BWAY CORP
Form 10-Q
May 02, 2007
Table of Contents

As Filed with the Securities and Exchange Commission on May 2, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended:

April 1, 2007

001-12415

(Commission File Number)

BWAY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

36-3624491

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

8607 Roberts Drive, Suite 250

Atlanta, Georgia

(Address of principal executive offices)

30350-2237

(Zip Code)

(770) 645-4800

(Registrant s telephone number)

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 þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer þ

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

At April 30, 2007, there were 1,000 shares of BWAY Corporation s Common Stock outstanding.

Table of Contents

BWAY CORPORATION

Quarterly Report on Form 10-Q

For the quarterly period ended April 1, 2007

INDEX

		Page Number
	PART I FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Unaudited Consolidated Balance Sheets at April 1, 2007 and October 1, 2006	1
	Unaudited Consolidated Statements of Operations for the Three and Six Months Ended April 1, 2007 and April 2, 2006	2
	Unaudited Consolidated Statements of Cash Flows for the Three and Six Months Ended April 1, 2007 and April 2, 2006	3
	Notes to Unaudited Consolidated Financial Statements	4
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	25
Item 4.	Controls and Procedures	25
	PART II OTHER INFORMATION	
Item 1.	Legal Proceedings	26
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 3.	Defaults Upon Senior Securities	31
Item 4.	Submission of Matters to a Vote of Security Holders	31
Item 5.	Other Information	31
Item 6.	Exhibits	31

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BWAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	April 1, 2007	October 1, 2006
Assets		
CURRENT ASSETS		
Cash and cash equivalents	**$ 10,765**	$ 50,979
Accounts receivable, net of allowance for doubtful accounts of $1,799 and $1,702	**115,167**	115,986
Inventories, net	**100,613**	80,441
Income taxes receivable		7,291
Deferred tax assets	**2,881**	4,038
Other	**8,386**	4,842
TOTAL CURRENT ASSETS	**237,812**	263,577
PROPERTY, PLANT AND EQUIPMENT, NET	**138,617**	142,944
OTHER ASSETS		
Goodwill	**248,994**	248,687
Other intangible assets, net	**163,077**	166,201
Deferred financing costs, net of accumulated amortization of $5,076 and $4,029	**9,860**	10,952
Other	**1,505**	1,384
TOTAL OTHER ASSETS	**423,436**	427,224
TOTAL ASSETS	**$ 799,865**	$ 833,745
Liabilities And Stockholder s Equity		
CURRENT LIABILITIES		
Accounts payable	**$ 108,726**	$ 118,939
Accrued salaries and wages	**11,989**	13,856
Accrued interest	**10,595**	9,837
Accrued rebates	**7,302**	11,091
Income taxes payable	**1,541**	
Current portion of long-term debt	**1,346**	20,506
Other	**18,380**	18,360
TOTAL CURRENT LIABILITIES	**159,879**	192,589
LONG-TERM DEBT	**416,587**	419,495
OTHER LIABILITIES		
Deferred tax liabilities	**65,745**	71,292
Other	**23,082**	22,886
TOTAL OTHER LIABILITIES	**88,827**	94,178

TOTAL LIABILITIES	**665,293**	706,262
COMMITMENTS AND CONTINGENCIES (NOTE 8)		
STOCKHOLDER S EQUITY		
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares issued		
Common stock, $.01 par value, 24,000,000 shares authorized; 1,000 shares issued and outstanding		
Additional paid-in capital	**112,882**	112,882
Retained earnings	**22,912**	15,098
Accumulated other comprehensive loss	**(1,222)**	(497)
TOTAL STOCKHOLDER S EQUITY	**134,572**	127,483
TOTAL LIABILITIES AND STOCKHOLDER S EQUITY	**$ 799,865**	$ 833,745

