BERRY PLASTICS CORP
Form 10-Q
May 15, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X] **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended April 1, 2006

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 33-75706

BPC HOLDING CORPORATION

(*Exact name of registrant as specified in its charter*)

Delaware	35-1814673
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)

BERRY PLASTICS CORPORATION

(*Exact name of registrant as specified in its charter*)

Delaware	35-1813706
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)

101 Oakley Street Evansville, Indiana	47710
(Address of principal executive offices)	(Zip code)

Registrants' telephone number, including area code: (812) 424-2904

Indicate by check mark whether the registrants (1) have 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) have been subject to such filing requirements for the past 90 days. [X]Yes [ ]No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers or non-accelerated filers. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrants are shell companies (as defined by Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of May 2, 2006, there were outstanding 3,377,671 shares of the Common Stock, $.01 par value, of BPC Holding Corporation. As of May 2, 2006, there were outstanding 100 shares of the Common Stock, $.01 par value, of Berry Plastics Corporation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q includes "forward-looking statements," within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with respect to our financial condition, results of operations and business and our expectations or beliefs concerning future events. The forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". You can identify certain forward-looking statements by our use of forward-looking terminology such as, but not limited to, "believes," "expects," "anticipates," "estimates," "intends," "plans," "targets," "likely," "will," "would," "could" and similar expressions that identify forward-looking statements. All forward-looking statements involve risks and uncertainties. Many risks and uncertainties are inherent in our industry and markets. Others are more specific to our operations. The occurrence of the events described and the achievement of the expected results depend on many events, some or all of which are not predictable or within our control. Actual results may differ materially from the forward-looking statements contained in this Form 10-Q. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- changes in prices and availability of resin and other raw materials and our ability to pass on changes in raw material prices on a timely basis;
- catastrophic loss of one of our key manufacturing facilities;
- risks related to our acquisition strategy and integration of acquired businesses;
- risks associated with our substantial indebtedness and debt service;
- performance of our business and future operating results;
- risks of competition, including foreign competition, in our existing and future markets;
- general business and economic conditions, particularly an economic downturn;
- increases in the cost of compliance with laws and regulations, including environmental laws and regulations; and
- the factors discussed in our Form 10-K for the fiscal year ended December 31, 2005 in the section titled "Risk Factors."

Readers should carefully review the factors discussed in our Form 10-K for the fiscal year ended December 31, 2005 in the section titled "Risk Factors" and other risk factors identified from time to time in our periodic filings with the Securities and Exchange Commission and should not place undue reliance on our forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

AVAILABLE INFORMATION

We make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments, if any, to those reports through our Internet website as soon as practicable after they have been electronically filed with or furnished to the Securities and Exchange Commission. Our internet address is www.berryplastics.com. The information contained on our website is not being incorporated herein. We are currently in the process of finalizing our Code of Ethics.

BPC Holding Corporation
Berry Plastics Corporation

Form 10-Q Index

For Quarterly Period Ended April 1, 2006

Part 1. Financial Information
Item 1. Financial Statements

BPC Holding Corporation
Consolidated Balance Sheets
(In Thousands of Dollars, except share information)

	April 1, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets*:*		
Cash and cash equivalents	**$ 38,598**	$ 24,756
Accounts receivable (less allowance for doubtful accounts of $6,082 at April 1, 2006 and $5,766 at December 31, 2005)	**165,747**	140,443
Inventories:		
Finished goods	**115,252**	101,632
Raw materials and supplies	**45,894**	50,716
	161,146	152,348
Deferred income taxes	**16,193**	22,905
Prepaid expenses and other current assets	**28,127**	39,037
Total current assets	**409,811**	379,489
Property and equipment:		
Land	**12,296**	12,292
Buildings and improvements	**92,859**	92,810
Equipment and construction in progress	**532,772**	497,364
	637,927	602,466
Less accumulated depreciation	**200,348**	179,022
	437,579	423,444
Intangible assets:		
Deferred financing fees, net	**17,562**	18,333
Customer relationships, net	**252,308**	255,981
Goodwill	**495,580**	495,258
Trademarks, net	**46,098**	47,065
Other intangibles, net	**27,582**	28,260
	839,130	844,897
Total assets	**$ 1,686,520**	$ 1,647,830

