

BWAY CORP
Form 10-Q
May 18, 2005
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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 3, 2005

001-12415

(Commission File Number)

BWAY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

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36-3624491

(IRS 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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 17, 2005, there were 1,000 shares of BWAY Corporation's Common Stock outstanding.

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Quarterly Report on Form 10-Q
For the quarterly period ended April 3, 2005

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****BWAY Corporation and Subsidiaries****Consolidated Balance Sheets (Unaudited)**

| <i>(\$ in thousands)</i> | April 3, 2005 | October 3, 2004 |
|--|--------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 14,413 | \$ 27,325 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,660 and \$1,654 | 91,168 | 81,039 |
| Inventories, net | 68,303 | 59,275 |
| Deferred tax assets | 10,585 | 8,839 |
| Other | 4,237 | 6,192 |
| Total current assets | 188,706 | 182,670 |
| Property, plant and equipment, net | | |
| | 146,409 | 155,395 |
| Other assets | | |
| Goodwill | 220,725 | 220,297 |
| Other intangibles, net | 162,682 | 168,613 |
| Deferred financing costs, net of accumulated amortization of \$3,025 and \$1,965 | 11,649 | 12,726 |
| Other | 1,484 | 1,703 |
| Total other assets | 396,540 | 403,339 |
| Total Assets | \$ 731,655 | \$ 741,404 |
| Liabilities and Stockholder's Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 75,495 | \$ 66,301 |
| Accrued salaries and wages | 9,990 | 8,604 |
| Accrued interest | 10,616 | 10,625 |
| Accrued rebates | 6,982 | 7,364 |
| Current portion of long-term debt | | 19,700 |
| Other | 17,879 | 17,694 |
| Total current liabilities | 120,962 | 130,288 |
| Long-term debt | | |
| | 395,300 | 395,300 |
| Other long-term liabilities | | |
| Deferred tax liabilities | 81,874 | 82,532 |
| Other | 18,983 | 18,279 |

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| | | |
|--|-------------------|-------------------|
| Total other long-term liabilities | 100,857 | 100,811 |
| Commitments and contingencies (Note 7) | | |
| Stockholder s equity | | |
| Preferred stock, \$.01 par value, shares authorized 5,000,000; none issued | | |
| Common stock, \$.01 par value, shares authorized 24,000,000; shares issued 1,000 | | |
| Additional paid-in capital | 104,022 | 104,022 |
| Retained earnings | 11,103 | 11,572 |
| Accumulated other comprehensive loss | (589) | (589) |
| Total stockholder s equity | 114,536 | 115,005 |
| Total Liabilities and Stockholder s Equity | \$ 731,655 | \$ 741,404 |

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**BWAY Corporation and Subsidiaries****Consolidated Statements of Operations (Unaudited)**

| <i>(\$ in thousands)</i> | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | April 3, 2005 | April 4, 2004 | April 3, 2005 | April 4, 2004 |
| Net sales | \$ 206,830 | \$ 140,763 | \$ 381,537 | \$ 271,801 |
| Costs, expenses and other: | | | | |
| Cost of products sold (excluding depreciation and amortization) | 176,868 | 121,811 | 332,806 | 234,628 |
| Depreciation and amortization | 13,093 | 8,210 | 23,193 | 17,463 |
| Selling and administrative expense | 5,962 | 4,181 | 10,034 | 7,566 |
| Restructuring charges | 527 | 23 | 878 | 85 |
| Interest expense, net | 8,068 | 5,854 | 15,773 | 12,326 |
| Financial advisory fees | 124 | 124 | 248 | 248 |
| Other, net | (86) | 147 | (653) | 108 |
| Total costs, expenses and other | 204,556 | 140,350 | 382,279 | 272,424 |
| Income (loss) before income taxes | 2,274 | 413 | (742) | (623) |
| Income tax provision (benefit) | 854 | 160 | (273) | (359) |
| Net income (loss) | \$ 1,420 | \$ 253 | \$ (469) | \$ (264) |

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**BWAY Corporation and Subsidiaries****Consolidated Statements of Cash Flows (Unaudited)**

| <i>(\$ in thousands)</i> | Six Months Ended | |
|---|--------------------------|--------------------------|
| | April 3, 2005 | April 4, 2004 |
| Cash flows from operating activities: | | |
| Net loss | \$ (469) | \$ (264) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation | 17,262 | 14,226 |
| Amortization of other intangibles | 5,931 | 3,237 |
| Amortization of deferred financing costs | 1,060 | 970 |
| Provision for doubtful accounts | 6 | 158 |
| Restructuring charges | 878 | 85 |
| Gain on disposition of property, plant and equipment | (564) | (9) |
| Deferred income taxes | (2,404) | |
| Stock-based compensation | 713 | 460 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (10,135) | (1,122) |
| Inventories | (9,028) | (6,826) |
| Other assets | (181) | (912) |
| Accounts payable | 9,496 | 5,426 |
| Accrued and other liabilities | (615) | (4,312) |
| Income taxes, net | 2,066 | 2,159 |
| Net cash provided by operating activities | 14,016 | 13,276 |
| Cash flows from investing activities: | | |
| Capital expenditures | (8,527) | (12,538) |
| Business acquisitions, net of cash acquired | (428) | |
| Proceeds from disposition of property, plant and equipment | 255 | 96 |
| Proceeds from disposition of assets held for sale | 653 | |
| Net cash used in investing activities | (8,047) | (12,442) |
| Cash flows from financing activities: | | |
| Net borrowings under revolving credit facility | | 2,462 |
| Repayments of term loan | (19,700) | |
| Increase (decrease) in unrepresented bank drafts in excess of cash available for offset | 875 | (2,985) |
| Principal payments under capital leases | (56) | (43) |
| Financing costs incurred | | (329) |
| Net cash used in financing activities | (18,881) | (895) |
| Net decrease in cash and equivalents | (12,912) | (61) |
| Cash and equivalents, beginning of period | 27,325 | 248 |
| Cash and equivalents, end of period | \$ 14,413 | \$ 187 |

Supplemental disclosures of cash flow information:

Cash paid (refunded) during the period for:

| | | |
|----------|-----------|-----------|
| Interest | \$ 14,748 | \$ 11,230 |
|----------|-----------|-----------|

| | | |
|--------------|-------|------------|
| Income taxes | \$ 65 | \$ (2,518) |
|--------------|-------|------------|

Non-cash investing and financing activities:

| | | |
|---------------------------------------|--------|--------|
| Amounts owed for capital expenditures | \$ 760 | \$ 474 |
|---------------------------------------|--------|--------|

The accompanying notes are an integral part of the consolidated financial statements.

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BWAY Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

1. GENERAL

BWAY Corporation (BWAY), including its principal subsidiary, North America Packaging Corporation (NAMPAC), and each of their lesser subsidiaries (collectively the Company , we , our or us), is a leading North American manufacturer of metal and rigid plastic containers for paint and certain other consumer and industrial products. We operate the company as two divisions. Our BWAY Packaging Division focuses on metal containers and sells and markets its products under the BWAY Corporation name and our NAMPAC Division focuses on plastic containers and sells and markets its products under the NAMPAC name. Our metal containers include a wide variety of steel containers such as paint, aerosol and specialty cans that are used by our customers to package a diverse range of end-use products which, in addition to paint, include household and personal care products, automotive after-market products, paint thinners and driveway and deck sealants. Our plastic containers include injection molded plastic pails and blow-molded tight head containers and drums. Our end-use markets have historically exhibited stable demand characteristics and our customer base includes leading participants in these markets.

BWAY is a wholly-owned subsidiary of BCO Holding Company, an affiliate of Kelso & Company, L.P. (Kelso), a private equity firm, as a result of a transaction whereby all outstanding shares of BWAY 's common stock, with certain exceptions, were acquired on February 7, 2003 (the Transaction) by affiliates of Kelso and certain members of management. Effective with the Transaction, BWAY became a privately held company.

On July 7, 2004, we acquired all of the stock of NAMPAC from MVOC, LLC, a Delaware limited liability company and sole owner of the common shares of NAMPAC (the NAMPAC Acquisition). As a result of the acquisition, NAMPAC became a wholly owned subsidiary of BWAY. We paid approximately \$213.8 million in cash for the acquisition, which was funded by a \$30.0 million equity contribution from Kelso and certain members of our senior management and from a portion of the proceeds from a \$225.0 million term loan facility. The results of operations related to this acquisition are included in the consolidated financial statements from the date of acquisition. Included in the purchase price is approximately \$2.2 million in transaction costs associated with the acquisition.

We operate on a 52/53-week fiscal year ending on the Sunday closest to September 30. The first three quarterly fiscal periods end on the Sunday closest to December 31, March 31 or June 30 of the applicable quarter. Fiscal 2004 was a 53-week fiscal year with the additional week occurring in the first fiscal quarter, which ended January 4, 2004. Our NAMPAC subsidiary reports its operations on a calendar month basis and its financial position and results of operations are consolidated in the accompanying financial statements as of and for the three and six months ended March 31, 2005. The balance sheet dated October 3, 2004 includes NAMPAC as of September 30, 2004. There were no material transactions between September 30, 2004 and October 3, 2004 or between March 31, 2005 and April 4, 2005 related to NAMPAC that required adjustment in the consolidated financial statements.

