 3,139          |
| Research and technology expenses                                    |               | 1,229             |                       |                     | 1,229          |
| Provision for restructuring   |               | 265               |                       |                     | 265            |
| Gain on disposal of assets  |               | (3)               |                       |                     | (3)            |
| Total operating expenses  |               | 4,492             | 138                   |                     | 4,630          |
| <b>Operating income</b>   |               | 4,957             | 497                   |                     | 5,454          |
| Interest expense  | (5,788)       | (106)             | 106                   |                     | (5,788)        |
| Reorganization items, net   | (1,157)       | (10)              |                       |                     | (1,167)        |
| Other income (expense), net   |               | 3,357             | 51                    |                     | 3,408          |
| <b>Income (loss) from continuing operations before income taxes</b> | (6,945)       | 8,198             | 654                   |                     | 1,907          |
| (Provision for) benefit from income taxes                           |               | 1,030             | (225)                 |                     | 805            |
| <b>Income (loss) from continuing operations</b>                     | (6,945)       | 9,228             | 429                   |                     | 2,712          |
| Equity earnings   | 9,597         | 369               |                       | (9,966)             |                |
| Loss from discontinued operations, net of taxes                     |               |                   | (60)                  |                     | (60)           |
| <b>Net income (loss)</b>  | \$ 2,652      | \$ 9,597          | \$ 369                | \$ (9,966)          | \$ 2,652       |

**Table of Contents****Condensed Consolidating Statement of Income****For the one month ended April 30, 2009****(In thousands)****(Unaudited)**

|  | <b>Parent</b> | <b>Guarantors</b> | <b>Predecessor<br/>Non-Guarantors</b> | <b>Eliminations</b> | <b>Total<br/>Company</b> |
|--|---------------|-------------------|---------------------------------------|---------------------|--------------------------|
| <b>Net sales</b>   | \$            | \$ 56,668         | \$ 1,063                              | \$                  | \$ 57,731                |
| Cost of products sold, excluding depreciation                |               | 46,765            | 851                                   |                     | 47,616                   |
| Depreciation and amortization                                |               | 2,448             | 29                                    |                     | 2,477                    |
| <b>Gross profit</b>  |               | 7,455             | 183                                   |                     | 7,638                    |
| Selling and administrative expenses                          |               | 1,784             | 48                                    |                     | 1,832                    |
| Research and technology expenses                             |               | 832               |                                       |                     | 832                      |
| Provision for restructuring                                  |               | 133               |                                       |                     | 133                      |
| Gain on disposal of assets                                   |               | (76)              |                                       |                     | (76)                     |
| Total operating expenses                                     |               | 2,673             | 48                                    |                     | 2,721                    |
| <b>Operating income</b>                                      |               | 4,782             | 135                                   |                     | 4,917                    |
| Interest expense   | (1,747)       | 424               | 53                                    |                     | (1,270)                  |
| Reorganization items, net                                    | 81,408        | 61,679            | 4,636                                 |                     | 147,723                  |
| Other income (expense), net                                  |               | 1,382             |                                       |                     | 1,382                    |
| <b>Income from continuing operations before income taxes</b> | 79,661        | 68,267            | 4,824                                 |                     | 152,752                  |
| Provision for income taxes                                   |               | (36,951)          | (874)                                 |                     | (37,825)                 |
| <b>Income from continuing operations</b>                     | 79,661        | 31,316            | 3,950                                 |                     | 114,927                  |
| Equity earnings  | 35,247        | 3,931             |                                       | (39,178)            |                          |
| Loss from discontinued operations, net of taxes              |               |                   | (19)                                  |                     | (19)                     |
| <b>Net income (loss)</b>                                     | \$ 114,908    | \$ 35,247         | \$ 3,931                              | \$ (39,178)         | \$ 114,908               |

**Table of Contents****Condensed Consolidating Statement of Operations****For the three months ended June 30, 2008****(In thousands)****(Unaudited)**

|   | <b>Predecessor</b> |                   |                       |                     | <b>Total</b>   |
|---|--------------------|-------------------|-----------------------|---------------------|----------------|
|   | <b>Parent</b>      | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Company</b> |
| <b>Net sales</b>  | \$                 | \$ 236,466        | \$ 7,803              | \$                  | \$ 244,269     |
| Cost of products sold, excluding depreciation                       |                    | 216,186           | 7,307                 |                     | 223,493        |
| Depreciation  |                    | 8,414             | 208                   |                     | 8,622          |
| <b>Gross profit</b>   |                    | 11,866            | 288                   |                     | 12,154         |
| Selling and administrative expenses                                 |                    | 4,672             | 155                   |                     | 4,827          |
| Research and technology expenses                                    |                    | 2,309             |                       |                     | 2,309          |
| Provision for restructuring   |                    | 725               |                       |                     | 725            |
| Gain on disposal of assets  |                    | (38)              |                       |                     | (38)           |
| Total operating expenses  |                    | 7,668             | 155                   |                     | 7,823          |
| <b>Operating income</b>   |                    | 4,198             | 133                   |                     | 4,331          |
| Interest expense  | (9,283)            | (376)             | 158                   |                     | (9,501)        |
| Other income (expense), net   |                    | (98)              | 100                   |                     | 2              |
| <b>Income (loss) from continuing operations before income taxes</b> | (9,283)            | 3,724             | 391                   |                     | (5,168)        |
| (Provision for) benefit from income taxes                           |                    | (2)               | 120                   |                     | 118            |
| <b>Income (loss) from continuing operations</b>                     | (9,283)            | 3,722             | 511                   |                     | (5,050)        |
| Equity earnings   | 4,266              | 544               |                       | (4,810)             |                |
| Income from discontinued operations, net of taxes                   |                    |                   | 33                    |                     | 33             |
| <b>Net income (loss)</b>  | \$ (5,017)         | \$ 4,266          | \$ 544                | \$ (4,810)          | \$ (5,017)     |



**Table of Contents****Condensed Consolidating Statement of Income****For the two months ended June 30, 2009****(In thousands)****(Unaudited)**

|   |               | <b>Successor</b>  |                       |                     | <b>Total</b>   |
|---|---------------|-------------------|-----------------------|---------------------|----------------|
|   | <b>Parent</b> | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Company</b> |
| <b>Net sales</b>  | \$            | \$ 118,532        | \$ 2,674              | \$                  | \$ 121,206     |
| Cost of products sold, excluding depreciation                       |               | 102,103           | 1,955                 |                     | 104,058        |
| Depreciation and amortization                                       |               | 6,980             | 84                    |                     | 7,064          |
| <b>Gross profit</b>   |               | 9,449             | 635                   |                     | 10,084         |
| Selling and administrative expenses                                 |               | 3,001             | 138                   |                     | 3,139          |
| Research and technology expenses                                    |               | 1,229             |                       |                     | 1,229          |
| Provision for restructuring   |               | 265               |                       |                     | 265            |
| Gain on disposal of assets  |               | (3)               |                       |                     | (3)            |
| Total operating expenses  |               | 4,492             | 138                   |                     | 4,630          |
| <b>Operating income</b>   |               | 4,957             | 497                   |                     | 5,454          |
| Interest expense  | (5,788)       | (106)             | 106                   |                     | (5,788)        |
| Reorganization items, net   | (1,157)       | (10)              |                       |                     | (1,167)        |
| Other income (expense), net   |               | 3,357             | 51                    |                     | 3,408          |
| <b>Income (loss) from continuing operations before income taxes</b> | (6,945)       | 8,198             | 654                   |                     | 1,907          |
| (Provision for) benefit from income taxes                           |               | 1,030             | (225)                 |                     | 805            |
| <b>Income (loss) from continuing operations</b>                     | (6,945)       | 9,228             | 429                   |                     | 2,712          |
| Equity earnings   | 9,597         | 369               |                       | (9,966)             |                |
| Loss from discontinued operations, net of taxes                     |               |                   | (60)                  |                     | (60)           |
| <b>Net income (loss)</b>  | \$ 2,652      | \$ 9,597          | \$ 369                | \$ (9,966)          | \$ 2,652       |