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

1

Table of Contents

BWAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

(Dollars in thousands)	Three Months Ended April 1, 2007	Three Months Ended April 2, 2006	Six Months Ended April 1, 2007	Six Months Ended April 2, 2006
NET SALES	**$ 234,271**	$ 225,419	**$ 436,647**	$ 426,792
COSTS AND EXPENSES				
Cost of products sold *(excluding depreciation and amortization)*	**196,525**	193,668	**370,688**	379,002
Depreciation and amortization	**11,177**	10,385	**22,575**	20,337
Selling and administrative expense	**6,593**	5,027	**10,808**	9,558
Restructuring (adjustment) charge	**(203)**	61	**(164)**	195
Interest expense, net	**9,320**	8,290	**18,723**	16,511
Other expense, net	**530**	519	**587**	721
TOTAL COSTS AND EXPENSES	**223,942**	217,950	**423,217**	426,324
INCOME BEFORE INCOME TAXES	**10,329**	7,469	**13,430**	468
Provision for income taxes	**4,253**	2,552	**5,616**	157
NET INCOME	**$ 6,076**	$ 4,917	**$ 7,814**	$ 311

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

Table of Contents

BWAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
(Dollars in thousands)	**April 1, 2007**	**April 2, 2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 7,814**	$ 311
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation	**14,752**	13,835
Amortization of other intangible assets	**7,823**	6,502
Amortization of deferred financing costs	**1,049**	1,063
Provision for doubtful accounts	**102**	43
Loss on disposition of property, plant and equipment	**233**	332
Deferred income taxes	**(4,390)**	(5,585)
Stock-based compensation expense	**477**	510
Changes in assets and liabilities, net of effects of business acquisitions		
Accounts receivable	**2,766**	(2,325)
Inventories	**(18,345)**	(3,346)
Other assets	**(3,158)**	(763)
Accounts payable	**(11,167)**	10,368
Accrued and other liabilities	**(8,087)**	(5,539)
Income taxes	**7,699**	(4,831)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	**(2,432)**	10,575
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	**(10,661)**	(14,882)
Business acquisitions	**(6,065)**	
Other	**76**	667
NET CASH USED IN INVESTING ACTIVITIES	**(16,650)**	(14,215)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of term loan	**(20,243)**	(30,000)
Principal repayments under capital leases	**(94)**	(119)
NET CASH USED IN FINANCING ACTIVITIES	**(20,337)**	(30,119)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(795)**	
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(40,214)**	(33,759)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**50,979**	51,889
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 10,765**	$ 18,130
SUPPLEMENTAL DISCLOSURES		
Cash paid during the period for:		
Interest	**$ 16,915**	$ 15,697
Income taxes	**2,120**	10,574
Detail of business acquisitions:		

Fair value of assets acquired	**11,111**	
Liabilities assumed	**(5,046)**	
Cash paid for business acquisitions	**6,065**	
Non-cash investing and financing activities		
Amounts owed for capital expenditures	**810**	856

The accompanying Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

3

BWAY CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BWAY Corporation (BWAY) and its subsidiaries (collectively, the Company , we or our) and have been prepared without audit. Certain information and footnote disclosures, including critical and significant accounting policies, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These statements and the accompanying notes should be read in conjunction with our Annual Report on Form 10-K for the year ended October 1, 2006 (the Annual Report). The consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented.

Results of operations for the three and six months ended April 1, 2007 are not necessarily indicative of the results that may be expected for the entire fiscal year.

Unless otherwise stated, references to years in these consolidated financial statements relate to fiscal years rather than to calendar years.

Business and Segment Information

We manufacture and distribute metal and rigid plastic containers that are used primarily by manufacturers of industrial and consumer products for packaging. We have operations in the United States and Canada and sell primarily to customers located in these geographic markets. We report two segments metal packaging and plastics packaging. See Note 9, Business Segments , for a discussion of our business segments.

We are a wholly-owned subsidiary of BWAY Holding Company (formerly known as BCO Holding Company) (BWAY Holding), whose common stock is privately held by affiliates of Kelso & Company, L.P. (Kelso), certain members of management and certain other parties, as a result of a leveraged buyout completed on February 7, 2003 (the Transaction). Pursuant to the Transaction, BWAY Holding purchased all of the issued and outstanding shares of BWAY, which, at the time, was publicly traded on the New York Stock Exchange. Any reference herein to Predecessor refers to BWAY prior to the Transaction.

Our fiscal year ends on the Sunday closest to September 30. Our North America Packaging Corporation (NAMPAC) and ICL Industrial Containers ULC (ICL) subsidiaries report their financial position and results of operations on a calendar month basis with fiscal years ending on September 30. There were no significant or unusual transactions between the calendar month and fiscal month ending dates that should have been considered in the consolidated financial statements.