We have prepared the accompanying consolidated financial statements without audit. Certain information and footnote disclosures, including 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. The consolidated financial statements as of April 3, 2005 and October 3, 2004 and for the three and six months ended April 3, 2005 and April 4, 2004 include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for these periods. Operating results for the three and six months ended April 3, 2005 are not necessarily indicative of the results that may be expected for the entire fiscal year. These statements and the accompanying notes should be read in conjunction with our Annual Report on Form 10-K for the year ended October 3, 2004 (the Annual Report).

Stock-Based Compensation

We account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations (APB 25). Accordingly, we are not required to record compensation expense when the exercise price of stock options granted to employees or directors is equal to or greater than the fair market value of the stock when the option is granted. If compensation expense for our stock-based compensation plan had been determined based on the calculated fair value of the option awards determined at the applicable grant dates, our net income (loss) would be as follows:

| | <u>Three Months Ended</u> | | <u>Six Months Ended</u> | |
|--|---------------------------|--------------------------|--------------------------|------------------------------|
| | <u>April 3, 2005</u> | <u>April 4, 2004</u> | <u>April 3, 2005</u> | <u>April 4, 2004</u> |
| <i>(\$ in thousands)</i> | | | | |
| Net income (loss), as reported | \$ 1,420 | \$ 253 | \$ (469) | \$ (264) |
| Stock-based compensation included in net income (loss), net of tax (1) | 257 | 208 | 450 | 195 |
| Pro forma stock-based compensation under SFAS 123, net of tax | (701) | (621) | (1,368) | (859) |
| Pro forma net income (loss) | \$ 976 | \$ (160) | \$ (1,387) | \$ (928) |

(1) Stock-based compensation included in net income (loss), net of tax, recorded for the periods presented relates to stock options issued pursuant to the BCO Holding Stock Incentive Plan.

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Reclassifications

We have reclassified certain prior year data in order to conform to the current presentation.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, *Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4*, which amends the guidance in Accounting Research Bulletin (ARB) No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS No. 151 will be effective for inventory costs incurred beginning with our fiscal year 2006, which begins October 3, 2005. We do not believe the adoption of SFAS No. 151 will have a material impact on our financial statements.

In December 2004, the FASB issued FASB Staff Position No. FAS 109-1 (FSP FAS 109-1), Application of FASB Statement No. 109, *Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004. The American Jobs Creation Act of 2004 (the AJCA) introduces a special 9% tax deduction on qualified production activities. FSP FAS 109-1 clarifies that this tax deduction should be accounted for as a special tax deduction in accordance with SFAS 109. The provisions of the AJCA will not be applicable to us until fiscal 2006. We are currently evaluating the AJCA to determine the extent, if any, to which the deductions created by the AJCA will be available to us.

In December 2004, the FASB issued a revision to SFAS No. 123, *Share-Based Payment* (SFAS No. 123R). The revision requires all entities to recognize compensation expense in an amount equal to the fair value of share-based payments granted to employees. The statement eliminates the alternative method of accounting for employee share-based payments previously available under APB 25. For purposes of SFAS No. 123R, a nonpublic entity as defined in the Statement includes entities that have only debt securities trading in a public market. As a nonpublic entity, as defined by the Statement, SFAS No. 123R is not effective for us until the beginning of fiscal 2007.

In March 2005, the Securities and Exchange Commission (the SEC) released SEC Staff Accounting Bulletin (SAB) No. 107, *Share-Based Payment*. SAB No. 107 provides the SEC staff's position regarding the implementation of SFAS No. 123R. SAB No. 107 contains interpretive guidance related to the interaction between SFAS No. 123R and certain SEC rules and regulations, as well as provides the staff's views regarding the valuation of share-based payment transactions. We will evaluate the provisions of SAB No. 107 and incorporate it as part of our adoption of SFAS 123R.

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Inventories consist of the following:

| <i>(\$ in thousands)</i> | April 3, 2005 | October 3, 2004 |
|---------------------------|--------------------------|----------------------------|
| Inventories at FIFO cost: | | |
| Raw materials | \$ 16,759 | \$ 15,405 |
| Work-in-process | 37,246 | 27,081 |
| Finished goods | 26,800 | 21,324 |
| | <u>80,805</u> | <u>63,810</u> |
| LIFO reserve | (12,502) | (4,535) |
| | <u>80,805</u> | <u>63,810</u> |
| Inventories, net | \$ 68,303 | \$ 59,275 |

During the first six months of fiscal 2005, the LIFO reserve increased \$8.0 million as a result of rising steel and plastic resin costs.

3. GOODWILL AND OTHER INTANGIBLES

We amortize finite-lived, identifiable intangible assets over their remaining useful lives, which range from 3 to 18 years. These finite-lived intangibles are amortized in proportion to the underlying cash flows that were used in determining their initial valuation. We periodically review the underlying cash flow assumptions to determine if they remain reasonable. The portion of these intangibles associated with the carryover basis from Predecessor (as defined in the Annual Report) continues to be amortized on a straight-line basis.

The following table sets forth the identifiable intangible assets by major asset class:

| <i>(\$ in thousands)</i> | April 3, 2005 | | | October 3, 2004 | | |
|------------------------------------|--------------------------------------|-------------------------------------|------------|--------------------------------------|-------------------------------------|------------|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Amortized intangible assets | | | | | | |
| Customer relationships (1) | \$ 158,060 | \$ (16,846) | \$ 141,214 | \$ 158,060 | \$ (11,768) | \$ 146,292 |
| Tradenames (2) | 22,833 | (2,327) | 20,506 | 22,833 | (1,504) | 21,329 |
| Non-compete agreements (3) | 401 | (52) | 349 | 401 | (22) | 379 |

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| | | | | | | |
|--------------------------------------|------------|-------------|------------|------------|-------------|------------|
| Total amortized intangible assets | \$ 181,294 | \$ (19,225) | \$ 162,069 | \$ 181,294 | \$ (13,294) | \$ 168,000 |
| Unamortized intangible assets | | | | | | |
| Technology | \$ 613 | \$ | \$ 613 | \$ 613 | \$ | \$ 613 |
| Total identifiable intangible assets | \$ 181,907 | \$ (19,225) | \$ 162,682 | \$ 181,907 | \$ (13,294) | \$ 168,613 |

(1) Useful lives range between 14 and 18 years.

(2) Useful lives range between 10 and 15 years.

(3) Useful lives range between 3 and 4 years.

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Expected amortization expense by fiscal year is as follows:

(\$ in thousands)

| Fiscal Year Ending: | Amount |
|---------------------|------------|
| 2005 | \$ 11,862 |
| 2006 | 13,003 |
| 2007 | 13,405 |
| 2008 | 12,900 |
| 2009 | 12,510 |
| Thereafter | 104,320 |
| | \$ 168,000 |

Of the fiscal 2005 expected amortization of \$11.9 million, we recorded approximately \$3.0 million in each of the first and second quarters of fiscal 2005.

The following table sets forth the change in the carrying amount of goodwill by reportable segment during the six months period ended April 3, 2005. The change relates to purchase accounting adjustments primarily related to transactions costs associated with the NAMPAC Acquisition. Although substantially complete, the purchase price allocation for the NAMPAC Acquisition will be completed within one year of the acquisition date.

| <i>(\$ in thousands)</i> | Metal Packaging | Plastic Packaging | Total |
|---|--------------------|----------------------|------------|
| Goodwill | | | |
| Balance, October 3, 2004 | \$ 112,556 | \$ 107,741 | \$ 220,297 |
| Additions related to the NAMPAC Acquisition | | 428 | 428 |
| | \$ 112,556 | \$ 108,169 | \$ 220,725 |

4. LONG-TERM DEBT

Long-term debt consists of the following:

| <i>(\$ in thousands)</i> | April 3, 2005 | October 3, 2004 |
|--------------------------|------------------|--------------------|
| | | |

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| | | |
|---|----------------------------|----------------------------|
| 10% senior subordinated notes, due 2010 | \$ 200,000 | \$ 200,000 |
| Senior credit facility: Term loan | 195,300 | 215,000 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Long-term debt | 395,300 | 415,000 |
| Less: Current portion | | 19,700 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| Long-term debt | \$ 395,300 | \$ 395,300 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |

10% Senior Subordinated Notes Due 2010

On November 27, 2002, BWAY Finance completed a private offering of \$200.0 million principal amount of 10% Senior Subordinated Notes due 2010, which we assumed on February 7, 2003 in connection with the Transaction. In December 2003, we exchanged the notes for new notes registered under the Securities Act in an equal principal amount (the Notes). The Notes mature on October 15, 2010.

The Notes are unsecured senior subordinated obligations of the Company and are effectively subordinated to all senior debt obligations (as defined in the indenture) of the Company. Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 of each year.

Except in certain cases following an equity offering, as described below, we cannot redeem these notes until October 15, 2006. Thereafter, we may redeem some or all of these notes at the redemption prices specified in the indenture to the notes (105.0% on October 15, 2006 declining annually to 100% on October 15, 2009), plus accrued and unpaid interest to the date of redemption.

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At any time before October 15, 2005, we can choose to redeem up to 35% of these outstanding notes with money that we raise in one or more equity offerings, as long as: we pay 110% of the face amount of the notes, plus interest; we redeem the notes within 90 days of completing the equity offering; and at least 65% of the aggregate principal amount of notes issued remains outstanding afterwards.

Upon the occurrence of a Change in Control (as defined in the indenture) the holders of these notes could require us to repurchase the notes at 101% of the principal amount plus accrued and unpaid interest to the date of repurchase.