**Table of Contents****Condensed Consolidating Statement of Income****For the four months ended April 30, 2009****(In thousands)****(Unaudited)**

|  | <b>Predecessor</b> |                   |                       |                     | <b>Total</b>   |
|--|--------------------|-------------------|-----------------------|---------------------|----------------|
|  | <b>Parent</b>      | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> | <b>Company</b> |
| <b>Net sales</b>   | \$                 | \$ 213,819        | \$ 3,362              | \$                  | \$ 217,181     |
| Cost of products sold, excluding depreciation                |                    | 185,975           | 3,562                 |                     | 189,537        |
| Depreciation and amortization                                |                    | 9,507             | 226                   |                     | 9,733          |
| <b>Gross profit</b>  |                    | 18,337            | (426)                 |                     | 17,911         |
| Selling and administrative expenses                          |                    | 6,802             | 203                   |                     | 7,005          |
| Research and technology expenses                             |                    | 2,698             |                       |                     | 2,698          |
| Provision for restructuring                                  |                    | 648               |                       |                     | 648            |
| Gain on disposal of assets                                   |                    | (396)             |                       |                     | (396)          |
| Total operating expenses                                     |                    | 9,752             | 203                   |                     | 9,955          |
| <b>Operating income (loss)</b>                               |                    | 8,585             | (629)                 |                     | 7,956          |
| Interest expense   | (5,566)            | (204)             | 204                   |                     | (5,566)        |
| Reorganization items, net                                    | 77,853             | 61,679            | 4,636                 |                     | 144,168        |
| Other income (expense), net                                  |                    | 1,546             | (3)                   |                     | 1,543          |
| <b>Income from continuing operations before income taxes</b> | 72,287             | 71,606            | 4,208                 |                     | 148,101        |
| Provision for income taxes                                   |                    | (36,944)          | (863)                 |                     | (37,807)       |
| <b>Income from continuing operations</b>                     | 72,287             | 34,662            | 3,345                 |                     | 110,294        |
| Equity earnings  | 37,911             | 3,249             |                       | (41,160)            |                |
| Loss from discontinued operations, net of taxes              |                    |                   | (96)                  |                     | (96)           |
| <b>Net income (loss)</b>                                     | \$ 110,198         | \$ 37,911         | \$ 3,249              | \$ (41,160)         | \$ 110,198     |

**Table of Contents****Condensed Consolidating Statement of Operations****For the six months ended June 30, 2008****(In thousands)****(Unaudited)**

|   | <b>Parent</b> | <b>Guarantors</b> | <b>Predecessor<br/>Non-Guarantors</b> | <b>Eliminations</b> | <b>Total<br/>Company</b> |
|---|---------------|-------------------|---------------------------------------|---------------------|--------------------------|
| <b>Net sales</b>  | \$            | \$ 441,317        | \$ 16,330                             | \$                  | \$ 457,647               |
| Cost of products sold, excluding depreciation                       |               | 403,130           | 14,572                                |                     | 417,702                  |
| Depreciation  |               | 15,432            | 384                                   |                     | 15,816                   |
| <b>Gross profit</b>   |               | 22,755            | 1,374                                 |                     | 24,129                   |
| Selling and administrative expenses                                 |               | 11,295            | 293                                   |                     | 11,588                   |
| Research and technology expenses                                    |               | 4,355             |                                       |                     | 4,355                    |
| Provision for restructuring   |               | 806               |                                       |                     | 806                      |
| Gain on disposal of assets  |               | (38)              |                                       |                     | (38)                     |
| Total operating expenses  |               | 16,418            | 293                                   |                     | 16,711                   |
| <b>Operating income</b>   |               | 6,337             | 1,081                                 |                     | 7,418                    |
| Interest expense  | (18,963)      | (697)             | 283                                   |                     | (19,377)                 |
| Other income (expense), net   |               | (621)             | 54                                    |                     | (567)                    |
| <b>Income (loss) from continuing operations before income taxes</b> | (18,963)      | 5,019             | 1,418                                 |                     | (12,526)                 |
| (Provision for) benefit from income taxes                           |               | (86)              | 118                                   |                     | 32                       |
| <b>Income (loss) from continuing operations</b>                     | (18,963)      | 4,933             | 1,536                                 |                     | (12,494)                 |
| Equity earnings   | 6,415         | 1,482             |                                       | (7,897)             |                          |
| Loss from discontinued operations, net of taxes                     |               |                   | (54)                                  |                     | (54)                     |
| <b>Net income (loss)</b>  | \$ (12,548)   | \$ 6,415          | \$ 1,482                              | \$ (7,897)          | \$ (12,548)              |

**Table of Contents****Condensed Consolidating Statement of Cash Flows****For the two months ended June 30, 2009****(In thousands)****(Unaudited)**

|  | <b>Successor</b> |                   |                       | <b>Total Company</b> |
|--|------------------|-------------------|-----------------------|----------------------|
|  | <b>Parent</b>    | <b>Guarantors</b> | <b>Non-Guarantors</b> |                      |
| <b>Cash flows from operating activities:</b>   |                  |                   |                       |                      |
| Net income (loss)  | \$ 2,652         | \$ 9,597          | \$ 369                | \$ (9,966) \$ 2,652  |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                  |                   |                       |                      |
| Depreciation and amortization  | 3,558            | 6,743             | 122                   | 10,423               |
| Stock-based compensation   |                  |                   |                       |                      |
| Gain on disposal of assets   |                  | (3)               |                       | (3)                  |
| Reorganization items   | (404)            |                   |                       | (404)                |
| Fresh Start accounting adjustment  |                  |                   |                       |                      |
| Equity earnings  | (9,597)          | (369)             |                       | 9,966                |
| Changes in operating assets and liabilities  | (1,791)          | 1,383             | (1,258)               | (1,666)              |
| <b>Net cash provided by (used in) operating activities</b>                               | <b>(5,582)</b>   | <b>17,351</b>     | <b>(767)</b>          | <b>11,002</b>        |
| <b>Cash flows from investing activities:</b>   |                  |                   |                       |                      |
| Restricted Cash  |                  | (2,485)           |                       | (2,485)              |
| Purchases of property, plant and equipment   |                  | (2,277)           | (376)                 | (2,653)              |
| Proceeds from the sale of property, plant and equipment                                  |                  |                   |                       |                      |
| <b>Net cash used in investing activities</b>   |                  | <b>(4,762)</b>    | <b>(376)</b>          | <b>(5,138)</b>       |
| <b>Cash flows from financing activities:</b>   |                  |                   |                       |                      |
| Costs associated with exit facility  | (101)            |                   |                       | (101)                |
| Proceeds from Revolver loan  | 125,000          |                   |                       | 125,000              |
| Repayment of Revolver loan   | (130,000)        |                   |                       | (130,000)            |
| Net change in intercompany loans   | 10,683           | (11,785)          | 1,102                 |                      |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>5,582</b>     | <b>(11,785)</b>   | <b>1,102</b>          | <b>(5,101)</b>       |
| Effect of exchange rate changes on cash and cash equivalents                             |                  | 52                | 27                    | 79                   |
| Net increase (decrease) in cash and cash equivalents                                     |                  | 856               | (14)                  | 842                  |
| Cash and cash equivalents at beginning of period   |                  | 1,317             | 567                   | 1,884                |
| Cash and cash equivalents at end of period   | \$               | \$ 2,173          | \$ 553                | \$ 2,726             |

**Table of Contents****Condensed Consolidating Statement of Cash Flows****For the four months ended April 30, 2009****(In thousands)****(Unaudited)**

|  | <b>Predecessor</b> |                   |                       |                     | <b>Total Company</b> |
|--|--------------------|-------------------|-----------------------|---------------------|----------------------|
|  | <b>Parent</b>      | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> |                      |
| <b>Cash flows from operating activities:</b>   |                    |                   |                       |                     |                      |
| Net income (loss)  | \$ 110,198         | \$ 37,911         | \$ 3,249              | \$ (41,160)         | \$ 110,198           |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                    |                   |                       |                     |                      |
| Depreciation and amortization  | 317                | 9,514             | 229                   |                     | 10,060               |
| Stock-based compensation   |                    | 591               |                       |                     | 591                  |
| Gain on disposal of assets   |                    | (396)             |                       |                     | (396)                |
| Reorganization items   | (79,299)           |                   |                       |                     | (79,299)             |
| Fresh Start accounting adjustment  | 2,654              | (66,127)          | (4,636)               |                     | (68,109)             |
| Equity earnings  | (37,911)           | (3,249)           |                       | 41,160              |                      |
| Changes in operating assets and liabilities  | (46)               | 42,547            | 1,955                 |                     | 44,456               |
| <b>Net cash provided by (used in) operating activities</b>                               | <b>(4,087)</b>     | <b>20,791</b>     | <b>797</b>            |                     | <b>17,501</b>        |
| <b>Cash flows from investing activities:</b>   |                    |                   |                       |                     |                      |
| Restricted Cash  |                    | (9,327)           |                       |                     | (9,327)              |
| Purchases of property, plant and equipment   |                    | (5,557)           | (166)                 |                     | (5,723)              |
| Proceeds from the sale of property, plant and equipment                                  |                    | 149               |                       |                     | 149                  |
| <b>Net cash used in investing activities</b>   |                    | <b>(14,735)</b>   | <b>(166)</b>          |                     | <b>(14,901)</b>      |
| <b>Cash flows from financing activities:</b>   |                    |                   |                       |                     |                      |
| Proceeds from Revolver loan  | 212,723            |                   |                       |                     | 212,723              |
| Repayment of Revolver loan   | (227,723)          |                   |                       |                     | (227,723)            |
| Net change in intercompany loans   | 19,087             | (18,680)          | (407)                 |                     |                      |
| Costs associated with debt refinancing   |                    |                   |                       |                     |                      |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>4,087</b>       | <b>(18,680)</b>   | <b>(407)</b>          |                     | <b>(15,000)</b>      |
| Effect of exchange rate changes on cash and cash equivalents                             |                    | 8                 | (16)                  |                     | (8)                  |
| Net increase (decrease) in cash and cash equivalents                                     |                    | (12,616)          | 208                   |                     | (12,408)             |
| Cash and cash equivalents at beginning of period   |                    | 13,933            | 359                   |                     | 14,292               |
| Cash and cash equivalents at end of period   | \$                 | \$ 1,317          | \$ 567                | \$                  | \$ 1,884             |