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BPC Holding Corporation
Consolidated Balance Sheets (continued)
(In Thousands of Dollars, except share information)

	April 1, 2006 (Unaudited)	December 31, 2005
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 113,929**	$ 64,970
Accrued interest	**11,151**	20,165
Employee compensation, payroll and other taxes	**38,676**	43,915
Accrued expenses and other current liabilities	**30,291**	34,730
Current portion of long-term debt	**14,812**	13,928
Total current liabilities	**208,859**	177,708
Long-term debt, less current portion	**1,145,548**	1,146,692
Deferred income taxes	**94,447**	94,934
Other long-term liabilities	**25,706**	25,108
Total liabilities	**1,474,560**	1,444,442
Stockholders' equity:		
Preferred Stock; $.01 par value: 500,000 shares authorized; 0 shares issued and outstanding at April 1, 2006 and December 31, 2005	**—**	—
Common Stock; $.01 par value: 5,000,000 shares authorized; 3,398,807 shares issued and 3,374,351 shares outstanding at April 1, 2006; and 3,398,807 shares issued and 3,374,348 shares outstanding at December 31, 2005	**34**	34
Additional paid-in capital	**347,931**	346,943
Adjustment of the carryover basis of continuing stockholders	**(196,603)**	(196,603)
Notes receivable - common stock	**(14,464)**	(14,273)
Treasury stock: 24,456 and 24,459 shares of common stock at April 1, 2006 and December 31, 2005, respectively	**(3,546)**	(3,547)
Retained earnings	**67,149**	58,969
Accumulated other comprehensive income	**11,459**	11,865
Total stockholders' equity	**211,960**	203,388
Total liabilities and stockholders' equity	**$ 1,686,520**	$ 1,647,830

See notes to consolidated financial statements.

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BPC Holding Corporation
Consolidated Statements of Income
(In Thousands of Dollars)

	Thirteen Weeks Ended April 1, 2006 (Unaudited)	April 2, 2005 (Unaudited)
Net sales	**$ 355,964**	$ 225,310
Cost of goods sold	**284,621**	184,016
Gross profit	**71,343**	41,294
Operating expenses:		
Selling	**10,420**	7,302
General and administrative	**14,803**	8,879
Research and development	**1,976**	1,028
Amortization of intangibles	**5,364**	1,773
Other expenses	**1,057**	304
Operating income	**37,723**	22,008
Other expenses:		
Unrealized loss on investment in Southern Packaging	**216**	632
Income before interest and taxes	**37,507**	21,376
Interest:		
Expense	**22,402**	14,022
Income	**(394)**	(204)
Income before income taxes	**15,499**	7,558
Income taxes	**7,319**	3,759
Net income	**$ 8,180**	$ 3,799

See notes to consolidated financial statements.

BPC Holding Corporation
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
(In Thousands of Dollars)

	Common Stock	Additional Paid-In Capital	Adjustment of the carryover basis of continuing stockholders	Notes receivable-common stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Losses)	Total
Balance at December 31, 2005	$ 34	$ 346,943	$ (196,603)	$ (14,273)	$ (3,547)	$ 58,969	$ 11,865	$ 203,388
Sale of treasury stock	—	—	—	—	1	—	—	1
Interest on notes receivable	—	—	—	(191)	—	—	—	(191)
Stock-based compensation	—	988	—	—	—	—	—	988
Translation gains	—	—	—	—	—	—	336	336
Other comprehensive losses	—	—	—	—	—	—	(742)	(742)
Net income	—	—	—	—	—	8,180	—	8,180
Balance at April 1, 2006	$ 34	$ 347,931	$ (196,603)	$ (14,464)	$ (3,546)	$ 67,149	$ 11,459	$ 211,960

See notes to consolidated financial statements.