The indenture governing these notes contains covenants that, among other things, limit our ability (and 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, 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 3, 2005, we were in compliance with all applicable covenants contained in the indenture.

Under the terms of the indenture and in connection with its guarantee of our Credit Facility, NAMPAC and its subsidiaries have fully and unconditionally guaranteed the Notes. The indenture requires any current or future subsidiary of the Company that guarantees certain indebtedness of the Company to guarantee the Notes.

We incurred and have deferred approximately \$8.0 million in financing costs related to the underwriting and registration of these notes. We are amortizing these deferred costs to interest expense over the remaining term of the notes. At April 3, 2005 and October 3, 2004, approximately \$5.7 million and \$6.3 million, respectively, of the deferred costs were unamortized.

Credit Facility

Our current credit facility consists of (a) a \$225.0 million term loan facility (the *Term Loan*), which matures June 30, 2011 (or April 15, 2010 under certain conditions) and (b) a \$30.0 million revolving credit facility (the *Revolver*), which matures June 30, 2009 (the *Term Loan* and *Revolver*, collectively, the *Credit Facility*).

We made voluntary prepayments on the *Term Loan* of \$19.1 million in December 2004. We also made a required prepayment of \$0.6 million on the *Term Loan* in December 2004, which represented the net proceeds from the sale of assets related to our closed Southwest manufacturing facility. As a result of these prepayments, our next scheduled quarterly repayment of approximately \$0.1 million becomes due in June 2008. Repayments, whether scheduled or voluntary, permanently reduce the *Term Loan*.

Interest accrues on the *Term Loan* and the *Revolver* at an applicable margin plus either (a) a base rate (which is the higher of prime or 0.5% in excess of the overnight federal funds rate) or (b) a Eurodollar rate. For the *Term Loan*, the applicable margins were initially fixed at 1.25% for base rate loans and at 2.25% for Eurodollar rate loans, and can range from 1.00% to 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. For the *Revolver*, the applicable margins were initially fixed at 1.75% for base rate loans and 2.75% for Eurodollar rate loans, and can range from 1.00% to 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. Borrowing at the base rate or the Eurodollar rate is at our discretion.

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After December 31, 2004, rate margins became subject to quarterly change based on our ratio of Consolidated Indebtedness to Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization), each as defined in the underlying credit agreement. Based on our ratio of Consolidated Indebtedness to Consolidated EBITDA as of January 2, 2005, the rate margins did not change in the quarter ended April 3, 2005 from those initially set as described above.

We incurred and have deferred approximately \$6.7 million in financing costs related to the underwriting of the Credit Facility, which includes a carry forward of approximately \$0.2 million of unamortized deferred financing costs associated with the previous credit facility pursuant to Emerging Issues Task Force Issue 98-14, *Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements*. We are amortizing \$5.7 million of these deferred costs, which are associated with the Term Loan, to interest expense over the term of the loan in proportion to the outstanding principal. We are amortizing the remaining \$1.0 million, which includes the \$0.2 million carry forward, on a straight-line basis over the term of the Revolver. At April 3, 2005 and October 3, 2004, approximately \$5.9 million and \$6.4 million, respectively, of the deferred costs were unamortized.

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At April 3, 2005, we were in compliance with all applicable credit agreement covenants related to the Credit Facility.

BCO Holding and each of our subsidiaries, including NAMPAC and its subsidiaries, have guaranteed our obligations under the Credit Facility, which is secured by substantially all of our assets and the assets of BCO Holding. In addition, we have pledged as collateral all of the issued and outstanding stock of our subsidiaries, which are wholly-owned by BWAY.

At April 3, 2005, we had \$6.7 million in standby letter of credit commitments that reduced our available borrowings under the Revolver to \$23.3 million. At April 3, 2005, we did not have any outstanding Revolver borrowings. The borrowing rate on the Term Loan borrowings as of April 3, 2005 was approximately 5.0%.

Scheduled maturities of long-term debt as of April 3, 2005 are as follows:

(\$ in thousands)

| Fiscal Year Ending: | Amount |
|---------------------|------------|
| 2005 | \$ |
| 2006 | |
| 2007 | |
| 2008 | 94 |
| 2009 | 992 |
| Thereafter | 394,214 |
| | \$ 395,300 |

5. EMPLOYMENT BENEFIT OBLIGATIONS

The following table summarizes our employee benefit obligation liabilities as of April 3, 2005 and October 3, 2004.

| <i>(\$ in thousands)</i> | April 3, 2005 | October 3, 2004 |
|---|------------------|--------------------|
| Defined benefit pension liability | \$ 3,807 | \$ 4,264 |
| Retiree medical and other postretirement benefits | 5,132 | 4,912 |
| Deferred compensation | 5,862 | 5,658 |
| | \$ 14,801 | \$ 14,834 |

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The following table summarizes the components of net periodic benefit cost. Net periodic pension costs relate to a defined benefit plan that we acquired in July 2004. Accordingly, there was no net periodic pension cost for the three and six months ended April 4, 2004. The defined benefit plan was frozen effective October 31, 2004.

| <i>(\$ in millions)</i> | Defined Benefit Pension Plan | | Other Postretirement Benefits | | | |
|-----------------------------------|---|-----------------------------|--------------------------------------|--------------------------|-----------------------------|--------------------------|
| | Three Months Ended | Six Months Ended | Three Months Ended | | Six Months Ended | |
| | April 3, 2005 | April 3, 2005 | April 3, 2005 | April 4, 2004 | April 3, 2005 | April 4, 2004 |
| | April 3, 2005 | April 3, 2005 | April 3, 2005 | April 4, 2004 | April 3, 2005 | April 4, 2004 |
| Service cost | \$ | \$ 71 | \$ 1 | \$ 1 | \$ 2 | \$ 2 |
| Interest cost | | 154 | 107 | 100 | 190 | 200 |
| Expected return on plan assets | | (144) | | | | |
| Recognized net actuarial loss | | | 17 | 17 | 28 | 33 |
| Net periodic benefit costs | \$ | \$ 10 | \$ 125 | \$ 118 | \$ 220 | \$ 235 |

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During the three months ended April 3, 2005, we contributed approximately \$0.5 million to the defined benefit pension plan. We do not expect to make any further contributions to the plan during the remainder of the fiscal year.

6. RESTRUCTURING AND EXIT LIABILITY

The following table sets forth changes in our restructuring and exit liabilities from October 3, 2004 to April 3, 2005. The nature of the liabilities has not changed from that previously reported in the Annual Report. The restructuring and exit liabilities are included in other current liabilities.

| <u>(\$ in millions)</u> | <u>Balance October 3, 2004</u> | <u>Additions/ Adjustments</u> | <u>Expenditures</u> | <u>Balance April 3, 2005</u> |
|--------------------------------------|--|-----------------------------------|---------------------|----------------------------------|
| Restructuring liability: | | | | |
| Facility closure costs | \$ 0.1 | \$ 0.7 | \$ (0.7) | \$ 0.1 |
| Severance costs | | 0.3 | (0.1) | 0.2 |
| Total restructuring liability | \$ 0.1 | \$ 1.0 | \$ (0.8) | \$ 0.3 |
| Exit liability: | | | | |
| Facility closure costs | \$ 0.2 | \$ (0.1) | \$ (0.1) | \$ |

All of the exit liability relates to our metal packaging segment. The restructuring liability by segment is as follows.

| <u>(\$ in millions)</u> | <u>Balance October 3, 2004</u> | <u>Additions</u> | <u>Expenditures</u> | <u>Balance April 3, 2005</u> |
|--------------------------------------|--|------------------|---------------------|----------------------------------|
| Restructuring liability: | | | | |
| Metal packaging segment | \$ 0.1 | \$ 0.3 | \$ (0.3) | \$ 0.1 |
| Plastics packaging segment | | 0.7 | (0.5) | 0.2 |
| Total restructuring liability | \$ 0.1 | \$ 1.0 | \$ (0.8) | \$ 0.3 |

Restructuring Charges

During the three and six months ended April 3, 2005, we recorded restructuring charges of \$0.6 million and \$1.0 million, respectively, related to costs associated with the shutdown of our manufacturing facility in Picayune, Mississippi (\$0.3 million), costs associated with the shutdown or planned shutdown of certain of our plastics manufacturing facilities, as discussed below, primarily related to the removal of equipment (\$0.4 million) and severance costs associated with the closure of certain of the plastics manufacturing facilities (\$0.3 million).

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In addition, during the three and six months ended April 3, 2005, we recorded approximately \$2.9 million and \$3.9 million, respectively, of additional depreciation associated with the shortened useful lives of equipment which has, or will be, taken out of service in association with the planned closure of certain of our plastics manufacturing facilities, as discussed below.

In October 2004, our Board approved a plan to close certain plastics manufacturing facilities that became redundant as a result of the NAMPAC Acquisition. We ceased operations at one of the facilities at the end of fiscal 2004, and the remaining facilities were closed in April 2005. Approximately 140 hourly and approximately 20 salaried employees were affected by the facility closures. We believe the consolidation of existing business from these closed facilities into our NAMPAC facilities will result in lower overall manufacturing costs and improved manufacturing capacity.

We expect to incur future restructuring charges of approximately \$3.0 million to \$4.0 million related to facility shutdown and holding costs, which include approximately \$1.5 million to \$2.5 million related to long-term lease obligations, net of estimated sublease proceeds, on the closed facilities.