**Table of Contents****Condensed Consolidating Statement of Cash Flows****For the six months ended June 30, 2008****(In thousands)****(Unaudited)**

|  | <b>Predecessor</b> |                   |                       |                     | <b>Total Company</b> |
|--|--------------------|-------------------|-----------------------|---------------------|----------------------|
|  | <b>Parent</b>      | <b>Guarantors</b> | <b>Non-Guarantors</b> | <b>Eliminations</b> |                      |
| <b>Cash flows from operating activities:</b>   |                    |                   |                       |                     |                      |
| Net income (loss)  | \$ (12,548)        | \$ 6,415          | \$ 1,482              | \$ (7,897)          | \$ (12,548)          |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                    |                   |                       |                     |                      |
| Depreciation and amortization  |                    | 16,502            | 368                   |                     | 16,870               |
| Stock-based compensation   |                    | 472               |                       |                     | 472                  |
| Gain on disposal of assets   |                    | (38)              |                       |                     | (38)                 |
| Reclassification gain of foreign currency translation adjustments                        |                    |                   |                       |                     |                      |
| Equity earnings  | (6,415)            | (1,482)           |                       | 7,897               |                      |
| Changes in operating assets and liabilities  | (1,624)            | (9,665)           | (2,761)               |                     | (14,050)             |
| <b>Net cash provided by (used in) operating activities</b>                               | <b>(20,587)</b>    | <b>12,204</b>     | <b>(911)</b>          |                     | <b>(9,294)</b>       |
| <b>Cash flows from investing activities:</b>   |                    |                   |                       |                     |                      |
| Purchases of property, plant and equipment   |                    | (14,659)          | (130)                 |                     | (14,789)             |
| Proceeds from the sale of property, plant and equipment                                  |                    | 38                |                       |                     | 38                   |
| <b>Net cash used in investing activities</b>   |                    | <b>(14,621)</b>   | <b>(130)</b>          |                     | <b>(14,751)</b>      |
| <b>Cash flows from financing activities:</b>   |                    |                   |                       |                     |                      |
| Proceeds from Revolver loan  | 400,482            |                   |                       |                     | 400,482              |
| Repayment of Revolver loan   | (377,163)          |                   |                       |                     | (377,163)            |
| Net change in intercompany loans   | (2,732)            | 1,689             | 1,043                 |                     |                      |
| Costs associated with debt refinancing   |                    |                   |                       |                     |                      |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>20,587</b>      | <b>1,689</b>      | <b>1,043</b>          |                     | <b>23,319</b>        |
| Effect of exchange rate changes on cash and cash equivalents                             |                    | 8                 | 67                    |                     | 75                   |
| Net increase (decrease) in cash and cash equivalents                                     |                    | (720)             | 69                    |                     | (651)                |
| Cash and cash equivalents at beginning of period   |                    | 3,294             | 960                   |                     | 4,254                |
| Cash and cash equivalents at end of period   | \$                 | \$ 2,574          | \$ 1,029              | \$                  | \$ 3,603             |

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Overview**

The Company is a manufacturer of polyethylene terephthalate (PET) plastic containers for food and beverages. In addition, the Company produces plastic closures representing approximately 4% of sales for the first six months of 2009. Approximately 82% of the Company's net revenues for the first six months of 2009 were generated in the United States, with the remainder attributable to the Company's European operations. During the second quarter of 2009, Pepsi accounted for approximately 33% of the Company's consolidated revenues and the Company's top ten customers accounted for an aggregate of approximately 78% of the Company's consolidated revenues. Approximately 68% of the Company's sales in the first six months of 2009 related to conventional PET containers which are primarily used for carbonated soft drinks (CSD) and bottled water. Approximately 28% of the Company's sales in the first six months of 2009 related to custom PET containers that are used in such packaging applications as hot-filled beverages, food, household chemicals, beer and flavored alcoholic beverages.

Gross profit improved \$3.9 million or 16.2% for the six months ended June 30, 2009 as compared to the same period last year. The increase in gross profit was primarily due to the benefit of the Company's restructuring programs, price increases, an increase in custom volume of 11.9% (as described below) and lower freight and energy costs, offset in part by lower unit volumes, including the negative mix shift of increased preform volumes and bottle volume declines, an increase in depreciation expense of \$1 million and the \$1.6 million impact due to a non-cash fresh-start accounting adjustment that increased the opening inventory of the Successor company. In addition, due to a change in employee benefits in the U.S., the Company realized a non-cash, non-recurring decrease in employee benefit costs of \$1.5 million for the six months ended June 30, 2009 as compared to the same period in 2008. The impact of this change in employee benefits for the remainder of 2009 is expected to approximate the impact for the six months ended June 30, 2009. In addition, the Company recorded a one-time benefit of \$1.4 million to reverse an accrual for the estimated cost of a price reduction in a sales contract that did not occur. Conventional volume declined as expected with the reduction of Pepsi volume agreed to in the renewed supply contract; a further shift to in-house blow molding of water containers; and the continued economic impact on the convenience and gas distribution channel which is the main distribution channel for our single serve beverage containers. The Company does not expect recovery in this distribution channel in the near term due to consumers seeking discounts in the take home channel during the current economic climate. For the six months ended June 30, 2009, conventional unit volume declined 15.8% prior to the reallocation of a custom product to conventional.

The Company expects that water bottlers will continue to shift towards manufacturing their own single serve water bottles. The Company believes that this trend is reaching the end of its cycle, with the majority of single serve water bottles now being produced in-house. Water bottle revenue is expected to represent approximately 6% of the Company's 2009 consolidated revenue. The Company has also experienced certain CSD customers shifting to self manufacturing of bottles with the Company supplying the requisite preform requirements. The potential exists for additional movement toward selective self-manufacturing of CSD packages by large beverage companies. However, CSD self-manufacturing infrastructure costs are much higher than what is required for water because of the complexity associated with a greater diversity of product types. Thus, the Company believes that the potential exists for a transition over time at selected locations where merchant suppliers transportation costs are high, and where large volume, low complexity and space to add blow-molding equipment exist along with the availability of capital. The Company believes that in most cases, customers will continue to purchase water and CSD preforms to support their in-house blow-molding operations from merchant suppliers. The Company plans to continue its efforts to offset the potential financial impact on the Company of customers blowing their own bottles through cost reductions, plant consolidations, increased pricing, and retaining the replacement preform volume at acceptable margins. As a result of the aforementioned trend, the Company's volume and sales mix has shifted from bottles to preforms. For the six months ended June 30, 2009, preforms represented approximately 21% of conventional sales revenue as compared to 17% during the same period last year.

The Company is also a producer of higher profit custom PET products that are used in such packaging applications as hot-filled beverages, food, household chemicals, beer and flavored alcoholic beverages, most of which require containers with special performance characteristics. On average, the margins in the custom segment are higher than the conventional segment. In addition, proprietary technology and product differentiation provide higher margins than custom products produced from commonly available technology. The Company's strategy is to increase its presence in this higher profit and growth segment of the market. For custom products that require oxygen barrier technology, the Company believes its portfolio of oxygen scavenging technologies (Oxbar®, MonOxbar®, and DiamondClear®) are the best performing oxygen barrier technologies in the market today. The key Oxbar patents have expired. The Company believes that DiamondClear containers provide superior clarity to

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MonOxbar containers, and will continue to provide the Company with a competitive advantage even as the Oxbar patents expire. On July 22, 2009, the Company completed an additional Food and Drug Administration Food Contact Notification for DiamondClear that expands the potential applications of DiamondClear. The Company believes that there are significant growth opportunities for the conversion of glass and metal containers to PET containers for small sized bottled teas, beer, energy drinks, flavored alcoholic beverages and various food applications. Approximately 28% of the Company's sales in the first six months of 2009 related to custom PET containers. Custom unit volume decreased 5.1% in the second quarter of 2009 as compared to the second quarter of 2008. The decline in custom volume was driven by a customer switching its product formulation from hot-fill to cold-fill. Excluding this change custom unit volume increased 11.9% for the second quarter of 2009 as compared to the second quarter of 2008. The Company was informed by one of its custom customers, accounting for approximately 5.6% of consolidated sales for the six months ended June 30, 2009, that it will not renew its contract which expires on December 1, 2009. This contract was for preforms used for aseptically filled juice bottles, and this contract generated significantly lower gross profit than the average of the Company's remaining custom volume.

In negotiations with certain customers for the continuation and the extension of supply agreements, the Company has historically agreed to price concessions. However, in 2009, the Company currently expects to achieve net positive impact of price increases of between \$1.0 million and \$2.0 million as compared to 2008.

The typical term for the Company's customer supply contracts is three to four years. Thus, while there may be variations from year to year, in any given year between 25-30% of our customer contracts may be scheduled to expire. Customers often put such contracts out for competitive bidding, which means that the Company may not retain the business, or may be forced to make price concessions in order to retain the business.