In March 2007, BWAY Holding filed with the Securities and Exchange Commission (the SEC) a registration statement on Form S-1 under the Securities Act related to its common stock. Once the SEC declares the registration statement effective, certain selling stockholders, including Kelso, our executive chairman and another member of the board, intend to offer a portion of their BWAY Holding shares to the public. Neither BWAY Holding nor we will receive the proceeds from the shares being sold by the selling stockholders. We expect to incur a charge of approximately $32.5 million upon the closing of BWAY Holding s initial public offering. Approximately $21.0 million of the charge, including payment of a $2.0 million one-time advisory fee to an affiliate of Deutsche Bank contingent upon closing of BWAY Holding s initial public offering, will be settled in cash and approximately $11.5 million of the charge represents a non-cash stock-based compensation charge related to accelerated vesting of certain stock options.

Acquisitions

Industrial Containers

On July 17, 2006, we acquired substantially all of the assets and assumed certain of the liabilities of Industrial Containers, Ltd., (ICL Ltd.) a Toronto based manufacturer of rigid plastic containers and steel pails for industrial packaging markets (the ICL Acquisition). The assets were acquired by our ICL subsidiary. The results of operations related to this acquisition are included from the acquisition date.

Vulcan Containers

On January 30, 2007, we acquired substantially all of the assets and assumed certain of the liabilities of Vulcan Containers, Ltd. (Vulcan) for a purchase price of approximately CDN$7.1 million, including transaction costs, (approximately $6.0 million U.S. dollars at the closing date) (the Vulcan Acquisition). We funded the acquisition using available cash on hand. Vulcan is headquartered in Toronto and produces steel pails for distribution primarily in Canada. The acquired business is included in our metal packaging segment.

The Vulcan acquisition further expands our presence in Canada, a market we believe will be important for our future growth, and provides an opportunity to leverage the manufacturing capacity of ICL. In February 2007, we committed to a plan to consolidate the Vulcan business with and into our ICL operations. As a result, we intend to close the Vulcan manufacturing facilities and terminate approximately 100 employees. In connection with the preliminary purchase price allocation pursuant to EITF Issue 95-3, *Reorganization of Liabilities in Connection with a Purchase Business Combination* (EITF 95-3), we recorded a reorganization liability of approximately $3.6 million, which consists of severance payments and facility closure costs.

The acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS No. 141). As such, the assets and liabilities have been recorded at estimated fair value at the date of acquisition. We allocated the purchase price based on our estimates of fair value.

Table of Contents

The following is a summary of the fair value of the assets acquired and liabilities assumed as of the date of acquisition based on a preliminary purchase price allocation. The finalization of certain transaction costs, among other things, could result in an adjustment to the allocation.

(Dollars in thousands)	
Current assets	$ 4,453
Intangible assets subject to amortization	5,391
Goodwill	1,217
Other	33
Total assets	11,094
Current liabilities	1,406
Reorganization liability	3,640
Total liabilities	5,046
Purchase Price	$ 6,048

The life of the acquired intangible assets subject to amortization, which consist solely of customer relationships, is included in our metal packaging segment and is approximately 14 years. Goodwill resulting from this acquisition is not deductible for income tax purposes.

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48). This interpretation clarifies the accounting for uncertainty in tax positions taken or expected to be taken in a tax return and requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions. The provisions of FIN 48 are effective for us at the beginning of 2008 (October 2007). We are currently evaluating the impact of FIN 48 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 is effective for us at the beginning of fiscal 2009 (October 2008). We have not decided if we will early adopt SFAS No. 159 or if we will choose to measure any eligible financial assets and liabilities at fair value.

2. INVENTORIES

(Dollars in thousands)	April 1, 2007	October 1, 2006
Raw materials	**$ 34,626**	$ 26,212
Work-in-progress	**38,577**	39,181
Finished goods	**40,345**	32,894
Inventories at FIFO cost	**113,548**	98,287
LIFO reserve	**(12,935)**	(17,846)
INVENTORIES	**$ 100,613**	$ 80,441

We intend to change our method of accounting for the cost of inventories for our U.S. subsidiaries from the last-in, first-out (LIFO) method of inventory valuation to the first-in, first-out (FIFO) method, effective for the third quarter of fiscal 2007. The inventories of our non-U.S. subsidiaries will continue to be valued using the FIFO method. After this change, all of our inventories will be valued using the FIFO method.