As of April 3, 2005, the remaining book value of property, plant and equipment associated with these closed facilities was approximately \$1.9 million. We expect to relocate a portion of these remaining assets to other of our NAMPAC facilities, and we expect to offer a portion of the assets for sale. We expect to incur capital expenditures in fiscal 2005 of approximately \$2.6 million related to the relocation of assets from these closed facilities.

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7. COMMITMENTS AND CONTINGENCIES

Environmental

We are subject to a broad range of federal, state and local environmental, health and safety laws, including those governing discharges to air, soil and water, the handling and disposal of hazardous substances and the investigation and remediation of contamination resulting from the release of hazardous substances. We believe that we are currently in compliance with all applicable environmental, health and safety laws, though future expenditures may be necessary in order to maintain such compliance, including compliance with air emission control requirements for volatile organic compounds. In addition, in the course of our operations we use, store and dispose of hazardous substances. Some of our current and former facilities are currently involved in environmental investigations and remediation resulting from releases of hazardous substances or the presence of other constituents. While we do not believe that any investigation or identified remediation obligations will have a material adverse effect on our operating results or financial condition, there are no assurances that such obligations will not arise in the future. Many of our facilities have a history of industrial usage for which investigation and remediation obligations could arise in the future and which could have a material adverse effect on our operating results or financial condition.

We believe future expenditures will be necessary in order to comply with federal Maximum Achievable Control Technology (MACT) regulations, which relate to air emission control requirements for Hazardous Air Pollutants (HAP) and volatile organic compounds. These regulations become effective in November 2006.

In the first quarter of fiscal 2004, we received information indicating that the State of Georgia may consider the Company a potentially responsible party (PRP) at a waste disposal site in Georgia. Our possible PRP status is based on documents indicating that waste materials were transported to the site from our Homerville, Georgia facility prior to our acquisition of the facility in 1989. Presently, we are unable to determine the amount or likelihood of any liability as a result of this information or the extent to which, if necessary, we are covered by the indemnification agreement from the prior owner of the facility.

From time to time, we receive requests for information or are identified as a PRP pursuant to the Federal Comprehensive Environmental Response, Compensation and Liability Act or analogous state laws with respect to off-site waste disposal sites utilized by our current or former facilities or our predecessors in interest. We do not believe that any of these identified matters will have a material adverse effect on our operating results or financial condition.

We record reserves for environmental liabilities when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. We have accrued liabilities of approximately \$0.2 million for environmental investigation and remediation obligations as of April 3, 2005 and October 3, 2004; however, we cannot guarantee that future expenditures will not exceed the amounts accrued.

Litigation

We are involved in legal proceedings from time to time in the ordinary course of business. We believe that the outcome of these proceedings will not have a material effect on our financial condition or results of operations. At April 3, 2005 and October 3, 2004, we had accrued approximately \$0.6 million and \$0.7 million, respectively, related to pending litigation matters.

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Letters of Credit

At April 3, 2005, a bank had issued standby letters of credit on our behalf in the aggregate amount of \$6.7 million primarily in favor of our workers' compensation insurers and purchasing card vendor.

Commodity Risk

We are subject to various risks and uncertainties related to changing commodity prices for and the availability of the materials used in the manufacture of our products (primarily steel and resin).

8. BUSINESS SEGMENTS

Our operations are organized and reviewed by management along our products lines in two reportable segments - Metal Packaging and Plastics Packaging. We operate these reportable segments as separate divisions and differentiate the segments based on the nature of the products and services they offer. The primary raw material and manufacturing process are unique for each segment. A further description of each business segment and of our Corporate services area follows:

Metal Packaging. Metal Packaging includes the metal packaging products and material center services that we have historically offered. Primarily products in this segment include paint cans, aerosol containers, ammunition boxes and other general line containers made from steel. Metal Packaging is a separate division of the Company with management and production facilities and processes distinct from our Plastics Packaging Division.

Plastics Packaging. Plastics Packaging includes the plastics packaging products manufactured and distributed by NAMPAC and, to a lesser extent, those resulting from the acquisition of SST Industries in fiscal 2003 (the SST Acquisition). Principal products in this segment include open- and tight-head pails and drums, other multi-purpose rigid industrial plastic packaging and a limited range of consumer plastic packaging. Plastics Packaging is a separate division of the Company with management and production facilities and processes distinct from our Metal Packaging Division.

Corporate. Corporate includes accounting and finance, information technology, payroll and human resources and various other overhead charges, each to the extent not allocated to the divisions.

Segment asset disclosures include, among other things, inventories, property, plant and equipment, goodwill and other intangible assets. The accounting policies of our segments have not changed from those described in the Annual Report. There were no intersegment sales in the periods presented. Management's evaluation of segment performance is principally based on EBITDA.

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The following sets forth certain financial information attributable to our business segments for three and six months ended April 3, 2005 and April 4, 2004.

| (\$ in thousands) | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | April 3, 2005 | April 4, 2004 | April 3, 2005 | April 4, 2004 |
| Net sales | | | | |
| Metal packaging | \$ 130,049 | \$ 133,226 | \$ 240,088 | \$ 256,713 |
| Plastics packaging | 76,781 | 7,537 | 141,449 | 15,088 |
| Consolidated net sales | \$ 206,830 | \$ 140,763 | \$ 381,537 | \$ 271,801 |
| Income (loss) before income taxes | | | | |
| Metal packaging | \$ 23,104 | \$ 16,317 | \$ 35,634 | \$ 31,820 |
| Plastics packaging | 3,720 | 649 | 7,137 | 1,317 |
| Segment earnings before depreciation and amortization | 26,824 | 16,966 | 42,771 | 33,137 |
| Corporate undistributed expenses | 2,948 | 2,319 | 4,322 | 3,778 |
| Depreciation and amortization (see below) | 13,093 | 8,210 | 23,193 | 17,463 |
| Restructuring charges | 527 | 23 | 878 | 85 |
| Interest expense, net | 8,068 | 5,854 | 15,773 | 12,326 |
| Other, net | (86) | 147 | (653) | 108 |
| Consolidated income (loss) before income taxes | \$ 2,274 | \$ 413 | \$ (742) | \$ (623) |
| Depreciation and amortization | | | | |
| Metal packaging | \$ 5,911 | \$ 7,180 | \$ 11,033 | \$ 15,404 |
| Plastics packaging | 6,670 | 447 | 11,139 | 892 |
| Segment depreciation and amortization | 12,581 | 7,627 | 22,172 | 16,296 |
| Corporate | 512 | 583 | 1,021 | 1,167 |
| Consolidated depreciation and amortization | \$ 13,093 | \$ 8,210 | \$ 23,193 | \$ 17,463 |

The following table sets forth total assets attributable to our business segments as of April 3, 2005 and October 3, 2004.

| (\$ in thousands) | April 3, 2005 | October 3, 2004 |
|---------------------|------------------|-----------------------|
| Total assets | | |
| Metal packaging | \$ 327,223 | \$ 318,942 |
| Plastics packaging | 276,007 | 284,740 |

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| | | |
|---------------------------|-------------------|-------------------|
| Segment assets | 603,230 | 603,682 |
| Corporate | 128,425 | 137,722 |
| | <u> </u> | <u> </u> |
| Consolidated total assets | \$ 731,655 | \$ 741,404 |
| | <u> </u> | <u> </u> |

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9. SUPPLEMENTAL GUARANTOR SUBSIDIARIES INFORMATION

Our 10% Senior Subordinated Notes due 2010 and Term Loan are guaranteed on a full, unconditional joint and several basis by our wholly owned subsidiaries. The following condensed, consolidating financial information presents the consolidating financial statements of BWAY and its subsidiaries, all of which have guaranteed the Notes and Term Loan, as of and for the three months ended April 3, 2005. Separate financial statements of the guarantor subsidiaries are not presented because we have determined that they would not be material to investors.

Prior to the refinancing of our revolving credit facility and the acquisition of NAMPAC, each of which occurred in July 2004, BWAY and each of its subsidiaries were borrowers under our revolving credit facility then in effect. Prior to its merger with and into BWAY during fiscal 2004, BWAY Manufacturing, Inc. was a guarantor of the Notes. Prior to the merger of BWAY and BWAY Manufacturing, Inc., BWAY was a holding company with no independent operations.

Effective with the refinancing of the revolving credit facility and the Term Loan borrowing, BWAY is the sole borrower under the Credit Facility and each of its subsidiaries, including NAMPAC, are guarantors. In addition, all of BWAY's direct and indirect subsidiaries, including NAMPAC, have guaranteed the Notes.

Based on the above events, we have not presented condensed, consolidating financial information for the periods preceding July 2004, as we believe such consolidating information is not required.