The Company believes that it will continue to face several sources of pricing pressure. One source is customer consolidation. When customers aggregate their purchasing power by combining their operations with other customers or purchasing through buying cooperatives, the profitability of the Company's business tends to decline. The Company will negotiate aggressively and seek to minimize the impact of customer consolidation. Another source of pricing pressure may come as a result of water and CSD customers moving towards self-manufacturing of bottles which will result in increasing available industry capacity. In addition, contractual provisions may permit customers to terminate contracts if the customer receives an offer from another manufacturer that the Company chooses not to match. The Company is continuing to seek to remove, or lessen the impact of, these provisions in all new contracts and contract renewals.

The primary raw material and component cost of the Company's products is PET resin, which is a commodity available globally. The price of PET resin is subject to frequent fluctuations as a result of raw material costs, overseas markets, PET production capacity and seasonal demand. Substantially all of the Company's sales are made pursuant to mechanisms that allow for the pass-through of changes in the price of PET resin to its customers.

The Company has various cost pass-through mechanisms that make period-to-period comparisons of gross profit and gross profit as a percentage of net sales not a meaningful indicator of actual performance, because the effects of these pass-through mechanisms are affected by the magnitude and timing of these changes. These pass-through mechanisms include resin, transportation and energy costs.

## **Chapter 11 Proceedings**

Constar emerged from Chapter 11 on May 29, 2009. See Note 1 – Emergence from Voluntary Reorganization under Chapter 11 Proceedings in the accompanying Condensed Consolidated Financial Statements for additional information.

## **Basis of Presentation**

As of May 1, 2009, the Company adopted fresh-start accounting in accordance with SOP 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*. The Company selected May 1, 2009 as the date to effectively apply fresh-start accounting based on the absence of any material contingencies at the May 4, 2009 confirmation hearing and the immaterial impact of transactions between May 1, 2009 and May 4, 2009. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes.



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Accordingly, the financial statements prior to May 1, 2009 are not comparable with the financial statements for periods on or after May 1, 2009. References to Successor or Successor Company refer to the Company on or after May 1, 2009, after giving effect to the cancellation of Constar common stock issued prior to the Effective Date, the issuance of new Constar common stock in accordance with the Plan, and the application of fresh-start accounting. References to Predecessor or Predecessor Company refer to the Company prior to May 1, 2009. See Note 4 Fresh Start Accounting in the notes to these Condensed Consolidated Financial Statements for further details.

For discussions on the results of operations, the Company has combined the results of operations for the two and four months ended April 30, 2009 with the results of operations for the two months ended June 30, 2009. The combined periods have been compared to the three and six months ended June 30, 2008. The Company believes that the combined financial results provide management and investors a more meaningful analysis of the Company's performance and trends for comparative purposes.

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), the Company has classified the results of operations of its Italian operation as a discontinued operation in the condensed consolidated statements of operations for all periods presented. In addition, the assets and related liabilities of this entity have been classified as assets and liabilities of discontinued operations on the condensed consolidated balance sheets. See Note 6 Discontinued Operations in Notes to Condensed Consolidated Financial Statements for further discussion of the divestiture. Unless otherwise indicated, amounts provided throughout this report relate to continuing operations only.

The following discussion should be read in conjunction with the Condensed Consolidated Financial Statements and the accompanying Notes to the Condensed Consolidated Financial Statements in Part 1, Item 1 of this report.

## **Results of Operations**

### **Three Months Ended June 30, 2009 and 2008**

#### ***Net Sales***

PET containers can be sold either as finished bottles or as preforms. Preforms are test tube-shaped intermediate products in the bottle manufacturing process and are purchased by customers or other PET container manufacturers that operate equipment to convert preforms into bottles. Unit selling prices for preforms are lower than unit selling prices for corresponding finished bottles because of their lower added value. Historically, in the United States, the Company's customers typically purchased bottles while its European customers purchased preforms. Given the recent trend in the United States towards self manufacturing of CSD and water bottles, preform purchases have increased and preforms represented 25.7% of the conventional volume in the United States for the six month period ended June 30, 2009 as compared to 3.6% for the same period last year.

From year to year, the composition of the Company's portfolio of products changes significantly due to changes in the Company's customer base and changes in its product mix. Greater proportions of larger, heavier or more specialized bottles will lead to higher net sales, even if total unit volumes remain stable.

Many of the Company's products have seasonal demand characteristics typically resulting in higher sales and profits in the second and third quarters compared to the first and fourth quarters. Sales of single service convenience beverage bottles are strongest in the summer months. Some potential high-growth product categories are developed first in conjunction with seasonal promotions and in stadium and special events markets. All of Constar's sales are subject to marketing actions taken by customers as they adjust their mix of product presentations.

As is common in its industry, the Company's contracts are generally requirements-based, granting it all or a percentage of the customer's actual requirements for a particular period of time, instead of a specific commitment of unit volume.

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Period to period comparisons of net sales may not be meaningful indicators of actual performance because the effects of the pass-through mechanisms are affected by the magnitude and timing of these price changes.

| <i>(dollars in millions)</i> | Three months ended<br>June 30, |          | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|------------------------------|--------------------------------|----------|------------------------|-----------------------------|
|                              | 2009                           | 2008     |                        |                             |
| United States                | \$ 141.8                       | \$ 190.3 | \$ (48.5)              | (25.5)%                     |
| Europe                       | 37.1                           | 54.0     | (16.9)                 | (31.3)%                     |
| Total                        | \$ 178.9                       | \$ 244.3 | \$ (65.4)              | (26.8)%                     |

The decrease in U.S. net sales in the second quarter of 2009 as compared to the second quarter of 2008 was primarily driven by lower volumes, the negative impact of mix shift of increased preform volume and reduced bottle volume and the pass through of lower resin costs to customers. Total U.S. PET unit volume decreased 19.4% in 2009 over the second quarter of 2008. This decrease reflects a conventional unit volume decline of 24.3% and a custom unit volume decline of 5.1%. The decline in conventional volume is primarily due to reduced volume under the new Pepsi cold-fill agreement that went into effect on January 1, 2009. The decline in custom volume was driven by a customer switching its product formulation from hot-fill to cold-fill. Excluding this change, custom unit volume increased 12.4% and conventional unit volume decreased by 30.1% in the second quarter of 2009 as compared to the second quarter of 2008.

The decrease in European net sales in the second quarter of 2009 was primarily due to a weakening of the British Pound and Euro against the U.S. Dollar and a 4.4% decrease in total unit volume. European PET volume increased 10.1% while closure volume decreased 16.9% in the second quarter of 2009 as compared to the same period last year.

**Gross Profit**

Cost of products sold includes raw material costs, principally PET resin, other direct and indirect manufacturing costs and shipping and handling costs. PET resin is the largest component of cost of products sold. The prices the Company pays for PET resin are subject to frequent fluctuations resulting from cost changes in the raw materials for PET, which are affected by prices of oil and its derivatives in the United States and overseas markets, normal supply and demand influences, and seasonal demand effects. Direct and indirect manufacturing costs include labor costs, electricity and other utilities, product handling and storage costs, maintenance expense and other fixed and variable expenses required to operate the Company's plants. The Company's cost of products sold also includes expenses for the engineering, production control and manufacturing administration activities that support plant operations.

Substantially all of the Company's sales are made pursuant to mechanisms that allow the Company to pass through changes in resin prices to its customers. In addition, the Company has the ability to pass through changes in transportation and energy costs on the majority of its volume under contract.

Period to period comparisons of gross profit and gross profit as a percentage of net sales may not be meaningful indicators of actual performance because the effects of the pass-through mechanisms are affected by the magnitude and timing of these changes. For example, assuming gross profit is a constant, when pass through related costs increase, the Company's net sales will increase as a result of the costs passed through to customers, and gross profit as a percent of net sales will decline. The opposite is true during periods of decreasing costs; the Company's net sales will be lower causing gross profit as a percent of net sales to increase.

Important determinants of profitability are pricing, volume, product mix, and manufacturing costs. Volume is significant because the capital intensity of PET bottle manufacturing and the highly automated manufacturing process make fixed overhead costs a high percentage of cost of products sold excluding raw materials. Constar's various products have widely different proportions of variable costs in relation to fixed cost because of their different sizes and weights and because of the different technologies and machine types used to manufacture them. This results in significant differences in the volume effect on profitability for different products. Generally, larger, heavier, and more technologically specialized bottles have higher overhead absorption rates, and therefore have

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proportionately greater effect on gross profit when volumes vary from period to period. Although resin pass-through mechanisms can generally protect profits from short term changes in the market price for resin, it is largely the competitive conditions in the market for the Company's products that ultimately determine the selling prices for its products.