BPC Holding Corporation
Consolidated Statements of Cash Flows
(In Thousands of Dollars)

	Thirteen Weeks Ended	
	April 1, 2006 (Unaudited)	**April 2, 2005** (Unaudited)
Operating activities		
Net income	**$ 8,180**	$ 3,799
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**21,085**	13,996
Non-cash interest expense	**477**	511
Amortization of intangibles	**5,364**	1,773
Non-cash compensation	**988**	—
Unrealized loss on investment in Southern Packaging	**216**	632
Deferred income taxes	**6,712**	3,677
Changes in operating assets and liabilities:		
Accounts receivable, net	**(25,230)**	(22,926)
Inventories	**(8,745)**	(2,513)
Prepaid expenses and other assets	**9,280**	8,822
Accrued interest	**(9,014)**	(8,799)
Payables and accrued expenses	**39,697**	13,822
Net cash provided by operating activities	**49,010**	12,794
Investing activities		
Additions to property and equipment	**(31,899)**	(12,816)
Proceeds from disposal of property and equipment	**73**	1,681
Net cash used for investing activities	**(31,826)**	(11,135)
Financing activities		
Proceeds from long-term borrowings	**529**	2,408
Payments on long-term borrowings	**(3,840)**	(3,645)
Sale of treasury stock	**1**	—
Net cash used for financing activities	**(3,310)**	(1,237)
Effect of exchange rate changes on cash	**(32)**	(49)
Net increase in cash and cash equivalents	**13,842**	373
Cash and cash equivalents at beginning of period	**24,756**	264
Cash and cash equivalents at end of period	**$ 38,598**	$ 637

See notes to consolidated financial statements.

BPC Holding Corporation
Notes to Consolidated Financial Statements
(In thousands of dollars, except as otherwise noted)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of BPC Holding Corporation (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full fiscal year. The accompanying financial statements include the results of BPC Holding Corporation (“Holding”) and its wholly-owned subsidiary, Berry Plastics Corporation (“Berry”), and Berry’s wholly-owned subsidiaries. For further information, refer to the consolidated financial statements and footnotes thereto included in Holding’s and Berry’s Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

2. Recent Acquisitions

On April 11, 2005, a subsidiary of Berry, Berry Plastics de México, S. de R.L. de C.V., acquired all of the injection molding closure assets from Euromex Plastics, S.A. de C.V. (“Euromex”), an injection molding manufacturer located in Toluca, Mexico (“the Mexico Acquisition”), for aggregate consideration of approximately $8.2 million. The purchase price was allocated to fixed assets ($4.1 million), inventory ($1.6 million), goodwill ($0.7 million), and other intangibles ($1.8 million). The purchase was financed through borrowings under the Company’s revolving line of credit and cash on hand. The operations from the Mexico Acquisition are included in Berry’s operations since the acquisition date.

On June 3, 2005, Berry acquired Kerr Group, Inc. (“Kerr”) for aggregate consideration of approximately $455.8 million (the “Kerr Acquisition”), including direct costs associated with the acquisition. The operations from the Kerr Acquisition are included in Berry’s operations since the acquisition date. The purchase price was financed through additional term loan borrowings under an amendment to Berry’s senior secured credit facility and cash on hand. The following table summarizes the allocation of purchase price and the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. The allocation is preliminary and subject to change based on actual expenses and adjustments of estimates.

	June 3, 2005
Current assets	$ 85,088
Property and equipment	145,653
Goodwill	134,409
Customer relationships	182,094
Trademarks	16,140
Other intangibles	22,291
Total assets	585,675
Current liabilities	55,894
Long-term liabilities	73,942
Total liabilities	129,836
Net assets acquired	$ 455,839

In accordance with the criteria stated in Emerging Issues Task Force ("EITF") Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" ("EITF 95-3"), the Company established opening balance sheet reserves related to plant shutdown and severance costs. The opening balances and current year activity is presented in the following table.