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BWAY Corporation and Subsidiaries
Supplemental Condensed Consolidating Balance Sheet

April 3, 2005

| | <u>BWAY</u> <u>Corporation</u> | <u>Guarantor</u> <u>Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|--|-----------------------------------|---|---------------------|---------------------|
| <u>Assets</u> | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 14,204 | \$ 209 | \$ | \$ 14,413 |
| Accounts receivable, net | 56,856 | 34,312 | | 91,168 |
| Inventories, net | 53,500 | 14,803 | | 68,303 |
| Deferred tax assets | 9,869 | 716 | | 10,585 |
| Other | 3,115 | 1,122 | | 4,237 |
| | <u>137,544</u> | <u>51,162</u> | | <u>188,706</u> |
| Total current assets | | | | |
| Property, plant and equipment, net | 95,957 | 50,452 | | 146,409 |
| Other assets | | | | |
| Goodwill | 120,259 | 100,466 | | 220,725 |
| Other intangibles, net | 61,470 | 101,212 | | 162,682 |
| Deferred financing fees, net | 11,649 | | | 11,649 |
| Other | 914 | 570 | | 1,484 |
| Investment in subsidiaries | 213,830 | | (213,830) | |
| | <u>408,122</u> | <u>202,248</u> | <u>(213,830)</u> | <u>396,540</u> |
| Total other assets | | | | |
| Total Assets | \$ 641,623 | \$ 303,862 | \$ (213,830) | \$ 731,655 |
| <u>Liabilities and Stockholder's Equity</u> | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 46,852 | \$ 28,643 | \$ | \$ 75,495 |
| Accrued salaries and wages | 8,163 | 1,827 | | 9,990 |
| Accrued interest | 10,616 | | | 10,616 |
| Accrued rebates | 6,696 | 286 | | 6,982 |
| Other | 16,621 | 1,258 | | 17,879 |
| | <u>88,948</u> | <u>32,014</u> | | <u>120,962</u> |
| Total current liabilities | | | | |
| Long-term debt | 395,300 | | | 395,300 |
| Other long-term liabilities | | | | |
| Deferred tax liabilities | 33,160 | 48,714 | | 81,874 |
| Intercompany | (5,270) | 5,270 | | |
| Other | 14,949 | 4,034 | | 18,983 |
| | <u>42,839</u> | <u>58,018</u> | | <u>100,857</u> |
| Total other long-term liabilities | | | | |
| Stockholder's equity | | | | |

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| | | | | |
|---|-------------------|-------------------|---------------------|-------------------|
| Common stock | | 1 | (1) | |
| Additional paid-in capital | 104,022 | 213,845 | (213,845) | 104,022 |
| Retained earnings | 11,103 | 573 | (573) | 11,103 |
| Accumulated other comprehensive loss | (589) | (589) | 589 | (589) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total stockholder's equity | 114,536 | 213,830 | (213,830) | 114,536 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities and Stockholder's Equity | \$ 641,623 | \$ 303,862 | \$ (213,830) | \$ 731,655 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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BWAY Corporation and Subsidiaries
Supplemental Condensed Consolidating Balance Sheet

October 3, 2004

| | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------------|-----------------------------------|---------------------|---------------------|
| Current Assets | | | | |
| Cash and cash equivalents | \$ 22,800 | \$ 4,525 | \$ | \$ 27,325 |
| Accounts receivable | 52,618 | 28,421 | | 81,039 |
| Inventories, net | 43,544 | 15,731 | | 59,275 |
| Deferred tax assets | 7,717 | 1,122 | | 8,839 |
| Other | 5,945 | 247 | | 6,192 |
| | 132,624 | 50,046 | | 182,670 |
| Total current assets | | | | |
| Property, plant and equipment, net | 106,625 | 48,770 | | 155,395 |
| Other assets | | | | |
| Goodwill | 120,259 | 100,038 | | 220,297 |
| Other intangibles, net | 64,899 | 103,714 | | 168,613 |
| Deferred financing fees, net | 12,726 | | | 12,726 |
| Other | 1,140 | 563 | | 1,703 |
| Investment in subsidiaries | 213,037 | | (213,037) | |
| | 412,061 | 204,315 | (213,037) | 403,339 |
| Total other assets | | | | |
| Total Assets | \$ 651,310 | \$ 303,131 | \$ (213,037) | \$ 741,404 |
| Current liabilities | | | | |
| Accounts payable | \$ 36,713 | \$ 29,588 | \$ | \$ 66,301 |
| Accrued salaries and wages | 6,544 | 2,060 | | 8,604 |
| Accrued interest | 10,625 | | | 10,625 |
| Accrued rebates | 6,974 | 390 | | 7,364 |
| Current portion of long-term debt | 19,700 | | | 19,700 |
| Other | 15,072 | 2,622 | | 17,694 |
| | 95,628 | 34,660 | | 130,288 |
| Total current liabilities | | | | |
| Long-term debt | 395,300 | | | 395,300 |
| Other long-term liabilities | | | | |
| Deferred tax liabilities | 33,818 | 48,714 | | 82,532 |
| Intercompany | (2,347) | 2,347 | | |
| Other | 13,906 | 4,373 | | 18,279 |
| | 45,377 | 55,434 | | 100,811 |
| Total other long-term liabilities | | | | |
| Stockholder's equity | | | | |
| Common stock | | 1 | (1) | |

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| | | | | |
|---|-------------------|-------------------|---------------------|-------------------|
| Additional paid-in capital | 104,022 | 213,845 | (213,845) | 104,022 |
| Retained earnings | 11,572 | (220) | 220 | 11,572 |
| Accumulated other comprehensive loss | (589) | (589) | 589 | (589) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total stockholder's equity | 115,005 | 213,037 | (213,037) | 115,005 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities and Stockholder's Equity | \$ 651,310 | \$ 303,131 | \$ (213,037) | \$ 741,404 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Table of Contents**BWAY Corporation and Subsidiaries****Supplemental Condensed Consolidating Statement of Operations****For the three months ended April 3, 2005**

| | <u>BWAY Corporation</u> | <u>Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 133,979 | \$ 72,851 | \$ | \$ 206,830 |
| Costs, expenses and other | | | | |
| Cost of products sold (excluding depreciation and amortization) | 109,615 | 67,430 | (177) | 176,868 |
| Depreciation and amortization | 9,436 | 3,657 | | 13,093 |
| Selling and administrative expenses | 4,992 | 970 | | 5,962 |
| Restructuring charges | 527 | | | 527 |
| Interest expense, net | 8,070 | (2) | | 8,068 |
| Financial advisory fees | 124 | | | 124 |
| Other, net | (33) | (230) | 177 | (86) |
| Total costs, expenses and other | 132,731 | 71,825 | | 204,556 |
| Income before taxes | 1,248 | 1,026 | | 2,274 |
| Income tax provision | 472 | 382 | | 854 |
| Equity in income of subsidiaries | 644 | | (644) | |
| Net income | \$ 1,420 | \$ 644 | \$ (644) | \$ 1,420 |

BWAY Corporation and Subsidiaries**Supplemental Condensed Consolidating Statement of Operations****For the six months ended April 3, 2005**

| | <u>BWAY Corporation</u> | <u>Guarantor Subsidiaries</u> | <u>Eliminations</u> | <u>Consolidated</u> |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 249,360 | \$ 132,177 | \$ | \$ 381,537 |
| Costs, expenses and other | | | | |
| Cost of products sold (excluding depreciation and amortization) | 211,000 | 122,161 | (355) | 332,806 |
| Depreciation and amortization | 16,012 | 7,181 | | 23,193 |
| Selling and administrative expenses | 7,882 | 2,152 | | 10,034 |
| Restructuring charges | 878 | | | 878 |
| Interest expense, net | 15,775 | (2) | | 15,773 |
| Financial advisory fees | 248 | | | 248 |

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| | | | | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Other, net | (432) | (576) | 355 | (653) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total costs, expenses and other | 251,363 | 130,916 | | 382,279 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| (Loss) income before taxes | (2,003) | 1,261 | | (742) |
| Income tax (benefit) provision | (741) | 468 | | (273) |
| Equity in income of subsidiaries | 793 | | (793) | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net (loss) income | \$ (469) | \$ 793 | \$ (793) | \$ (469) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Table of Contents**BWAY Corporation and Subsidiaries****Supplemental Condensed Consolidating Statement of Cash Flows****For the six months ended April 3, 2005**

| | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net cash provided by (used in) operating activities | \$ 15,366 | \$ (1,350) | \$ | \$ 14,016 |
| Cash Flows from Investing Activities | | | | |
| Capital expenditures | (4,082) | (4,445) | | (8,527) |
| Business acquisitions, net of cash acquired | (428) | | | (428) |
| Other | 908 | | | 908 |
| Net cash used in investing activities | (3,602) | (4,445) | | (8,047) |
| Cash Flows from Financing Activities | | | | |
| Repayments of term loan | (19,700) | | | (19,700) |
| Other | (660) | 1,479 | | 819 |
| Net cash (used in) provided by financing activities | (20,360) | 1,479 | | (18,881) |
| Net decrease in cash and cash equivalents | (8,596) | (4,316) | | (12,912) |
| Cash and cash equivalents, beginning of period | 22,800 | 4,525 | | 27,325 |
| Cash and cash equivalents, end of period | \$ 14,204 | \$ 209 | \$ | \$ 14,413 |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, which often require the judgment of management in the selection and application of certain accounting principles and methods. We believe that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions. The following discussion should be read in conjunction with our unaudited consolidated financial statements and related notes included in Item 1 of this report.

NAMPAC Acquisition. On July 7, 2004, we acquired all of the issued and outstanding shares of stock of NAMPAC, a manufacturer of rigid plastic containers for industrial packaging markets. We paid approximately \$213.8 million in cash for the acquisition, which was funded by a \$30.0 million equity contribution from Kelso and certain members of our senior management and from a portion of the proceeds from a \$225.0 million term loan facility. The results of operations related to this acquisition are included in the consolidated financial statements from the date of acquisition.