Also important to the Company's profitability is its ability to operate its plants and distribution system efficiently. Constar's ability to operate equipment at high output levels and with low unscheduled downtime affects its profitability directly as a result of labor efficiency. In addition, the Company may incur additional freight charges to meet commitments to its customers if product must be shipped from more distant plants due to unscheduled downtime. The Company ships mostly full truckload quantities to its customers using commercial carriers.

| <i>(dollars in millions)</i> | Three months ended<br>June 30, |                | Increase<br>(Decrease) |
|------------------------------|--------------------------------|----------------|------------------------|
|                              | 2009                           | 2008           |                        |
| United States                | \$ 14.5                        | \$ 10.1        | \$ 4.4                 |
| Europe                       | 3.2                            | 2.1            | 1.1                    |
| <b>Total</b>                 | <b>\$ 17.7</b>                 | <b>\$ 12.2</b> | <b>\$ 5.5</b>          |
| Percent of net sales         | 9.9%                           | 5.0%           |                        |

The increase in gross profit in the second quarter of 2009 as compared to the second quarter of 2008 primarily reflects the benefit of the Company's restructuring programs, price increases, an increase in custom unit volume of 5.1% (as described above) and lower freight and energy costs, offset in part by lower unit volumes, including the negative mix shift of increased preform volumes and reduced bottle volume, an increase in depreciation expense of \$0.9 million and the \$1.6 million non-cash impact due to a fresh-start accounting adjustment that increased the opening inventory of the Successor company. In addition, due to a change in employee benefits in the U.S., the Company realized a non-cash, non-recurring decrease in employee benefit costs of \$0.8 million for the three months ended June 30, 2009 as compared to 2008. In addition, the Company recorded a one-time benefit of \$1.4 million to reverse an accrual for the estimated cost of a price reduction in a sales contract that did not occur.

***Selling and Administrative Expenses***

Selling and administrative expense includes compensation and related expenses for employees in the selling and administrative functions as well as other operating expenses not directly related to manufacturing or research, development and engineering activities. It does not include depreciation and amortization charges.

Selling and administrative expenses increased \$0.2 million, or 3%, to \$5.0 million in the second quarter of 2009 from \$4.8 million in the second quarter of 2008. Due to the Company's restructuring programs payroll expense was reduced by \$0.3 and legal and outside consulting costs were reduced by \$0.9 which was offset by an increase in the current year bonus accrual of \$0.9 million.

***Research and Technology Expenses***

Research and technology expenses, which include engineering and development costs related to developing new products and designing significant improvements to existing products, are expensed as incurred. Research and technology expenses were \$2.1 million in the second quarter of 2009 and \$2.3 million in the second quarter of 2008.

***Provision for Restructuring***

Restructuring charges were \$0.4 million for the second quarter of 2009 compared to \$0.7 million in the second quarter of 2008. The restructuring charges recorded in the second quarter of 2009 primarily relate to the restructuring actions taken due to the impact of the new Pepsi cold-fill agreement and the shutdown of the Company's Houston, Texas facility as a result of previously disclosed customer losses and a strategic decision to exit the Company's limited extrusion blow-molding business. The restructuring charges in 2009 consist entirely of facility exit costs. See Note 13 – Restructuring in Notes to the accompanying Condensed Consolidated Financial Statements for additional information.



**Table of Contents****Interest Expense**

Interest expense decreased \$2.4 million to \$7.1 million in the second quarter of 2009 from \$9.5 million in the second quarter of 2008 primarily due to the conversion of the Company's Senior Subordinated Notes of \$175 million to common stock as part of the Company's Plan which reduced interest expense by approximately \$4.8 million. This was offset by the non-cash accretion of \$3.3 million of the fair market value of the Company's Senior Secured Floating Rate Notes to their face value at maturity and increased borrowing costs under the Company's Exit Facility.

**Reorganization Items, net**

During the second quarter of 2009, the Company incurred certain professional fees and other expenses directly associated with the bankruptcy proceedings. In addition, the Company recorded a gain on the conversion of the Senior Subordinated Notes to common stock and the net impact of fresh-start accounting adjustments in accordance with SOP 90-7 to reorganization items. See Note 4 – Fresh Start Accounting to the Condensed Consolidated Financial Statements for further discussion of reorganization items.

**Other Income/(Expense), net**

Other income and expense primarily includes gains and losses on foreign currency transactions including the impact of currency fluctuations on intra-company loan balances, royalty income and expense and interest income.

Other income was \$4.8 million in the second quarter of 2009 compared to other income of \$-0- in the second quarter of 2008. The income in the second quarter of 2009 primarily resulted from the positive impact of foreign currency on the translation of intra-company balances and royalty income.

**Provision for Income Taxes**

In the second quarter of 2009, the Company recorded a provision for income taxes related to continuing operations of \$37.0 million compared to a benefit from income taxes of \$0.1 million in the second quarter of 2008, primarily as a result of the adoption of fresh-start accounting. Income from continuing operations before taxes was \$154.7 million in the second quarter of 2009 compared to losses of \$5.2 million in the second quarter of 2008.

Total unrecognized tax benefits as of June 30, 2009 and December 31, 2008, were \$0.9 million and \$0.7 million, respectively, and are included in non-current liabilities of discontinued operations on the condensed consolidated balance sheets. In addition, the Company had accrued approximately \$0.2 million for estimated penalties and interest on uncertain tax positions as of June 30, 2009 and December 31, 2008. The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves in accordance with Financial Accounting Standards Board Interpretation No.48 – Accounting for Uncertainties in Income Taxes, if events so dictate. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the provision for income taxes.

**Six Months Ended June 30, 2009 and 2008****Net Sales**

| (dollars in millions) | Six months ended<br>June 30, |          | Increase<br>(Decrease) | %<br>Increase<br>(Decrease) |
|-----------------------|------------------------------|----------|------------------------|-----------------------------|
|                       | 2009                         | 2008     |                        |                             |
| United States         | \$ 275.3                     | \$ 360.0 | \$ (84.7)              | (23.5)%                     |
| Europe                | 63.1                         | 97.6     | (34.5)                 | (35.3)%                     |
| Total                 | \$ 338.4                     | \$ 457.6 | \$ (119.2)             | (26.0)%                     |

The decrease in U.S. net sales for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 was primarily driven by lower volumes, the negative impact of mix shift of increased preform volume and bottle volume declines and the pass through of lower resin costs to customers. Total U.S. PET unit volume



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decreased 15.5% for the six months ended June 30, 2009 as compared to the same period in 2008. This decrease reflects a conventional unit volume decline of 20.9% and a custom unit volume decline of 8.5%. The decline in conventional volume is primarily due to reduced volume under the new Pepsi cold-fill agreement that went into effect on January 1, 2009. The decline in custom volume was driven by a customer switching its product formulation from hot-fill to cold-fill. Excluding this change, custom unit volume increased 11.9% and conventional unit volume decreased by 25.2% for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008.

The decrease in European net sales for the six months ended June 30, 2009 as compared to the same period in 2008 was primarily due to a weakening of the British Pound and Euro against the U.S. Dollar and an 11.7% decrease in total unit volume. European PET volume decreased 1.9% and closure volume decreased 20.5% in the second quarter of 2009 as compared to the same period last year.

**Gross Profit**

| <i>(dollars in millions)</i> | Six months ended<br>June 30, |         | Increase<br>(Decrease) |
|------------------------------|------------------------------|---------|------------------------|
|                              | 2009                         | 2008    |                        |
| United States                | \$ 24.7                      | \$ 21.4 | \$ 3.3                 |
| Europe                       | 3.3                          | 2.7     | 0.6                    |
| Total                        | \$ 28.0                      | \$ 24.1 | \$ 3.9                 |
| Percent of net sales         | 8.3%                         | 5.3%    |                        |

The increase in gross profit for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 primarily reflects the benefit of the Company's restructuring programs, price increases, an increase in custom unit volume of 11.9% (as described above) and lower freight and energy costs, offset in part by lower unit volumes, including the negative mix shift of increased preform volumes and bottle volume declines, an increase in depreciation expense of \$1 million and the \$1.6 million impact due to a non-cash fresh-start accounting adjustments that increased the opening inventory of the Successor company. In addition, due to a change in employee benefits in the U.S., the Company realized a non-cash, non-recurring decrease in employee benefit costs of \$1.5 million for the six months ended June 30, 2009 as compared to the same period in 2008. The impact of this change in employee benefits for the remainder of 2009 is expected to approximate the impact for the six months ended June 30, 2009. In addition, the Company recorded a one-time benefit of \$1.4 million to reverse an accrual for the estimated cost of a price reduction in a sales contract that did not occur.

**Selling and Administrative Expenses**

Selling and administrative expenses decreased \$1.4 million, or 12%, to \$10.1 million for the six months ended June 30, 2009 from \$11.5 million for the six months ended June 30, 2008. Due to the Company's restructuring programs, payroll expense was reduced by \$0.8 which was offset by an increase in the current year bonus accrual of \$1.0 million. This decrease also reflects a \$0.9 million decrease in benefits, travel, and facility expenses and a \$0.5 million decrease in legal and other professional fees.

**Research and Technology Expenses**

Research and technology expenses, which include engineering and development costs related to developing new products and designing significant improvements to existing products, are expensed as incurred. Research and technology expenses were \$3.9 million for the six months ended June 30, 2009 and \$4.4 million for the six months ended June 30, 2008.