	Established at Opening Balance Sheet	Thirteen Weeks ended April 1, 2006			
		January 1, 2006	Reduction In Estimate	Payments	April 1, 2006
EITF 95-3 reserves	$ 2,700	$ 2,221	—	$ (252)	$ 1,969

The pro forma financial results presented below are unaudited and assume that the Kerr Acquisition occurred at the beginning of the respective period. Pro forma results have not been adjusted to reflect the Mexico Acquisition as they do not differ materially from the pro forma results presented below. Pro forma net sales and net income for the thirteen weeks ended April 2, 2005 were $323,533 and $1,725, respectively. The financial results for the thirteen weeks ended April 1, 2006 have not been adjusted as the acquired businesses were owned by Berry for the entire period. The information presented is for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the Kerr Acquisition been consummated at the beginning of the respective period, nor are they necessarily indicative of future operating results. Further, the information reflects only pro forma adjustments for additional interest expense, elimination of Berry's write off of deferred financing fees, and elimination of Kerr's closing expenses, net of the applicable income tax effects.

3. Long-Term Debt

Long-term debt consists of the following:

	April 1, 2006	December 31, 2005
Berry 10 ¾% Senior Subordinated Notes	**$ 335,000**	$ 335,000
Debt premium on 10 ¾% Notes, net	**7,405**	7,699
Term loans	**789,038**	791,025
Revolving lines of credit	**529**	—
Capital leases	**28,388**	26,896
	1,160,360	1,160,620
Less current portion of long-term debt	**14,812**	13,928
	$ 1,145,548	$ 1,146,692

The current portion of long-term debt consists of $7.9 million of quarterly installments on the term loans and $6.9 million of principal payments related to capital lease obligations.

On July 22, 2002, the Company entered into a credit and guaranty agreement and a related pledge security agreement with a syndicate of lenders led by Goldman Sachs Credit Partners L.P., as administrative agent (the “Credit Facility”). On November 10, 2003, in connection with the acquisition of Landis Plastics, Inc., the Credit Facility was amended and restated (the “Amended and Restated Credit Facility”). On August 9, 2004, the Amended and Restated Credit Facility was amended and restated (the “Second Amended and Restated Credit Facility”). On January 1, 2005, a First Amendment to the Second Amended and Restated Credit Facility was entered into to permit Fifth Third Bank to assume the role of administrative agent and for Goldman Sachs Credit Partners, L.P. to resign as administrative agent. On June 3, 2005, the Company entered into a Second Amendment to the Second Amended and Restated Credit Agreement with Deutsche Bank Trust Company Americas assuming the role of administrative agent. As a result of the second amendment to the New Credit Facility, we expensed $7.0 million of unamortized deferred financing costs. On October 26, 2005, the Company entered into a Third Amendment to the Second Amended and Restated Credit Agreement (the “New Credit Facility”) that reduced the applicable margin on the term loan.

The New Credit Facility provides (1) a $795.0 million term loan and (2) a $150.0 million revolving credit facility. The New Credit Facility permits the Company to borrow up to an additional $150.0 million of incremental senior term indebtedness from lenders willing to provide such loans subject to certain restrictions. The terms of the additional indebtedness will be determined by the market conditions at the time of borrowing. The maturity date of the term loan is December 2, 2011, and the maturity date of the revolving credit facility is March 31, 2010. The indebtedness under the New Credit Facility is guaranteed by Holding and all of its domestic subsidiaries. The obligations of Berry under the New Credit Facility and the guarantees thereof are secured by substantially all of the assets of such entities. At April 1, 2006, there were no borrowings outstanding on this revolving credit facility. The revolving credit facility allows up to $35.0 million of letters of credit to be issued instead of borrowings under the revolving credit facility. At April 1, 2006 and December 31, 2005, the Company had $14.7 million in letters of credit outstanding under the revolving credit facility.

The New Credit Facility contains significant financial and operating covenants, including prohibitions on the ability to incur certain additional indebtedness or to pay dividends, and restrictions on the ability to make capital expenditures. The New Credit Facility also contains borrowing conditions and customary events of default, including nonpayment of principal or interest, violation of covenants, inaccuracy of representations and warranties, cross-defaults to other indebtedness, bankruptcy and other insolvency events (other than in the case of certain foreign subsidiaries). The Company was in compliance with all the financial and operating covenants at April 1, 2006. The term loan amortizes quarterly as follows: $1,987,500 each quarter which began on September 30, 2005 and ends September 30, 2010 and $188,315,625 each quarter beginning December 31, 2010 and ending September 30, 2011.