We believe that the FIFO method is preferable to the LIFO method because it (1) will better match revenues and expenses for financial and tax reporting purposes; (2) will provide a consistent valuation method for all of our inventories; (3) provides for period-end FIFO inventory values, which will be more current in rising price environments, and, as such, will better approximate replacement cost; and (4) will reduce the administrative burden of calculating LIFO reserve adjustments.

3. GOODWILL AND OTHER INTANGIBLES

Change in the net carrying amount of goodwill by reportable segment during the first six months of 2007:

(Dollars in thousands)	Metal Packaging	Plastics Packaging	Total
BALANCE, OCTOBER 1, 2006	$ 120,328	$ 128,359	$ 248,687
Additions related to the Vulcan Acquisition	1,217		1,217
Adjustment to the NAMPAC Acquisition		113	113
Adjustment to the ICL Acquisition	5	12	17
Currency translation adjustment	(254)	(786)	(1,040)
BALANCE, APRIL 1, 2007	**$ 121,296**	**$ 127,698**	**$ 248,994**

During the second quarter of 2007, an Internal Revenue Service (the IRS) audit was concluded related to certain preacquisition net operating loss (NOL) carryforwards we acquired in the NAMPAC Acquisition. In the purchase price allocation for the NAMPAC Acquisition, we accrued a contingent liability of approximately $0.9 million as an estimate of NOL carryforwards that would be disallowed following the IRS audit. We recorded an adjustment to goodwill of $0.1 million in the second quarter of 2007 to adjust our estimate to the amount actually disallowed by the IRS.

Table of Contents

Identifiable intangible assets by major asset class:

	April 1, 2007			October 1, 2006		
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
AMORTIZABLE INTANGIBLE ASSETS						
Customer relationships	$ 182,667	$ (40,391)	$ 142,276	$ 177,873	$ (33,601)	$ 144,272
Tradenames	25,870	(5,729)	20,141	25,984	(4,809)	21,175
Noncompetition agreements	401	(354)	47	401	(260)	141
	208,938	(46,474)	162,464	204,258	(38,670)	165,588
UNAMORTIZABLE INTANGIBLE ASSETS						
Technology	613		613	613		613
TOTAL OTHER INTANGIBLE ASSETS	$ 209,551	$ (46,474)	$ 163,077	$ 204,871	$ (38,670)	$ 166,201

The useful lives of customer relationships, tradenames and noncompetition agreements range from 14 to 18 years, 10 to 15 years and 3 to 4 years, respectively.

Expected amortization expense is as follows:

(Dollars in thousands)	
FISCAL YEAR ENDING	
2007 (remaining six months)	$ 7,935
2008	15,463
2009	14,901
2010	14,802
2011	14,152
Thereafter	95,211
	$ 162,464

4. LONG-TERM DEBT

(Dollars in thousands)	April 1, 2007	October 1, 2006
LONG TERM DEBT		
10% USD senior subordinated notes due October 2010	$ 200,000	$ 200,000
Variable rate USD term loan maturing July 2013	169,500	189,500
Variable rate CAD term loan maturing July 2013	48,433	50,501
	417,933	440,001
Less: Current portion	(1,346)	(20,506)
long term debt, net of current portion	$ 416,587	$ 419,495

The current portion of long-term debt at October 1, 2006 reflects a voluntary prepayment of the USD term loan of $20.0 million made in the first quarter of 2007. Prepayments on the term loan reduce future scheduled payments.

The weighted-average interest rate on variable rate credit facility borrowings at April 1, 2007 and October 1, 2006 was approximately 7.0%.

Scheduled maturities of long-term debt:

(Dollars in thousands)	
FISCAL YEAR ENDING	
2007 (remaining six months)	$ 244
2008	1,775
2009	2,634
2010	2,204
2011	202,204
Thereafter	208,872
	$ 417,933

Of the $1.3 million current portion of long-term debt, $0.2 million is scheduled to be repaid in the last six months of 2007 and the remaining $1.1 million is scheduled to be repaid in the first six months of 2008.