**Provision for Restructuring**

Restructuring charges were \$0.9 million for the six months ended June 30, 2009 compared to \$0.8 million for the six months ended June 30, 2008. The restructuring charges recorded for the six months ended June 30, 2009

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primarily relate to the restructuring actions taken due to the impact of the new Pepsi cold-fill agreement and the shutdown of the Company's Houston, Texas facility as a result of previously disclosed customer losses and a strategic decision to exit the Company's limited extrusion blow-molding business. The restructuring charges consist of \$0.7 million of facility exit costs and \$0.2 million of plant, property and equipment costs. See Note 13 Restructuring in the notes to the accompanying Condensed Consolidated Financial Statements for additional information.

### ***Interest Expense***

Interest expense decreased \$8.0 million to \$11.4 million for the six months ended June 30, 2009 from \$19.4 million for the six months ended June 30, 2008 primarily due to the conversion of the Company's Senior Subordinated Notes of \$175 million to common stock as part of the Company's Plan which reduced interest expense by approximately \$9.6 million. This was offset by the accretion of \$3.3 million of the fair market value of the Company's Senior Secured Floating Rate Notes to their face value at maturity and increased borrowing costs under the Company's Exit Facility.

### ***Reorganization Items, net***

During the six months ended June 30, 2009, the Company incurred certain professional fees and other expenses directly associated with the bankruptcy proceedings. In addition, the Company recorded the gain on the conversion of the Senior Subordinated Notes to common stock and the net impact of fresh-start accounting adjustments in accordance with SOP 90-7 to reorganization items. See Note 4 Fresh Start Accounting in the notes to these Condensed Consolidated Financial Statements for further discussion of reorganization items.

### ***Other Expense (Income), net***

Other income, net was \$4.9 million for the six months ended June 30, 2009 compared to other expense, net of \$0.6 million for the six months ended June 30, 2008. The income for the six months ended June 30, 2009 primarily resulted from the positive impact of foreign currency on the translation of intra-company balances and royalty income.

### ***Provision for Income Taxes***

For the six months ended June 30, 2009, the Company recorded a provision for income taxes related to continuing operations of \$37.0 million compared to a provision for income taxes of \$-0- for the six months ended June 30, 2008, primarily due to the adoption of fresh-start accounting. Income from continuing operations before taxes was \$150.0 million for the six months ended June 30, 2009 compared to losses of \$12.6 million for the six months ended June 30, 2008.

Total unrecognized tax benefits as of June 30, 2009 and December 31, 2008, were \$0.9 million and \$0.7 million, respectively, and are included in non-current liabilities of discontinued operations on the condensed consolidated balance sheets. In addition, the Company had accrued approximately \$0.2 million for estimated penalties and interest on uncertain tax positions as of June 30, 2009 and December 31, 2008. The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves in accordance with FIN 48 if events so dictate. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the provision for income taxes.

### ***Liquidity and Capital Resources***

In connection with the consummation of the Plan, on the Effective Date, the Company's existing Senior Secured Super-Priority Debtor in Possession and Exit Credit Agreement (the DIP Credit Facility) was converted into a \$75 million exit facility (the Exit Facility) with substantially the same terms as the DIP Credit Facility. Also in connection with the consummation of the Plan, the Company and its lenders entered into Amendment No. 2 to the Credit Agreement, primarily for the purposes of updating certain schedules to the DIP Credit Agreement and permitting the Company's Dutch subsidiary, Constar International Holland (Plastics) B.V., which is neither a party to nor a guarantor of the Exit Facility, to enter into separate financing arrangements.



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The Exit Facility's scheduled expiration date is December 31, 2011. The Exit Facility provides for revolving borrowings of up to \$75 million, with a sublimit of \$15 million in the case of letters of credit and \$15 million in the case of swing loans. The amount available under the facility is subject to a minimum Available Credit requirement of \$5 million. Available Credit is generally defined as the excess of the lesser of \$75 million or the borrowing base, in each case minus any availability reserve imposed by the administrative agent in its discretion, over the amount of loans and letter of credit obligations outstanding under the credit facility. The borrowing base is generally defined as described below. The effect of the Available Credit requirement is that no more than \$70 million is available to the Company under the credit facility. The amount available under the Exit Facility is also subject to a minimum Collateral Availability requirement of \$15 million. Collateral Availability is generally defined as the excess of the borrowing base over the amount of loans and letter of credit obligations outstanding under the credit facility. The effect of the Collateral Availability requirement is that the borrowing base must be at least \$85 million in order for the Company to access all \$70 million otherwise available under the credit facility.

Borrowings under the Exit Facility are limited to a borrowing base comprised of the sum of (i) up to 85% of the Company's and its domestic subsidiaries' Eligible Trade Receivables, (ii) up to 80% of the U.S. dollar value of Eligible Trade Receivables of Constar International U.K. Limited, (iii) the lesser of the sum of, for each category of Eligible Inventory, (A) up to 85% of the Orderly Liquidation Percentage for such category of Eligible Inventory of the Company and its domestic subsidiaries and (B) up to 75% of the value of such category of Eligible Inventory of the Company and its domestic subsidiaries (in each case valued at the lower of cost and market on a first-in, first-out basis), and (iv) the lesser of the sum of, for each category of Eligible Inventory, (A) up to 80% of the U.S. dollar value of the Orderly Liquidation Percentage for such category of Eligible Inventory of Constar International U.K. Limited and (B) up to 70% of the U.S. dollar value of such category of Eligible Inventory of Constar International U.K. Limited (in each case valued at the lower of cost and market on a first-in, first-out basis); less any applicable reserves then in effect. The portion of the borrowing base attributable to classes (ii) and (iv) shall not exceed \$25 million. In addition, under the Exit Facility the administrative agent may impose discretionary reserves against the entire facility.

The Company will pay monthly a commitment fee equal to 0.75% per year on the undrawn portion of the Exit Facility. Loans will bear interest, at the option of the Company, at one of the following rates: (i) a fluctuating Base Rate of not less than 4% plus a margin ranging from 2.75% to 3.25%, or (ii) a fluctuating Eurodollar Base Rate of not less than 3% plus a margin ranging from 3.75% to 4.25%. Letters of credit carry an issuance fee of 0.25% per annum of the undrawn face amount and a fee accruing at a rate per annum ranging from 3.75% to 4.25%.

The Exit Facility contains certain financial covenants. The Company must maintain minimum Available Credit of \$5 million and minimum Collateral Availability of \$15 million. Capital Expenditures may not exceed \$24 million in 2009, \$28 million in 2010 and \$22 million in 2011; provided, however, that to the extent that actual Capital Expenditures for the Fiscal Year ended December 31, 2009 or any Fiscal Year thereafter shall be less than the maximum amount set forth above for such Fiscal Year (without giving effect to any carryover permitted by this proviso), 75% of the difference between said stated maximum amount and the amount of actual Capital Expenditures shall, in addition, be available for Capital Expenditures in the next succeeding Fiscal Year. If Collateral Availability during any Fiscal Quarter is less than \$30 million for any period of three consecutive Business Days, the Company must maintain Consolidated EBITDA (as defined under the Exit Facility and summarized below) of not less than \$40 million, calculated on a trailing twelve month basis as of the last day of such Fiscal Quarter. If Collateral Availability falls below \$30 million for three consecutive business days and minimum Credit Agreement Consolidated EBITDA is not maintained, a default under the Credit Agreement would occur and the lenders could elect to declare all amounts borrowed to be immediately due and payable. Any such acceleration would also result in a default under the indenture of the Senior Secured Floating Rate Notes. The Exit Facility contains other customary covenants and events of default. We believe that these covenants are material terms of our Exit Facility and that information about our Credit Agreement Consolidated EBITDA is material to an investor's understanding of our financial condition. As of June 30, 2009, the Company was in compliance with these covenants.

Credit Agreement Consolidated EBITDA is defined as EBITDA (i.e., earnings before interest, taxes, depreciation and amortization) further adjusted to exclude extraordinary items, non-recurring transaction expenses related to Chapter 11, certain restructuring items, all other non-cash gains or losses and all other non-cash items, including foreign currency adjustments, additions to certain reserves, impairment charges, accounting changes, financing costs, stock grants, required in calculating covenant compliance under the Exit Facility, as shown in the table below. Credit Agreement Consolidated EBITDA is not intended to represent cash flow from operations as defined by generally accepted accounting principles and should not be used as an alternative to net income as an indicator of operating performance or to cash flow as a measure of liquidity. We believe that the inclusion of covenant compliance EBITDA in this quarterly report on Form 10-Q is appropriate to provide additional information to investors about the calculation of certain financial covenants in the Credit Agreement. Because not all companies use identical calculations, these presentations of Credit Agreement Consolidated EBITDA may not be comparable to other similarly titled measures of other companies. A reconciliation of net income to Credit Agreement Consolidated EBITDA is as follows:

**Reconciliation of net income to EBITDA**

|                               | <b>Four Quarters<br/>Ended<br/>June 30, 2009</b> |
|-------------------------------|--|
|                               | (in thousands)                                   |
| Net Income                    | \$ 67,563  |
| Interest expense              | 30,633   |
| Income taxes                  | 36,587   |
| Depreciation and amortization | 33,792   |
| <br>EBITDA                    | <br>\$ 168,575                                   |

**Reconciliation of EBITDA to Credit Agreement Consolidated EBITDA**

|  | <b>Four Quarters<br/>Ended<br/>June 30, 2009</b> |
|--|--|
|  | (in thousands)                                   |
| EBITDA                                       | \$ 168,575                                       |
| Cash restructuring charges                   | 2,838  |
| Cash reorganization costs                    | 15,000   |
| Gain from discharge of debt                  | (84,745)   |
| Gain from fresh-start accounting adjustments | (68,109)   |
| Other non-cash charges (i)                   | 12,960   |
| <br>Credit Agreement Consolidated EBITDA     | <br>\$ 46,520                                    |

(i) Includes foreign currency translation gains, non-cash charges

Collateral under the Exit Facility is composed of all of the stock of the Company's domestic and United Kingdom subsidiaries, and 65% of the stock of the Company's Dutch subsidiary, and all of the inventory, accounts receivable, investment property, instruments, chattel paper, documents, deposit accounts and certain intangibles of the Company and its domestic and United Kingdom subsidiaries.