Results of Operations

Our operations are organized and reviewed by management along our products lines in two reportable segments—Metal Packaging and Plastics Packaging. We operate these reportable segments as separate divisions and differentiate the segments based on the nature of the products and services they offer. The primary raw material and manufacturing process are unique for each segment. In addition to the business segments, we report certain items as corporate, which relate to corporate services including accounting and finance, information technology, payroll and human resources and various other overhead charges, each to the extent not allocated to the divisions.

Metal Packaging. Metal Packaging includes our metal packaging products and material center services. Principal products in this segment include paint cans, aerosol containers, ammunition boxes and other general line containers made from steel. Metal Packaging is a separate division of the Company with management and production facilities and processes distinct from our Plastics Packaging Division.

Plastics Packaging. Plastics Packaging includes the plastics packaging products manufactured and distributed by NAMPAC and, to a lesser extent, those resulting from the SST Acquisition in fiscal 2003. Principal products in this segment include open- and tight-head pails and drums, other multi-purpose rigid industrial plastic packaging and a limited range of consumer plastic packaging. Plastics Packaging is a separate division of the Company with management and production facilities and processes distinct from our Metal Packaging Division.

In the following tables, certain percentage changes, generally those of increases or decreases in excess of 100%, are not meaningful and have not been presented.

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The following table set forth changes in our statements of operations and line items as a percentage of net sales for the three months ended April 3, 2005 and April 4, 2004.

| (\$ in thousands) | As a % of Net Sales | | | | | |
|---|---------------------|------------------|-----------|-------|--------------------|------------------|
| | Three Months Ended | | Change | | Three Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Net sales | \$ 206,830 | \$ 140,763 | \$ 66,067 | 46.9% | 100.0% | 100.0% |
| Cost of products sold (excluding depreciation and amortization) | 176,868 | 121,811 | 55,057 | 45.2% | 85.5% | 86.5% |
| Gross margin | 29,962 | 18,952 | 11,010 | 58.1% | 14.5% | 13.5% |
| Depreciation and amortization | 13,093 | 8,210 | 4,883 | 59.5% | 6.3% | 5.8% |
| Selling and administrative expenses | 5,962 | 4,181 | 1,781 | 42.6% | 2.9% | 3.0% |
| Restructuring charges | 527 | 23 | 504 | | 0.3% | |
| Interest expense, net | 8,068 | 5,854 | 2,214 | 37.8% | 3.9% | 4.2% |
| Financial advisory fees | 124 | 124 | | | 0.1% | 0.1% |
| Other, net | (86) | 147 | (233) | | | 0.1% |
| Income before income taxes | 2,274 | 413 | 1,861 | | 1.1% | 0.3% |
| Income tax provision | 854 | 160 | 694 | | 0.4% | 0.1% |
| Net income | 1,420 | \$ 253 | \$ 1,167 | | 0.7% | 0.2% |

The following table set forth changes in our statements of operations and line items as a percentage of net sales for the six months ended April 3, 2005 and April 4, 2004.

| (\$ in thousands) | As a % of Net Sales | | | | | |
|---|---------------------|------------------|------------|-------|------------------|------------------|
| | Six Months Ended | | Change | | Six Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Net sales | \$ 381,537 | \$ 271,801 | \$ 109,736 | 40.4% | 100.0% | 100.0% |
| Cost of products sold (excluding depreciation and amortization) | 332,806 | 234,628 | 98,178 | 41.8% | 87.2% | 86.3% |
| Gross margin | 48,731 | 37,173 | 11,558 | 31.1% | 12.8% | 13.7% |
| Depreciation and amortization | 23,193 | 17,463 | 5,730 | 32.8% | 6.1% | 6.4% |
| Selling and administrative expenses | 10,034 | 7,566 | 2,468 | 32.6% | 2.6% | 2.8% |
| Restructuring charges | 878 | 85 | 793 | | 0.2% | |
| Interest expense, net | 15,773 | 12,326 | 3,447 | 28.0% | 4.1% | 4.5% |

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| | | | | | | |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Financial advisory fees | 248 | 248 | | | 0.1% | 0.1% |
| Other, net | (653) | 108 | (761) | | (0.2)% | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Loss before income taxes | (742) | (623) | (119) | 19.1% | (0.2)% | (0.2)% |
| Income tax benefit | (273) | (359) | 86 | (24.0)% | (0.1)% | (0.1)% |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net loss | \$ (469) | \$ (264) | \$ (205) | 77.7% | (0.1)% | (0.1)% |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Table of Contents*Net Sales***Net Sales by Segment**

| <i>(\$ in thousands)</i> | Three Months Ended | | Change | | As a % of the Total | |
|-------------------------------|---------------------------|-------------------|------------------|--------------|----------------------------|-----------------|
| | April 3, | April 4, | | | April 3, | April 4, |
| | 2005 | 2004 | \$ | % | 2005 | 2004 |
| Metal packaging | \$ 130,049 | \$ 133,226 | \$ (3,177) | (2.4)% | 62.9% | 94.6% |
| Plastics packaging | 76,781 | 7,537 | 69,244 | | 37.1% | 5.4% |
| Consolidated net sales | \$ 206,830 | \$ 140,763 | \$ 66,067 | 46.9% | 100.0% | 100.0% |

| <i>(\$ in thousands)</i> | Six Months Ended | | Change | | As a % of the Total | |
|-------------------------------|-------------------------|-------------------|-------------------|--------------|----------------------------|-----------------|
| | April 3, | April 4, | | | April 3, | April 4, |
| | 2005 | 2004 | \$ | % | 2005 | 2004 |
| Metal packaging | \$ 240,088 | \$ 256,713 | \$ (16,625) | (6.5)% | 62.9% | 94.4% |
| Plastics packaging | 141,449 | 15,088 | 126,361 | | 37.1% | 5.6% |
| Consolidated net sales | \$ 381,537 | \$ 271,801 | \$ 109,736 | 40.4% | 100.0% | 100.0% |

The decrease in metal packaging segment net sales for the three and six months is primarily related to the loss of the Folgers coffee can business in fiscal 2004 and to voluntary reductions in dilutive material center sales as capacity was redirected to meet internal needs, partially offset by volume gains in other products and higher selling prices related to the pass through of higher metal costs. The increase in plastics packaging segment net sales for the three and six months is attributable to the NAMPAC Acquisition, which occurred in July 2004.

*Cost of Products Sold***Cost of Products Sold by Segment**

(excluding depreciation and amortization)

| (\$ in thousands) | As a % of the Total | | | | | |
|------------------------------------|---------------------|------------------|-------------|--------|--------------------|------------------|
| | Three Months Ended | | Change | | Three Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Metal packaging | \$ 104,855 | \$ 115,038 | \$ (10,183) | (8.9)% | 59.3% | 94.4% |
| Plastics packaging | 71,939 | 6,711 | 65,228 | | 40.7% | 5.5% |
| Segment cost of products sold | \$ 176,794 | \$ 121,749 | \$ 55,045 | 45.2% | 100.0% | 99.9% |
| Corporate undistributed expenses | 74 | 62 | 12 | 19.4% | 0.0% | 0.1% |
| Consolidated cost of products sold | \$ 176,868 | \$ 121,811 | \$ 55,057 | 45.2% | 100.0% | 100.0% |

| (\$ in thousands) | As a % of the Total | | | | | |
|------------------------------------|---------------------|------------------|-------------|--------|------------------|------------------|
| | Six Months Ended | | Change | | Six Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Metal packaging | \$ 200,833 | \$ 221,200 | \$ (20,367) | (9.2)% | 60.3% | 94.3% |
| Plastics packaging | 131,841 | 13,343 | 118,498 | | 39.6% | 5.7% |
| Segment cost of products sold | \$ 332,674 | \$ 234,543 | \$ 98,131 | 41.8% | 100.0% | 100.0% |
| Corporate undistributed expenses | 132 | 85 | 47 | 55.3% | 0.0% | 0.0% |
| Consolidated cost of products sold | \$ 332,806 | \$ 234,628 | \$ 98,178 | 41.8% | 100.0% | 100.0% |

The decrease in cost of products sold, excluding depreciation and amortization, (CPS) for the metal packaging segment during the second quarter and first six months of fiscal 2005 from the comparable periods in fiscal 2004 is primarily due to the decrease in segment net sales, as discussed above, partially offset by an additional expense of approximately \$2.4 million and \$4.1 million in the second quarter and first six months of fiscal 2005, respectively, related to an increase in the LIFO reserve resulting from the higher cost of steel.

Metal packaging segment CPS as a percentage of segment net sales decreased to 80.6% in the second quarter of fiscal 2005 from 86.3% in the second quarter of fiscal 2004 and decreased to 83.6% in the first six months of fiscal 2005 from 86.2% in the first six months of fiscal 2004. The decrease in CPS as a percentage of segment net sales in each of the second quarter and first six months of fiscal 2005 from the comparable periods in fiscal 2004 is primarily due to the timing of when steel cost increases are recognized in CPS as compared to when the pass through of steel surcharges to customers is recognized in net sales. We believe the improvements in metal packaging segment CPS as a percentage of segment net sales are temporary, and we anticipate the percentages will begin to increase to historic percentages in the coming quarters. In the fourth quarter of fiscal 2004, we began the implementation of a lean manufacturing program in the metal packaging segment to increase its operating efficiency and productivity. We began realizing the benefits of this initiative during the second quarter of fiscal 2005, and we expect to realize additional benefits in the second half of fiscal 2005.