Senior Subordinated Notes

10% Senior Notes Due 2010

The $200.0 million principal amount of 10% Senior Subordinated Notes due 2010 (the Senior Notes) are unsecured senior subordinated obligations of the Company and are effectively subordinated to all senior debt obligations of the Company. Interest on the Senior Notes is payable semi-annually in arrears on April 15 and October 15. The interest rate is fixed at 10% per annum. All of our U.S. based subsidiaries have fully and unconditionally guaranteed the Senior Notes.

The Senior Notes are governed by an Indenture dated November 27, 2002 with The Bank of New York, as trustee, as assumed by BWAY on February 7, 2003 and as amended from time to time (the Indenture).

The Senior Notes are subject to covenants that, among other things, limit our ability (and the ability of some or all of our subsidiaries) to: incur additional indebtedness, pay dividends or distributions on our capital stock or to repurchase our capital stock, make certain investments, create liens on our assets to secure debt, engage in transactions with affiliates, merge or consolidate with another company and transfer and sell assets. These covenants are subject to a number of important limitations and exceptions. At April 1, 2007, we were in compliance with all applicable covenants related to the Senior Notes.

We may redeem some or all of these notes at redemption prices specified in the Indenture (105% on October 15, 2006 declining annually to 100% on October 15, 2009). Upon the occurrence of a Change in Control, as defined in the Indenture, the holders of the Senior Notes could require us to repurchase the notes at 101% of the principal amount.

We are amortizing approximately $8.0 million in deferred financing costs related to the underwriting and registration of these notes to interest expense over the term of the notes, on a straight-line basis, which approximates the effective yield method. At April 1, 2007 and October 1, 2006, approximately $3.7 million and $4.2 million, respectively, of the deferred costs were unamortized.

Credit Facility

On July 17, 2006, in conjunction with the ICL Acquisition, we entered into a new credit facility with various lenders, Deutsche Bank Trust Company Americas, as administrative agent, LaSalle Bank, N.A., as documentation agent and Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc., as joint arrangers. The credit facility consists of a $190.0 million B Term Loan (the US Term Loan) and a $50.0 million revolving credit facility (the US Revolver) and a Cdn$56.41 million (US$50.0 million equivalent at the borrowing date) C Term Loan (the Canadian Term Loan) and a US$5.0 million equivalent revolving credit facility (the Canadian Revolver).

BWAY is the borrower of the US Term Loan and only BWAY can borrow on the US Revolver. ICL is the borrower of the Canadian Term Loan and only ICL can borrow on the Canadian Revolver.

The term loans mature July 17, 2013 and the revolving loans mature July 17, 2012. In the event the Senior Notes are not refinanced prior to April 15, 2010, the US Term Loan and the US and Canadian Revolvers mature April 15, 2010 and the Canadian Term Loan matures July 18, 2011.

The US Term Loan is denominated in U.S. dollars and, at the option of the borrower, may consist of a Base Rate Loan or a Eurodollar Loan, each as defined in the credit agreement. Interest accrues on Base Rate Loans at a fixed margin of 0.75% plus the greater of the federal funds rate plus .5% or the Prime Lending Rate and on Eurodollar Loans at a Eurodollar Rate (as defined in the credit agreement) plus a fixed margin of 1.75%. At April 1, 2007, the effective interest rate on outstanding US Term Loan borrowings was approximately 7.1%.

Due to a $20.0 million voluntary prepayment on the US Term Loan in December 2006, scheduled quarterly repayments of approximately $0.4 million do not resume until December 31, 2007 and will continue through March 31, 2013. The remaining unpaid balance is due on the maturity date. Once repaid, the term loan may not be reborrowed.

The US Revolver is denominated in U.S. dollars and, at the option of the borrower, may consist of a Base Rate Loan or a Eurodollar Loan, each as defined in the credit agreement. Any outstanding borrowings are due at maturity. Interest accrues on Base Rate Loans at a variable margin ranging from 0.25% to 1.00% plus the greater of either the federal funds rate plus .5% or the administrative agent s prime lending rate. Interest accrues on Eurodollar Loans at a Eurodollar Rate plus a variable margin ranging from 1.25% to 2.00%. The applicable margin for either the Base Rate or Eurodollar loans is based on a Consolidated Total Leverage Ratio, as defined in the credit agreement.