In addition to the Exit Facility, the Company's debt structure also consists of \$220.0 million of Senior Secured Floating Rate Notes due February 15, 2012 ( "Secured Notes"). The Secured Notes bear interest at the rate of three-month LIBOR plus 3.375% per annum. Interest on the Secured Notes is reset and payable quarterly. Pursuant to an interest rate swap executed in May 2005 with Citigroup Financial Products Inc., \$100.0 million face amount of the

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Secured Notes have an effective interest rate of 7.9%. In connection with the Company's reorganization and emergence from bankruptcy, on the Effective Date, all of the Company's Senior Subordinated 11% Notes Due 2012 (Subordinated Notes) were canceled and the related indenture was terminated. Pursuant to the Plan the holders of Class 4 Senior Subordinated Note Claims (as defined in the Plan) received ten shares of new Common Stock per one thousand dollars in face amount of the Senior Subordinated Notes.

At June 30, 2009, there was \$220.0 million (face value) outstanding on the Secured Notes, zero outstanding on the Exit Facility, and \$6.1 million of letters of credit issued under the Exit Facility.

The Company funds its operations primarily with cash flows from operations and borrowings under its Exit Facility. Liquidity, defined as cash and availability under the Exit Facility, is a key measure of the Company's ability to finance its operations. Liquidity at June 30, 2009 was \$54.1 million as compared to \$15.3 million at December 31, 2008. The increase in liquidity at June 30, 2009 as compared to December 31, 2008 is due to an increase in the borrowing base of approximately \$17.4 million primarily due to higher levels of working capital and a decrease in borrowings at the end of the period of approximately \$20.0 million. As a result of the conversion of the \$175 million of Subordinated Notes to common stock, the Company's future cash interest costs will be reduced by \$19.3 million annually.

Liquidity will vary on a daily, monthly and quarterly basis based upon the seasonality of the Company's sales as well as the impact of changes in the price of resin, the change in the value of the U.S. dollar as compared to the British pound and the other factors mentioned below. During the six months ended June 30, 2009, the Company's total PET volume declined 14.3% as compared to the six months ended June 30, 2008, principally due to reduced volume for Pepsi under the new cold-fill agreement, the continued movement of water bottlers and certain CSD volume to self-manufacturing, and consumers shifting their preferences from CSD to alternative beverages, offset in part by increased custom sales. The general negative macroeconomic conditions have also reduced the Company's rate of growth in the custom beverage segment of the market. There can be no assurance that these volumes will recover in the near or long term. These and other economic factors could have an adverse effect on demand for the Company's products and services and on the Company's financial condition and operating results. Customers and suppliers who are not under contract may seek to change the terms of their respective economic relationships with the Company. If such a change is material, it could reduce or eliminate the Company's projected liquidity. Following its emergence from Chapter 11, the Company's U.S. operations achieved improved credit terms with many of its suppliers. However, these improvements were offset by less favorable credit terms with certain of its European suppliers. The Company has also been informed by certain of its utility suppliers that they will require increased deposits from the Company of approximately \$1.0 million. The Company is currently seeking to reduce these deposit requirements.

The Company's cash requirements are typically greater during the first and second quarters of each year because of the build-up of inventory levels in anticipation of the seasonal sales increase during the warmer months and the collection cycle from customers following the higher seasonal sales. The borrowing base, which forms the basis of availability, is subject to further limitations, including that:

certain of the components of the borrowing base are subject to the discretion of the administrative agent;

if inventory is located on properties that the Company leases and if the Company is unable to obtain consents from the landlords, such inventory may not be eligible for inclusion in the borrowing base;

the inventory and accounts receivable of the Company's United Kingdom subsidiary would be disqualified from the borrowing base in the event of certain insolvency proceedings of that subsidiary or any action taken against such subsidiary to enforce its guarantee given in respect of the Secured Notes; and

the administrative agent has the customary ability to reduce, unilaterally, the Company's borrowing availability at any time by, for example, establishing reserves or declaring certain collateral ineligible.

As of June 30, 2009, liquidity was \$54.1 million, including cash of \$2.7 million. Availability under the Company's Exit Facility was \$51.4 million, there were no borrowings under the facility, and there were outstanding letters of credit of \$6.1 million. This takes into account a \$15 million reduction in eligible assets (referred to as minimum Collateral Availability) per the Exit Facility and excludes \$9.3 million of cash collateral related to the interest rate swap between the Company and the administrative agent. The value of cash collateral is subject to change based on further changes in interest rates, and is also expected to decline as the Company approaches the expiration date of the swap in February 2012. The Company and the administrative agent have discussed a potential



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additional reserve related to eligible assets. On August 12, the administrative agent reduced the cash collateral by \$2.2 million. Based on the Company's most recent cash flow projections and operating and capital plans, assuming there is no change to the \$7.1 million swap-based reserve, the low and high points of liquidity for the period August to December 31, 2009 are expected to be approximately \$12 million and \$29 million, respectively. Average liquidity, based upon the Company's latest forecast, for the period August to December 2009 is expected to be approximately \$19 million with the low point occurring in early September. If the administrative agent implements a reserve related to eligible assets, estimated 2009 liquidity at the high and low points could be reduced by an estimated average of \$3 million from the period of August to December 2009. Based upon these projections, during the second half of 2009 Collateral Availability is expected to fall to the point at which the Company would be required to meet the Exit Facility's Credit Agreement EBITDA covenant. The Company expects to be in compliance with the minimum Credit Agreement EBITDA covenant during this period. These projections do not include the results of actions that the Company is reviewing that may improve liquidity, but there can be no assurance that these measures will be successful. In addition, actual liquidity could be higher or lower depending upon a number of factors, including, among others, the Company's actual operating and working capital performance and capital expenditures, the seasonality of the Company's sales, the impact of changes in the price of resin, credit terms with suppliers, the change in the value of the U.S. dollar as compared to the British pound and the limitations on the borrowing base noted above. These factors could impact the Company's ability to meet the minimum Credit Agreement EBITDA covenant.

The credit markets have been volatile and are experiencing a shortage in overall liquidity. The Company has assessed the potential impact on various aspects of its operations, including, but not limited to, the continued availability and general creditworthiness of its debt and financial instrument counterparties, the impact of market developments on customers and insurers, and the general recoverability and realizability of certain financial instruments, including investments held under its defined benefit pension plans. The Company's Exit Facility is provided by Citicorp USA Inc. and Wells Fargo Foothill, LLC and the continued availability of the facility is in part dependent on their ability to honor the commitment, which the Company is unable to assess at this time. However, there can be no assurance that the Company's business, liquidity, financial condition or results of operations will not be materially and adversely impacted in the future as a result of the existing or future credit market conditions, or as a result of the factors described above.

**Cash Flows**

The following table presents selected cash flow data.

| <i>(dollars in millions)</i>              | Six months ended<br>June 30, |           | Increase<br>(Decrease) |
|---|------------------------------|-----------|------------------------|
|   | 2009                         | 2008      |                        |
| Net cash provided by operating activities | \$ 28.5                      | \$ (9.3)  | \$ 35.3                |
| Net cash used in investing activities     | \$ (20.0)                    | \$ (14.8) | \$ 2.8                 |
| Net cash used in financing activities     | \$ (20.1)                    | \$ 23.3   | \$ 43.4                |

Net cash provided by operations for the six months ended June 30, 2009 compared to the six months ended June 30, 2008, increased primarily due to an improvement in earnings and improvements in working capital. Days sales in accounts receivable decreased to approximately 27.1 days at June 30, 2009 from 33.4 days at June 30, 2008. Inventory days increased to approximately 34.3 days at June 30, 2009 from 32.2 days at June 30, 2008. Days payable in accounts payable and accrued liabilities increased to 63.5 days at June 30, 2009 compared to 56.7 days at June 30, 2008, due to the timing of disbursements at quarter end. Working capital is impacted by the normal timing of purchases to meet customer demand and the timing of payments to vendors that may vary from period to period and during the period. On July 1, 2009, the Company made a payment of approximately \$7.9 million to a vendor in the normal course of business.

