BWAY CORP
Form 10-Q
May 02, 2007
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As Filed with the Securities and Exchange Commission on May 2, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the quarterly period ended:

April 1, 2007

001-12415

(Commission File Number)

BWAY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

36-3624491

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

8607 Roberts Drive, Suite 250

Atlanta, Georgia

(Address of principal executive offices)

30350-2237

(Zip Code)

(770) 645-4800

(Registrant s telephone number)

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

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

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

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

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

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BWAY CORPORATION

Quarterly Report on Form 10-Q

For the quarterly period ended April 1, 2007

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BWAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED BALANCE SHEETS

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

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

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

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BWAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

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BWAY CORPORATION AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

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BWAY CORPORATION AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

Principles of Consolidation and Basis of Presentation

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

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

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

Business and Segment Information

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

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

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

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

Acquisitions

<u>Industrial Containers</u>

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

Vulcan Containers

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

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

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

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

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