Borrowings under the New Credit Facility bear interest, at the Company's option, at either (i) a base rate (equal to the greater of the prime rate and the federal funds rate plus 0.5%) plus the applicable margin (the ''Base Rate Loans'') or (ii) an adjusted eurodollar LIBOR (adjusted for reserves) plus the applicable margin (the ''Eurodollar Rate Loans''). With respect to the term loan, the ''applicable margin'' is (i) with respect to Base Rate Loans, 1.00% per annum and (ii) with respect to Eurodollar Rate Loans, 2.00% per annum. In addition, the applicable margins with respect to the term loan can be further reduced by an additional .25% per annum subject to the Company meeting a leverage ratio target, which was met based on the results through April 1, 2006. With respect to the revolving credit facility, the ''applicable margin'' is subject to a pricing grid which ranges from 2.75% per annum to 2.00% per annum, depending on the leverage ratio (2.50% based on results through April 1, 2006). The ''applicable margin'' with respect to Base Rate Loans will always be 1.00% per annum less than the ''applicable margin'' for Eurodollar Rate Loans. In October 2002, Berry entered into an interest rate collar arrangement to protect $50.0 million of the outstanding variable rate term loan debt from future interest rate volatility. The collar floor is set at 1.97% LIBOR (London Interbank Offering Rate) and capped at 6.75% LIBOR. The agreement was effective January 15, 2003 and expires on July 15, 2006. In June 2005, Berry entered into three separate interest rate swap transactions to protect $300.0 million of the outstanding variable rate term loan debt from future interest rate volatility. The agreements were effective June 3, 2005 and expire on June 3, 2008. The agreements swap three month variable LIBOR contracts for a fixed rate three year rate of 3.897%. All of the Company's interest rate hedge transactions are accounted for under the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133"). At April 1, 2006, the Company had unused borrowing capacity under the New Credit Facility's revolving line of credit of $135.3 million. Although the $135.3 million was available at April 1, 2006, the covenants under our New Credit Facility may limit our ability to make such borrowings in the future.

4. Stock-Based Compensation

The Company previously applied the intrinsic value method prescribed in Accounting Principles Board Opinion 25, “Accounting for Stock Issued to Employees.” In December 2004, the FASB issued SFAS No. 123R (Revised 2004,) Share-Based Payment (“SFAS 123R”), which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost will be measured based on the fair value of the equity or liability instruments issued. The Company adopted SFAS 123R on January 1, 2006 using the modified prospective method and recorded $1.0 million of non-cash charges for stock compensation related to amortization of the fair value of unvested stock options. Under this method, the Company will recognize compensation cost, on a prospective basis, for the portion of outstanding awards for which the requisite service has not yet been rendered as of January 1, 2006 and any new grants, based upon the grant date fair value of those awards calculated under SFAS 123 for pro forma disclosure purposes. Accordingly, we have not restated prior period amounts. The following table illustrates the pro forma effect on net income for periods prior to adoption of SFAS 123R as if we had applied the fair value recognition provisions of SFAS 123 during such periods.

	Thirteen Weeks Ended April 2, 2005
Reported net income	$ 3,799
Stock-based employee compensation expense included in reported net income, net of related tax effects	—
Total stock-based employee compensation expense determined under fair value based method, for all awards, net of tax	(572)
Pro forma net income	$ 3,227

5. Comprehensive Income

Comprehensive income is comprised of net income, other comprehensive income (losses), and gains or losses resulting from currency translations of foreign investments. Other comprehensive income (losses) includes unrealized gains or losses on derivative financial instruments and minimum pension liability adjustments. The details of comprehensive income (losses) are as follows:

Thirteen Weeks Ended	
April 1,	April 2,

	2006	2005
Net income	**$ 8,180**	$ 3,799
Other comprehensive losses	**(742)**	(20)
Currency translation income (losses)	**336**	(1,085)
Comprehensive income	**$ 7,774**	$ 2,694

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