The increase in net cash used in investing activities was due to the \$9.3 million of cash the Company paid to collateralize its interest rate swap offset by a decrease in capital spending. Capital expenditures primarily related to custom projects.

Net cash used by financing activities for the six months ended June 30, 2009 was primarily comprised of net repayments of \$20.0 million on the DIP Credit Facility and Exit Facility. Net cash provided by financing activities for the six months ended June 30, 2008 was primarily comprised of net repayments of \$23.3 million on the Revolver Loan.



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### **Commitments and Contingent Liabilities**

Information regarding the Company's contingent liabilities appears in Note 14 – Commitments and Contingencies in the notes to the accompanying Condensed Consolidated Financial Statements, which information is incorporated herein by reference.

### **Capital Expenditures**

Based on information currently available, we estimate 2009 capital spending to be approximately \$17 million compared to 2008 capital spending of \$31.1 million. The Company's ability to make capital expenditures is limited by the financial covenants contained in its Exit Facility. These financial covenants impose maximum capital expenditures per annum of \$24 million in 2009, \$28 million in 2010 and \$22 million in 2011. These covenants allow for the carry-forward of a certain amount of spending below the covenant levels in previous periods beginning with 2009.

### **Pension Funding**

Under current funding rules, we estimate that the funding requirements under our pension plans for 2009 and 2010 will be approximately \$3.7 million and \$8.3 million, respectively. If the return on plan assets is less than expected or if discount rates decline from current levels, plan contribution requirements could increase significantly in the future. During the six months ended June 30, 2009, the Company made pension plan contributions of \$1.9 million.

### **Stockholders' Equity**

Stockholders' equity increased to \$104.1 million at June 30, 2009 from a deficit of \$161.1 million at December 31, 2008 due to the impact of the Company's Plan and the adoption of fresh-start accounting in accordance with SOP 90-7.

### **Critical Accounting Policies and Estimates**

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States which require that management make numerous estimates and assumptions. Actual results could differ from these estimates and assumptions, impacting the reported results of operations and financial condition of the Company. For a discussion of the Company's critical accounting policies, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K filed on March 31, 2009. There have been no significant changes in the Company's critical accounting policies during the first six months of 2009.

The Company completed its interim impairment assessment as of June 30, 2009 and does not believe that the Company's goodwill balance was impaired. However, there can be no assurances that the Company will not be required to recognize an impairment of goodwill in the future due to market conditions or other factors related to the Company's performance. These market events could include a decline over a period of time of the Company's stock price, a decline over a period of time in valuation multiples of comparable packaging companies, the lack of an increase in the Company's market price consistent with its 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. Recognition of impairments of a significant portion of goodwill would negatively affect the Company's reported results of operations and total capitalization, the effect of which could be material and could have a negative impact on the Company's ability to raise capital on attractive terms.

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### **Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 establishes a common definition for fair value to be applied to U.S. GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2 ( FSP 157 ) which delays the effective date of SFAS 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS 157 and FSP 157 are effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 157 and FSP 157 did not have a material impact on the Company's results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( SFAS 141R ). SFAS 141R provides revised guidance on how acquirors recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, noncontrolling interests, and goodwill acquired in a business combination. In addition, SFAS 141R expands required disclosures surrounding the nature and financial effects of business combinations. SFAS 141R is effective for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. The impact of SFAS No. 141R on the Company's consolidated financial statements could be material for business combinations which may be consummated subsequent to the adoption of SFAS 141R. The application of SFAS 141R as a result of applying the fresh-start accounting provisions of SOP 90-7 upon emergence from Chapter 11 has resulted in material adjustments to the historical carrying amounts of the Predecessor Company's assets and liabilities. The impact of these adjustments is summarized in Note 4 Fresh Start Accounting to the notes to these Condensed Consolidated Financial Statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ( SFAS 165 ), which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual periods ending after June 15, 2009 and is to be applied prospectively. The adoption of this standard did not result in a change in current accounting practice.

In April 2009, three FASB Staff Positions ( FSPs ) were issued addressing fair value of financial instruments: FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ; FSP FAS 115-2, *Recognition and Presentation of Other Than Temporary Impairments* ; and FSP FAS 107-1, *Interim Disclosure about Fair Value of Financial Instruments*. These standards are effective for interim or annual periods ending after June 15, 2009. The adoption of these FSPs did not have a material impact on the Company's results of operations or financial condition.

In June 2009, the FASB issued SFAS No. 168 *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* . This Statement establishes the FASB Accounting Standards Codification, ( Codification ) as the single source of authoritative GAAP to be applied by nongovernmental entities, except for the rules and interpretive releases of the SEC under authority of federal securities laws, which are sources of authoritative GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Company is required to adopt this standard in the third quarter of 2009.

### **Forward-Looking Statements**

Statements included herein that are not historical facts (including, but not limited to, any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto), are forward-looking statements within the meaning of the federal securities laws. In addition, the Company and its representatives may from time to time make other oral or written statements which are also forward-looking statements.

These forward-looking statements are based on the Company's current expectations and projections about future events. Statements that include the words expect, believe, intend, plan, anticipate, project, will, may, could, should, pro forma, continues, estimates, objective



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and similar statements of a future nature identify forward-looking statements. These forward-looking statements and forecasts are subject to risks, uncertainties and assumptions. The Company cautions that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements. The Company does not intend to review or revise any particular forward-looking statement or forecast in light of future events.

A discussion of important factors that could cause the actual results of operations or financial condition of the Company to differ from expectations has been set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 under the captions "Cautionary Statement Regarding Forward Looking Statements" and "Item 1.A Risk Factors" and is incorporated herein by reference. Some of the factors are also discussed elsewhere in this Form 10-Q and have been or may be discussed from time to time in the Company's other filings with the Securities and Exchange Commission.

### **Item 4. Controls and Procedures** **Evaluation of Disclosure Controls and Procedures**

The Company maintains a system of disclosure controls and procedures for financial reporting that are designed to give reasonable assurance that information required to be disclosed in the Company's reports submitted under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of June 30, 2009, the Company's Chief Executive Officer ( "CEO" ) and Chief Financial Officer ( "CFO" ), together with management, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective.

### **Changes in Internal Control Over Financial Reporting**

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II Other Information**

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

Information regarding legal proceedings involving the Company appears in Part I within Item 1 of this quarterly report under Note 14 to the Condensed Consolidated Financial Statements, which information is incorporated herein by reference.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect the Company's business, financial condition or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks facing the Company. Additional risk and uncertainties not currently known to the Company or that it currently deems to be immaterial also may materially adversely affect the Company's business, financial condition or operating results.

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The following risk factors from the Company's Annual Report on Form 10-K are deleted: *Based on the current terms of our proposed Plan, we expect our outstanding common stock will be extinguished. ; There can be no assurance that our proposed Plan will be approved and we will continue as a going concern. ; Our credit facility will expire in the third quarter of 2009 unless it is converted into an exit facility. ;*

*Operating in bankruptcy imposes significant risks on our operations. We cannot predict when we will confirm a Plan and successfully emerge from bankruptcy. ; and Our emergence from Chapter 11 may potentially reduce or eliminate the Company's net operating loss carryforward tax benefits.*

The information below updates and replaces the risk factor *As a result of our Chapter 11 cases, our historical financial information may not be indicative of our future financial performance.* previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008:

***Because the Company's consolidated financial statements reflect fresh-start accounting adjustments made on emergence from bankruptcy and because of the effects of the transactions that became effective pursuant to the Plan, financial information in the Company's current and future financial statements will not be comparable to our financial information from prior periods.***

In connection with its emergence from bankruptcy, the Company adopted fresh-start accounting as of May 1, 2009 in accordance with the American Institute of Certified Public Accountants' Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code*. The adoption of fresh-start accounting resulted in the Company becoming a new entity for financial reporting purposes. As required by fresh-start accounting, the Company's assets and liabilities have been preliminarily adjusted to fair value, and certain assets and liabilities not previously recognized in the Company's financial statements have been recognized. In addition to fresh-start accounting, the Company's financial statements reflect all effects of the transactions implemented by the Plan. Accordingly, the financial statements prior to May 1, 2009 are not comparable with the financial statements for periods on or after May 1, 2009. Furthermore, the estimates and assumptions used to implement fresh-start accounting are inherently subject to significant uncertainties and contingencies beyond the control of the Company. Accordingly, the Company cannot provide assurance that the estimates, assumptions, and values reflected in the valuations will be realized, and actual results could vary materially. For further information about fresh-start accounting, see Note 4 *Fresh-Start Accounting* in Notes to Condensed Consolidated Financial Statements under Item 1 of Part I of the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2009 for further details.

## **Item 6. Exhibits**

- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Executive Vice President and Chief Financial Officer Pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Constar International Inc.**

Dated: August 14, 2009

By: **/s/ WALTER S. SOBON**  
**Walter S. Sobon**  
**Executive Vice President and Chief Financial Officer**  
**(duly authorized officer and principal accounting officer)**

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