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The increase in CPS for the plastics packaging segment in the second quarter and first six months of fiscal 2005 from the comparable periods in fiscal 2004 is primarily due to the NAMPAC Acquisition, which occurred in July 2004.

Plastics packaging segment CPS as a percentage of segment net sales increased to 93.7% in the second quarter of fiscal 2005 from 89.0% in the second quarter of fiscal 2004 and increased to 93.2% in the first six months of fiscal 2005 from 88.4% in the first six months of fiscal 2004 primarily as a result of higher operating costs associated with the NAMPAC Acquisition and to higher raw material costs for plastic resin. Additionally, segment CPS for the second quarter and first six months of fiscal 2005 was impacted by approximately \$2.1 million and \$3.9 million, respectively, related to an increase in the LIFO reserve resulting from increased raw material costs.

*Depreciation and Amortization***Depreciation and Amortization by Segment**

| (\$ in thousands) | Three Months Ended | | Change | | As a % of the Total | |
|--|--------------------|------------------|------------|---------|---------------------|------------------|
| | | | | | Three Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Metal packaging | \$ 5,911 | \$ 7,180 | \$ (1,269) | (17.7)% | 45.1% | 87.5% |
| Plastics packaging | 6,670 | 447 | 6,223 | | 50.9% | 5.4% |
| Segment depreciation and amortization | \$ 12,581 | \$ 7,627 | \$ 4,954 | 65.0% | 96.1% | 92.9% |
| Corporate | 512 | 583 | (71) | (12.2)% | 3.9% | 7.1% |
| Consolidated depreciation and amortization | \$ 13,093 | \$ 8,210 | \$ 4,883 | 59.5% | 100.0% | 100.0% |

| (\$ in thousands) | Six Months Ended | | Change | | As a % of the Total | |
|---------------------------------------|------------------|------------------|------------|---------|---------------------|------------------|
| | | | | | Six Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Metal packaging | \$ 11,033 | \$ 15,404 | \$ (4,371) | (28.4)% | 47.6% | 88.2% |
| Plastics packaging | 11,139 | 892 | 10,247 | | 48.0% | 5.1% |
| Segment depreciation and amortization | \$ 22,172 | \$ 16,296 | \$ 5,876 | 36.1% | 95.6% | 93.3% |
| Corporate | 1,021 | 1,167 | (146) | (12.5)% | 4.4% | 6.7% |

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| | | | | | | |
|--|-----------|-----------|----------|-------|--------|--------|
| Consolidated depreciation and amortization | \$ 23,193 | \$ 17,463 | \$ 5,730 | 32.8% | 100.0% | 100.0% |
|--|-----------|-----------|----------|-------|--------|--------|

The decrease in metal packaging segment depreciation and amortization expense for the second quarter and first six months of fiscal 2005 over the comparable periods in fiscal 2004 primarily relates to additional depreciation expense of \$1.9 million and \$5.0 million in the second quarter and first six months of fiscal 2004, respectively, related to the shortened useful lives of assets disposed of following the closure of our Picayune, Mississippi manufacturing facility in the second half of fiscal 2004. In the second quarter and first six months of fiscal 2005, plastics packaging segment depreciation and amortization includes approximately \$3.5 million and \$6.8 million, respectively, related to assets acquired in connection with the NAMPAC Acquisition and approximately \$2.9 million and \$3.9 million, respectively, of additional depreciation associated with the shortened useful lives on certain assets, primarily equipment, to be disposed of in connection with the closure of certain of our plastics manufacturing facilities.

Selling and Administrative Expenses

Selling and Administrative Expenses by Segment

| <i>(\$ in thousands)</i> | As a % of the Total | | | | | |
|--|---------------------|------------------|----------|-------|--------------------|------------------|
| | Three Months Ended | | Change | | Three Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Metal packaging | \$ 2,090 | \$ 1,871 | \$ 219 | 11.7% | 35.1% | 44.8% |
| Plastics packaging | 1,122 | 177 | 945 | | 18.8% | 4.2% |
| Segment selling and administrative expenses | \$ 3,212 | \$ 2,048 | \$ 1,164 | 56.8% | 53.9% | 49.0% |
| Corporate undistributed expenses | 2,750 | 2,133 | 617 | 28.9% | 46.1% | 51.0% |
| Consolidated selling and administrative expenses | \$ 5,962 | \$ 4,181 | \$ 1,781 | 42.6% | 100.0% | 100.0% |

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| (\$ in thousands) | Six Months Ended | | Change | | As a % of the Total | |
|--|------------------|------------------|----------|--------|---------------------|------------------|
| | | | | | Six Months Ended | |
| | April 3, 2005 | April 4, 2004 | \$ | % | April 3, 2005 | April 4, 2004 |
| Metal packaging | \$ 3,621 | \$ 3,693 | \$ (72) | (1.9)% | 36.1% | 48.8% |
| Plastics packaging | 2,471 | 428 | 2,043 | | 24.6% | 5.7% |
| Segment selling and administrative expenses | \$ 6,092 | \$ 4,121 | \$ 1,971 | 47.8% | 60.7% | 54.5% |
| Corporate undistributed expenses | 3,942 | 3,445 | 497 | 14.4% | 39.3% | 45.5% |
| Consolidated selling and administrative expenses | \$ 10,034 | \$ 7,566 | \$ 2,468 | 32.6% | 100.0% | 100.0% |

The change in metal packaging segment selling and administrative expenses for the second quarter and first six months of fiscal 2005 from comparable periods of fiscal 2004 relates primarily to the timing of certain sales expenses.

The increase in plastics packaging segment selling and administrative expenses for the second quarter and first six months of fiscal 2005 over the comparable periods of fiscal 2004 is primarily related to higher costs associated with the NAMPAC Acquisition, which occurred in the fourth quarter of fiscal 2004.

The increase in corporate undistributed selling and administrative expenses for the second quarter and first six months of fiscal 2005 over the comparable periods of fiscal 2004 primarily relates to higher stock based compensation, bonus expense and professional fees primarily related to our Sarbanes-Oxley compliance initiative. The increase in corporate undistributed selling and administrative expenses for the first six months of fiscal 2005 over the first six months of fiscal 2004 was partially offset by a recovery in the first quarter of fiscal 2005 of a previously written-off note receivable.

Interest, Taxes and Other

Interest Expense, Net. Interest expense, net, increased \$2.2 million to \$8.1 million in the second quarter of fiscal 2005 and increased \$3.4 million to \$15.8 million in the first six months of fiscal 2005 over the comparable second quarter and first six months of fiscal 2004, respectively. The increases are primarily attributable to the higher debt associated with the NAMPAC Acquisition, which occurred in the fourth quarter of fiscal 2004.

Income Tax Provision (Benefit). The income tax provision increased \$0.7 million to \$0.9 million in the second quarter of fiscal 2005 from \$0.2 million in the second quarter of fiscal 2004 and the income tax benefit decreased \$0.1 million to \$(0.3) million in the first six months of fiscal 2005 from \$(0.4) million in the first six months of fiscal 2004. The effective tax rate decreased for the second quarter and first six months of fiscal 2005 from the comparable periods in fiscal 2004 partially due to the impact on the effective rate associated with the NAMPAC Acquisition. The decrease in the effective tax rate for the first six months of fiscal 2005 from the first six months of fiscal 2004 was also impacted by a tax provision adjustment in the first six months of fiscal 2004 associated with the filing of the preceding year's tax return.

Other, Net. Other, net, in the first six months of fiscal 2005 relates primarily to gains on the sale of idled equipment and a vacant manufacturing facility in Dallas, Texas, each of which occurred in the first quarter of fiscal 2005.

Liquidity and Capital Resources

Our cash requirements for capital expenditures during the first six months of fiscal 2005 were financed through operations. During the first six months of fiscal 2005, cash and cash equivalents decreased \$12.9 million, primarily due to repayments of a portion of our borrowings outstanding under our Term Loan. During the first six months of fiscal 2004, cash and cash equivalents decreased \$0.1 million, and we borrowed \$2.5 million under our revolving credit facility.

The \$19.7 million reduction in the Term Loan during the first six months of fiscal 2005 consists of voluntary prepayments of \$19.1 million and a required prepayment of \$0.6 million. The required repayment represented the net proceeds from the sale of assets related to a vacant manufacturing facility in Dallas, Texas. As a result of these prepayments, our next scheduled quarterly repayment of approximately \$0.1 million becomes due in June 2008. Repayments, whether scheduled or voluntary, permanently reduce the Term Loan.

At April 3, 2005, we had \$23.3 million in revolving credit available after taking into consideration \$6.7 million in standby letters of credit, which reduce available borrowings under the \$30.0 million Term Loan. We were in compliance with all debt covenants at April 3, 2005 related to the Credit Facility and the Notes.

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Net cash provided by operating activities was \$14.0 million during each of the first six months of fiscal 2005 compared to \$13.3 million in the first six months of fiscal 2004. During the first six months of fiscal 2005 and fiscal 2004, cash from operating activities was primarily provided by net income before depreciation and amortization and increases in accounts payable. In addition, in the first six months of fiscal 2004, we received approximately \$2.5 million, net, from income tax refunds. During each of the first six months of fiscal 2005 and fiscal 2004, cash used in operating activities was primarily related to increases in accounts receivable, purchases of inventories and reductions in accrued liabilities, including interest. Cash interest paid during the first six months of fiscal 2005 was \$14.7 million compared to \$11.2 million paid during the first six months of fiscal 2004. The increase in cash interest paid relates primarily to increased debt related to the NAMPAC Acquisition in the fourth quarter of fiscal 2004.