The Canadian Term Loan is denominated in Canadian dollars and, at the option of the borrower, may consist of a Canadian Prime Rate Loan or a B/A Discount Rate Loan, each as defined in the credit agreement. Interest accrues on Canadian Prime Rate Loans at the greater of DB Canada s prime rate or CDOR plus .75% plus a fixed margin of 1.0% and on B/A Discount Rate Loans at CDOR plus a fixed margin of 2.0%. At April 1, 2007, the effective interest rate on outstanding Canadian Term Loan borrowings was approximately 6.4%.

Scheduled quarterly repayments on the Canadian Term Loan of approximately Cdn$141 thousand (approximately US$122 thousand equivalent at April 1, 2007) began September 30, 2006 and will continue through March 31, 2013. The remaining unpaid balance is due on the maturity date. Once repaid, the term loan may not be reborrowed.

The Canadian Revolver can be drawn in either U.S. or Canadian dollars, at the option of the borrower, and, at the option of the borrower, may consist of a Base Rate Loan or a Eurodollar Loan for U.S. dollar denominated loans or Canadian Prime Rate Loan or a B/A Discount Rate Loan for Canadian dollar denominated loans, each as defined in the credit agreement. Any outstanding borrowings are due at maturity. Interest accrues on Base Rate Loans or Canadian Prime Rate Loans at the applicable base (as discussed above) plus a variable margin ranging from 0.25% to 1.00%. Interest accrues on Eurodollar Loans or B/A Discount Rate Loans at the applicable base (as discussed above) plus a variable margin ranging from 1.25% to 2.00%. The applicable margin for either the Base Rate or Eurodollar loans is based on a Consolidated Total Leverage Ratio, as defined in the credit agreement.

BWAY Holding and each of our U.S. subsidiaries have guaranteed the US Term Loan and US Revolver, each of which is secured by substantially all of our U.S. assets and the assets of BWAY Holding. In addition, we have pledged as collateral all of the issued and outstanding stock of our U.S. subsidiaries, which are wholly-owned, and, subject to certain limitations, the outstanding stock of ICL. ICL has guaranteed the Canadian Term Loan and Canadian Revolver, each of which is secured by all of the assets of ICL.

A portion of the term loan proceeds was used to finance the ICL Acquisition.

At April 1, 2007, we had $7.6 million in standby letter of credit commitments that reduced our available borrowings under the US Revolver to $42.4 million. There were no outstanding US or Canadian Revolver borrowings at April 1, 2007.

Table of Contents

The credit agreement contains covenants that, among other things, limit our ability (and the ability of some or all of our subsidiaries) to: incur additional debt, pay dividends or distributions on our capital stock or to repurchase our capital stock, make certain investments, loans or advances, create liens on our assets to secure debt, engage in transactions with affiliates, merge or consolidate with another company, transfer and sell assets and make acquisitions. We are also required to maintain a minimum Consolidated Interest Coverage Ratio and to not exceed a Maximum Consolidated Total Leverage Ratio (each as defined in the credit agreement). These covenants are subject to a number of important limitations and exceptions. At April 1, 2007, we were in material compliance will all applicable covenants contained in the credit agreement.

We are amortizing approximately $5.8 million in deferred financing costs related to the Term Loans to interest expense over the term of the loans in proportion to the outstanding principal, which approximates the effective yield method. We are amortizing approximately $1.1 million in deferred financing costs related to the Revolvers on a straight-line basis over the term of the Revolvers, which approximates the effective yield method. At April 1, 2007 and October 1, 2006, approximately $6.2 million and $6.8 million of deferred costs associated with the credit facility were unamortized.

5. EMPLOYMENT BENEFIT OBLIGATIONS

Employee benefit obligation liabilities:

(Dollars in thousands)	April 1, 2007	October 1, 2006
Defined benefit pension liability	**$ 3,301**	$ 3,730
Retiree medical and other postretirement benefits	**5,055**	5,006
Deferred compensation	**6,824**	6,570
EMPLOYEE BENEFIT OBLIGATION LIABILITIES	**$ 15,180**	$ 15,306

At April 1, 2007, approximately $0.6 million and $14.6 million of the employee benefit obligation liabilities were recorded in current liabilities and other long-term liabilities, respectively. At October 1, 2006, approximately $0.5 million and $14.8 million of the employee benefit obligation liabilities were recorded in current liabilities and other long-term liabilities, respectively.

Components of net periodic benefit cost:

	Defined Benefit Pension Plan				Other Postretirement Benefits			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
(Dollars in thousands)	April 1, 2007	April 2, 2006	April 1, 2007	April 2, 2006	April 1, 2007	April 2, 2006	April 1, 2007	April 2, 2006
COMPONENTS OF NET PERIODIC BENEFIT COST								
Service cost	**$**	$	**$**	$	**$ 1**	$ 1	**$ 3**	$ 3
Interest cost	**169**	149	**337**	299	**99**	89	**198**	178
Expected return on plan assets	**(170)**	(150)	**(341)**	(301)				
Recognized net actuarial loss	**1**		**3**		**18**	13	**35**	26
NET PERIODIC BENEFIT COST	**$**	$ (1)	**$ (1)**	$ (2)	**$ 118**	$ 103	**$ 236**	$ 207

6. RESTRUCTURING AND REORGANIZATION LIABILITIES

The following table sets forth changes in our restructuring liability from October 1, 2006 to April 1, 2007. The nature of the liability has not changed from that previously reported in the Annual Report. The restructuring liability is included in other current liabilities and relates to the

Plastics Packaging segment.

(Dollars in millions)	Balance October 1, 2006	Adjustments	Expenditures	Balance April 1, 2007
RESTRUCTURING LIABILITY				
Severance costs	$ 0.2	$	$ (0.2)	$
Facility closure costs	1.4	(0.2)	(0.4)	0.8
TOTALS	$ 1.6	$ (0.2)	$ (0.6)	$ 0.8

In conjunction with the Vulcan Acquisition, we committed to a plan to consolidate the Vulcan business with and into our ICL operations. As a result, we intend to close the Vulcan manufacturing facilities and terminate approximately 100 employees. As part of the preliminary purchase price allocation, we recorded a reorganization liability pursuant to EITF 95-3 of approximately $3.6 million, which consists of severance payments and facility closure costs. The liability is included in other current liabilities and relates to the Metal Packaging segment.

(Dollars in millions)	Purchase Accounting January 30, 2007	Expenditures	Translation Adjustments	Balance April 1, 2007
REORGANIZATION LIABILITY				
Severance costs	$ 1.9	$ (0.1)	$	$ 1.8
Facility closure costs	1.7		0.1	1.8
TOTALS	$ 3.6	$ (0.1)	$ 0.1	$ 3.6

8

Table of Contents

7. STOCK-BASED COMPENSATION

We adopted SFAS No. 123 (revised 2004), *Share-Based Payment,* (SFAS No. 123R) as of October 2, 2006 using the prospective transition method. Under this method of adoption, compensation cost is recognized in the financial statements beginning with the effective date for all new awards and for awards outstanding at the effective date that are subsequently modified, repurchased or cancelled. We will continue to account for awards outstanding as of October 2, 2006, which are not subsequently modified, repurchased or cancelled, using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion 25, *Accounting for Stock Issued to Employees*, and related interpretations (APB 25).

Pursuant to SFAS No. 123R, a nonpublic entity will measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of those instruments, except in certain circumstances. We are a nonpublic entity, as defined by SFAS No. 123R.

For purposes of determining the grant-date fair value of share-based payment awards, we use the Black-Scholes option-pricing model (the Black-Scholes Model). The Black-Scholes Model requires the input of certain assumptions that involve judgment. Because our employee stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the estimates of fair value, the available option pricing models may not provide a reliable single measure of the fair value of our employee stock options.

SFAS No. 123R amends SFAS No. 95, *Statement of Cash Flows*, requiring the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow rather than as an operating cash flow as previously required. Under SFAS No. 123R, we are no longer required to provide pro forma disclosures for outstanding awards that we continue to account for under APB 25. Based on limited option activity in the first six months of 2007, the impact on stock-based compensation of adopting SFAS No. 123R was not material.

We recorded stock-based compensation of $0.3 million in each of the three months ended April 1, 2007 and April 2, 2006 and $0.5 million in each of the six months ended April 1, 2007 and April 2, 2006.

Summary of Stock-Based Compensation Plans

In February 2000, Predecessor adopted the Fourth Amendment and Restatement of BWAY s 1995 Long-Term Incentive Plan (the Predecessor Incentive Plan). The Predecessor Incentive Plan authorized grants of stock options to participants from time to time as determined by the Board. As a result of the Transaction, which was a change in control event under the plan, all outstanding options immediately vested and became exercisable. Certain members of management who held stock options under the Predecessor Incentive Plan entered into Exchange Agreements with BWAY Holding whereby their Predecessor Incentive Plan options to acquire shares in BWAY were exchanged 2-for-1 for new options to acquire BWAY Holding common stock with an exercise price equal to the exercise price of the exchanged option as adjusted for the 2-for-1 split (the Exchange Options). The Exchange Options were fully vested as of the closing of the Transaction and were issued with substantially the same terms and conditions in effect immediately before the exchange.

Effective with the closing of the Transaction, BWAY Holding assumed the Predecessor Incentive Plan and approximately 1.8 million options were granted on February 8, 2003. The Predecessor Incentive Plan was replaced in July 2004 with the Amended and Restated BCO Holding Stock Incentive Plan (the Holding Incentive Plan), which, excluding the Exchange Options, increased the number of available shares of common stock of BWAY Holding subject to options from 2,006,989 to 2,395,103.

Three types of options may be granted under the Holding Incentive Plan: (1) Service Options, which vest in three equal annual installments commencing on the first anniversary of the grant date based upon service; (2) Performance Options, which vest in five equal annual installments based on our achievement of certain specified performance objectives; and (3) Exit Options, which vest upon a change in equity control event (as defined in the plan and subject to certain limitations). Under the Holding Incentive Plan, 40% of available options will be Service Options, 10% will be Performance Options and 50% will be Exit Options.

For options outstanding prior to the effective date of SFAS No. 123R that are accounted for under APB 25, Service Options are fixed awards and compensation expense is determined as the amount by which the fair value of BWAY Holding common stock at the grant date exceeds the exercise price of the option granted. Compensation expense, if any, related to Service Options is recognized ratably over the vesting period. Because the number of options is contingent upon future events, for options outstanding prior to the effective date of SFAS No. 123R, we account for Performance Options as variable awards and record compensation expense for the number of unvested options during each reporting period. The compensation expense recorded for the Performance Options is the change during the period in the amount by which the fair value of BWAY Holding common stock at the end of the reporting period exceeds the exercise price on unvested options. We assume performance objectives will be met and recognize compensation expense ratably over the five year vesting period. We also account for Exit Options outstanding prior to the effective date of SFAS No. 123R as variable awards. However, since the contingent event upon which they are based is unknown, we have not recorded compensation expense related to these options.

The Holding Incentive Plan will terminate on February 7, 2013 unless terminated earlier by BWAY Holding. Termination of the Holding Incentive Plan will not affect grants made prior to the termination. Although the Holding Incentive Plan grants the right to acquire shares in BWAY Holding, the Holding Incentive Plan is used to incentivize certain of our employees, including management, and certain options available under the plan are tied to our performance. As such, the Holding Incentive Plan is accounted for as if it were a direct plan of the Company. We are a wholly-owned subsidiary of BWAY Holding, which is a holding company without independent operations.

Table of Contents

The following table presents changes in our stock-based awards from October 1, 2006 to April 1, 2007:

	Exchange Options	Service Options	Performance Options	Exit Options	Total Options
EMPLOYEE STOCK OPTIONS					
Options outstanding at October 1, 2006	1,239,599	897,543	223,984	1,125,527	3,486,653
Options granted		37,944	9,486	47,428	94,858
Options forfeited		(7,944)	(1,986)	(9,928)	(19,858)
OPTIONS OUTSTANDING AT APRIL 1, 2007	**1,239,599**	**927,543**	**231,484**	**1,163,027**	**3,561,653**