Net cash used in investing activities was \$8.0 million during the first six months of fiscal 2005 compared to \$12.4 million during the first six months of fiscal 2004. Net cash used in investing activities was primarily used for capital expenditures during the first six months of each fiscal year. Capital expenditures decreased \$4.0 million in the first six months of fiscal 2005 compared to the first six months of fiscal 2004 primarily as a result of higher capital expenditures in the first six months of fiscal 2004 related to the opening of our Sturtevant, Wisconsin manufacturing facility. Net cash used in investing activities in the first six months of fiscal 2005 was increased due to approximately \$0.4 million of additional acquisition costs associated with the NAMPAC Acquisition and was reduced by \$0.9 million related to proceeds from the sale of property, plant and equipment and assets held for sale.

Net cash used in financing activities was \$18.9 million and \$0.9 million during the first six months of fiscal 2005 and fiscal 2004, respectively. In the first six months of fiscal 2005, \$19.7 million was used to repay outstanding Term Loan borrowings whereas in the first six months of fiscal 2004, \$2.5 million was borrowed under the revolving credit facility. There were no outstanding revolving credit facility borrowings at the end of the first six months of fiscal 2005. Increases in unrepresented bank drafts in excess of cash available for offset provided cash of \$0.9 million in the first six months of fiscal 2005 and decreases in unrepresented bank drafts in excess of cash available for offset used cash of \$3.0 million in the first six months of fiscal 2004.

We expect that cash provided from operations and available borrowings under our revolving credit facility will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including debt service on our long-term debt, during the next 12 months. We cannot provide assurance, however, that this will be the case.

Interest Rate Risk

The interest rate on our outstanding 10% senior subordinated notes is fixed. As such, our cash flows and earnings related to these notes are not exposed to the market risk of interest rate changes. However, holders of the notes are exposed to market risk associated with interest rate changes that impact the fair value of the notes prior to maturity.

Interest accrues on the Term Loan and the Revolver at an applicable margin plus either (a) a base rate (which is the higher of prime or 0.5% in excess of the overnight federal funds rate) or (b) a Eurodollar rate. For the Term Loan, the applicable margins were initially fixed at 1.25% for base rate loans and at 2.25% for Eurodollar rate loans, and can range from 1.00% to 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. For the Revolver, the applicable margins were initially fixed at 1.75% for base rate loans and 2.75% for Eurodollar rate loans, and can range from 1.00% to 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. Borrowing at the base rate or the Eurodollar rate is at our discretion.

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After December 31, 2004, rate margins became subject to quarterly change based on our ratio of Consolidated Indebtedness to Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization), each as defined in the underlying credit agreement. Based on our ratio of Consolidated Indebtedness to Consolidated EBITDA as of January 2, 2005, the rate margins did not change in the quarter ended April 3, 2005 from those initially set as described above.

At April 3, 2005, we have Credit Facility borrowings outstanding of \$195.3 million that are subject to interest rate risk. Each 100 basis point increase in interest rates on these borrowings would reduce quarterly pretax earnings and cash flows by approximately \$0.5 million based on the balance at April 3, 2005. We do not manage this interest rate risk with rate caps or other derivative instruments.

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Commodity Risk

We are subject to various risks and uncertainties related to changing commodity prices for and the availability of the materials used in the manufacture of our products (primarily steel and resin). We do not manage this commodity risk with futures contracts or other derivative instruments, but we manage it, to the extent practicable, through customer contract provisions allowing for price changes based on fluctuations in our cost of certain raw materials and through the pre-buying of raw materials prior to price increases.

Critical Accounting Policies

For a summary of our critical accounting policies, see management's discussion and analysis in Item 7 of the Annual Report. The critical accounting policies have not changed since October 3, 2004.

Recent Accounting Pronouncements

For a summary of recent accounting pronouncements, see Recent Accounting Pronouncements under Note 1 to the unaudited consolidated financial statements in Item 1 of this report.

Off-Balance Sheet Arrangements

As of April 3, 2005, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Contractual Obligations

For a summary of our significant contractual obligations, see the Contractual Obligations and Commercial Commitments section of Item 7 in the Annual Report. The nature of the obligations has not materially changed since October 3, 2004.

At April 3, 2005, a bank had issued standby letters of credit on our behalf in the aggregate amount of \$6.7 million primarily in favor of our workers' compensation insurers and purchasing card vendor.

Environmental Matters

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We are subject to a broad range of federal, state and local environmental, health and safety laws, including those governing discharges to air, soil and water, the handling and disposal of hazardous substances and the investigation and remediation of contamination resulting from the release of hazardous substances. We believe that we are currently in compliance with all applicable environmental, health and safety laws, though future expenditures may be necessary in order to maintain such compliance, including compliance with air emission control requirements for volatile organic compounds. In addition, in the course of our operations we use, store and dispose of hazardous substances. Some of our current and former facilities are currently involved in environmental investigations and remediation resulting from releases of hazardous substances or the presence of other constituents. While we do not believe that any investigation or identified remediation obligations will have a material adverse effect on our operating results or financial condition, there are no assurances that such obligations will not arise in the future. Many of our facilities have a history of industrial usage for which investigation and remediation obligations could arise in the future and which could have a material adverse effect on our operating results or financial condition.

We believe future expenditures will be necessary in order to comply with federal Maximum Achievable Control Technology (MACT) regulations, which relate to air emission control requirements for Hazardous Air Pollutants (HAP) and volatile organic compounds. These regulations become effective in November 2006.

In the first quarter of fiscal 2004, we received information indicating that the State of Georgia may consider the Company a potentially responsible party (PRP) at a waste disposal site in Georgia. Our possible PRP status is based on documents indicating that waste materials were transported to the site from our Homerville, Georgia facility prior to our acquisition of the facility in 1989. Presently, we are unable to determine the amount or likelihood of any liability as a result of this information or the extent to which, if necessary, we are covered by the indemnification agreement from the prior owner of the facility.

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From time to time, we receive requests for information or are identified as a PRP pursuant to the Federal Comprehensive Environmental Response, Compensation and Liability Act or analogous state laws with respect to off-site waste disposal sites utilized by our current or former facilities or our predecessors in interest. We do not believe that any of these identified matters will have a material adverse effect on our operating results or financial condition.

We record reserves for environmental liabilities when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. We have accrued liabilities of approximately \$0.2 million for environmental investigation and remediation obligations as of April 3, 2005 and October 3, 2004; however, we cannot guarantee that future expenditures will not exceed the amounts accrued.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not purchase, sell or hold derivatives or other market risk-sensitive instruments to hedge commodity price risk, interest rate risk or exchange rate risk or for trading purposes. For a discussion of interest rate risk and its relation to our indebtedness see [Liquidity and Capital Resources](#) in Item 2 above.

Item 4. Controls and Procedures

We periodically review the design and effectiveness of our disclosure controls and internal control over financial reporting, including compliance with various laws and regulations that apply to our operations. We make modifications to improve the design and effectiveness of our disclosure controls and internal control structure, and may take other corrective action, if our reviews identify a need for such modifications or actions. In designing and evaluating the disclosure controls and procedures and internal control for financial reporting, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

An evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that as of April 3, 2005, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and timely reported as provided in the Securities and Exchange Commission rules and forms. No changes occurred during the quarter ended April 3, 2005 in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

There were no events to report under this item for the quarter ended April 3, 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no events to report under this item for the quarter ended April 3, 2005.

Item 3. Defaults Upon Senior Securities

There were no events to report under this item for the quarter ended April 3, 2005.

Item 4. Submission of Matters to a Vote of Security Holders

There were no events to report under this item for the quarter ended April 3, 2005.

Item 5. Other Information

There were no events to report under this item for the quarter ended April 3, 2005.

Item 6. Exhibits

See Index to Exhibits.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements as encouraged by the Private Securities Litigation Reform Act of 1995. All statements contained in this document, other than historical information, are forward-looking statements. These statements represent management's current judgment on what the future holds. A variety of factors could cause business conditions and the Company's actual results to differ materially from those expected by the Company or expressed in the Company's forward-looking statements. These factors include, without limitation, competitive risks from substitute products and other container manufacturers, termination of the Company's customer contracts, loss or reduction of business from key customers, dependence on key personnel, changes in steel, resin and other raw material costs or availability, labor unrest, catastrophic loss of one of the Company's manufacturing facilities, environmental exposures, management's inability to identify or execute selective acquisitions, failures in the Company's computer systems, unanticipated expenses, delays in implementing cost reduction initiatives, potential equipment malfunctions and the other factors discussed in the Company's filings with the Securities and Exchange Commission. The Company takes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrences of unanticipated events or changes to future operating results.

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SIGNATURES

Pursuant to the requirements 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.

BWAY Corporation
(Registrant)

Date: May 18, 2005

By: /s/ Jean-Pierre M. Ergas

Jean-Pierre M. Ergas
Chairman and
Chief Executive Officer
(Principal Executive Officer)

Date: May 18, 2005

By: /s/ Kevin C. Kern

Kevin C. Kern
Vice President, Administration and

Chief Financial Officer
*(Principal Financial Officer and
Chief Accounting Officer)*

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INDEX TO EXHIBITS

| <u>Exhibit No.</u> | <u>Description of Document</u> |
|---------------------------|--|
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)). |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)). |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |