

BWAY CORP  
Form 10-Q  
May 07, 2010  
Table of Contents

**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:**

**March 31, 2010**

**Registrant and State of Incorporation**

**Commission File Number**  
**001-33527**

**Address and Telephone Number**  
**BWAY HOLDING COMPANY**  
(Delaware)  
8607 Roberts Drive, Suite 250  
Atlanta, Georgia 30350-2237  
(770) 645-4800

**I.R.S. Employer Identification Number**  
**55-0800054**

**001-12415**

**BWAY CORPORATION**  
(Delaware)

**36-3624491**

## Edgar Filing: BWAY CORP - Form 10-Q

8607 Roberts Drive, Suite 250  
Atlanta, Georgia 30350-2237  
(770) 645-4800

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.

**Registrant**

BWAY Holding Company	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
BWAY Corporation	<input checked="" type="checkbox"/>	Yes	<input type="checkbox"/>	No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

**Registrant**

BWAY Holding Company	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No
BWAY Corporation	<input type="checkbox"/>	Yes	<input type="checkbox"/>	No

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

	Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company
<b>Registrant</b>				
BWAY Holding Company	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BWAY Corporation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Registrant**

BWAY Holding Company	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No
BWAY Corporation	<input type="checkbox"/>	Yes	<input checked="" type="checkbox"/>	No

**Shares Outstanding as of**

<b>Registrant</b>	<b>Description of Common Stock</b>	<b>May 6, 2010</b>
BWAY Holding Company	Par Value \$0.01 per share	<b>22,414,505</b>
BWAY Corporation	Par Value \$0.01 per share	<b>1,000</b>

**Table of Contents**

**BWAY HOLDING COMPANY**

**BWAY CORPORATION**

**Quarterly Report on Form 10-Q**

**For the quarterly period ended March 31, 2010**

**TABLE OF CONTENTS**

**PART I**

**FINANCIAL INFORMATION**

Item 1. <u>Financial Statements</u>	1
BWAY Holding Company (unaudited)	
<u>Condensed Consolidated Balance Sheets</u>	1
<u>Condensed Consolidated Statements of Operations</u>	2
<u>Condensed Consolidated Statements of Cash Flows</u>	3
BWAY Corporation (unaudited)	
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Operations</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	41

**PART II**

**OTHER INFORMATION**

Item 1. <u>Legal Proceedings</u>	42
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	43

**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****BWAY Holding Company and Subsidiaries**

(\$ in millions, except par value)

	March 31, 2010	September 27, 2009
<b>Assets</b>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 39.3	\$ 88.7
Accounts receivable, net of allowance for doubtful accounts of \$0.6 and \$0.5	131.2	103.8
Inventories, net	107.8	87.0
Other current assets	24.4	15.6
<b>Total current assets</b>	<b>302.7</b>	<b>295.1</b>
Property, plant and equipment, net	166.0	160.9
Goodwill	272.1	259.0
Other intangible assets, net	130.3	129.4
Other assets	10.1	11.1
<b>Total assets</b>	<b>\$ 881.2</b>	<b>\$ 855.5</b>
<b>Liabilities and Stockholders' Equity</b>		
<u>Current liabilities</u>		
Accounts payable	\$ 123.4	\$ 98.0
Other current liabilities	54.0	63.3
Current portion of long-term debt	1.0	6.5
<b>Total current liabilities</b>	<b>178.4</b>	<b>167.8</b>
Long-term debt	399.9	395.8
Deferred tax liabilities	46.5	46.5
Other liabilities	48.5	47.1
<b>Total liabilities</b>	<b>673.3</b>	<b>657.2</b>
<b>Commitments and contingencies (Note 13)</b>		
<u>Stockholders' equity</u>		
Preferred stock, \$0.01 par value, 20,000,000 shares authorized		
Common stock, \$0.01 par value, 200,000,000 shares authorized; 22,414,505 and 22,198,718 shares issued and outstanding	0.2	0.2
Additional paid-in capital	140.5	137.9

Edgar Filing: BWAY CORP - Form 10-Q

Retained earnings	69.2	64.0
Accumulated other comprehensive loss	(2.0)	(3.8)
Total stockholders' equity	207.9	198.3
Total liabilities and stockholders' equity	\$ 881.2	\$ 855.5

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

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****BWAY Holding Company and Subsidiaries**

(\$ in millions, except per share amounts)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>	<b>March 29,</b>	<b>March 31,</b>	<b>March 29,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 248.0	\$ 206.1	\$ 467.0	\$ 418.6
<b>Costs and expenses</b>				
Cost of products sold (excluding depreciation and amortization)	207.9	166.7	394.8	358.8
Depreciation and amortization	13.1	10.8	26.8	21.9
Selling and administrative	5.0	6.4	10.7	12.0
Restructuring	0.7	0.7	2.7	1.4
Interest, net	8.8	7.4	17.7	15.6
Merger transaction costs	5.0		5.0	
Business acquisition costs			0.5	
Other	0.4	0.2	0.8	(0.6)
<b>Total costs and expenses</b>	<b>240.9</b>	<b>192.2</b>	<b>459.0</b>	<b>409.1</b>
Income before income taxes	7.1	13.9	8.0	9.5
Provision for income taxes	2.7	5.2	2.8	3.5
Net income	\$ 4.4	\$ 8.7	\$ 5.2	\$ 6.0
<b>Net income per share (Note 11)</b>				
Basic	\$ 0.20	\$ 0.40	\$ 0.23	\$ 0.27
Diluted	0.18	0.38	0.21	0.26

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

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****BWAY Holding Company and Subsidiaries**

(\$ in millions)

	Six Months Ended March 31, 2010	March 29, 2009
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 5.2	\$ 6.0
<u>Adjustments to reconcile net income to net cash used in operating activities</u>		
Depreciation	18.9	14.5
Amortization of other intangible assets	7.9	7.4
Amortization of debt issuance costs	1.1	1.0
Accretion of debt discount	2.2	
Credit from doubtful accounts		(0.5)
Gain on disposition of property, plant and equipment	(0.1)	
Deferred income taxes		0.1
Stock-based compensation expense	0.4	1.2
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(25.9)	14.0
Inventories	(17.1)	17.6
Accounts payable	24.0	(85.5)
Other assets	(2.2)	5.8
Accrued and other liabilities	(5.0)	(4.9)
Income taxes, net	(9.8)	2.3
Net cash used in operating activities	(0.4)	(21.0)
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(12.4)	(6.7)
Business acquisitions	(32.3)	
Other	0.2	
Net cash used in investing activities	(44.5)	(6.7)
<b>Cash Flows from Financing Activities</b>		
Repayments of other long-term debt	(6.6)	(18.1)
Principal repayments under capital lease obligations	(0.3)	(0.1)
Proceeds from stock option exercises	1.6	
Excess tax benefit related to share-based payments	0.2	
Net cash used in financing activities	(5.1)	(18.2)
Effect of exchange rate changes on cash and cash equivalents	0.6	(1.5)
Net decrease in cash and cash equivalents	(49.4)	(47.4)
Cash and cash equivalents, beginning of period	88.7	92.1
Cash and cash equivalents, end of period	\$ 39.3	\$ 44.7

Edgar Filing: BWAY CORP - Form 10-Q

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



**Table of Contents****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS****BWAY Corporation and Subsidiaries**

(\$ in millions, except par value)

	March 31, 2010	September 27, 2009
<b>Assets</b>		
<u>Current assets</u>		
Cash and cash equivalents	\$ 39.3	\$ 88.7
Accounts receivable, net of allowance for doubtful accounts of \$0.6 and \$0.5	131.2	103.8
Inventories, net	107.8	87.0
Other current assets	24.4	15.6
<b>Total current assets</b>	<b>302.7</b>	<b>295.1</b>
Property, plant and equipment, net	166.0	160.9
Goodwill	272.1	259.0
Other intangible assets, net	130.3	129.4
Other assets	10.1	11.1
<b>Total assets</b>	<b>\$ 881.2</b>	<b>\$ 855.5</b>
<b>Liabilities and Stockholder's Equity</b>		
<u>Current liabilities</u>		
Accounts payable	\$ 123.4	\$ 98.0
Other current liabilities	54.0	63.3
Current portion of long-term debt	1.0	6.5
<b>Total current liabilities</b>	<b>178.4</b>	<b>167.8</b>
Long-term debt	399.9	395.8
Deferred tax liabilities	46.5	46.5
Other liabilities	48.5	47.1
<b>Total liabilities</b>	<b>673.3</b>	<b>657.2</b>
<b>Commitments and contingencies (Note 13)</b>		
<u>Stockholder's equity</u>		
Preferred stock, \$0.01 par value, 500 shares authorized		
Common stock, \$0.01 par value, 2,500 shares authorized; 1,000 shares issued and outstanding		
Additional paid-in capital	147.2	144.6
Retained earnings	62.7	57.5
Accumulated other comprehensive loss	(2.0)	(3.8)
<b>Total stockholder's equity</b>	<b>207.9</b>	<b>198.3</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 881.2</b>	<b>\$ 855.5</b>

Edgar Filing: BWAY CORP - Form 10-Q

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

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****BWAY Corporation and Subsidiaries**

(\$ in millions)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31,</b>	<b>March 29,</b>	<b>March 31,</b>	<b>March 29,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 248.0	\$ 206.1	\$ 467.0	\$ 418.6
<b>Costs and expenses</b>				
Cost of products sold (excluding depreciation and amortization)	207.9	166.7	394.8	358.8
Depreciation and amortization	13.1	10.8	26.8	21.9
Selling and administrative	5.0	6.4	10.7	12.0
Restructuring	0.7	0.7	2.7	1.4
Interest, net	8.8	7.4	17.7	15.6
Merger transaction costs	5.0		5.0	
Business acquisition costs			0.5	
Other	0.4	0.2	0.8	(0.6)
<b>Total costs and expenses</b>	<b>240.9</b>	<b>192.2</b>	<b>459.0</b>	<b>409.1</b>
Income before income taxes	7.1	13.9	8.0	9.5
Provision for income taxes	2.7	5.2	2.8	3.5
Net income	\$ 4.4	\$ 8.7	\$ 5.2	\$ 6.0

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

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****BWAY Corporation and Subsidiaries**

(\$ in millions)

	Six Months Ended March 31, 2010	March 29, 2009
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 5.2	\$ 6.0
<b><u>Adjustments to reconcile net income to net cash used in operating activities</u></b>		
Depreciation	18.9	14.5
Amortization of other intangible assets	7.9	7.4
Amortization of debt issuance costs	1.1	1.0
Accretion of debt discount	2.2	
Credit from doubtful accounts		(0.5)
Gain on disposition of property, plant and equipment	(0.1)	
Deferred income taxes		0.1
Stock-based compensation expense	0.4	1.2
Change in operating assets and liabilities, net of business acquisitions:		
Accounts receivable	(25.9)	14.0
Inventories	(17.1)	17.6
Accounts payable	24.0	(85.5)
Other assets	(2.2)	5.8
Accrued and other liabilities	(5.0)	(4.9)
Income taxes, net	(9.8)	2.3
Net cash used in operating activities	(0.4)	(21.0)
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(12.4)	(6.7)
Business acquisitions	(32.3)	
Other	0.2	
Net cash used in investing activities	(44.5)	(6.7)
<b>Cash Flows from Financing Activities</b>		
Repayments of other long-term debt	(6.6)	(18.1)
Principal repayments under capital lease obligations	(0.3)	(0.1)
Proceeds from stock option exercises	1.6	
Excess tax benefit related to share-based payments	0.2	
Net cash used in financing activities	(5.1)	(18.2)
Effect of exchange rate changes on cash and cash equivalents	0.6	(1.5)
Net decrease in cash and cash equivalents	(49.4)	(47.4)
Cash and cash equivalents, beginning of period	88.7	92.1
Cash and cash equivalents, end of period	\$ 39.3	\$ 44.7

Edgar Filing: BWAY CORP - Form 10-Q

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

---

**Table of Contents**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**BWAY Holding Company and Subsidiaries**

**BWAY Corporation and Subsidiaries**

**1. GENERAL**

**Principles of Consolidation and Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of BWAY Holding Company (BHC) include the accounts of BHC and its 100% owned subsidiary, BWAY Corporation (BWAY). The accompanying unaudited condensed consolidated financial statements of BWAY include the accounts of BWAY and its subsidiaries, each 100% owned. In these notes, we refer to BHC and BWAY collectively as the Company, we or our.

The unaudited condensed consolidated financial statements and these notes should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 27, 2009 (the Annual Report). The unaudited condensed consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented. 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 notes are applicable equally to BHC and BWAY with the exception of Net Income per Share in Note 11, Stockholders Equity, which is applicable only to BHC and Note 15, Supplemental Guarantor Subsidiaries Information, which is applicable only to BWAY.

Results of operations and cash flows for interim periods presented in the unaudited condensed consolidated financial statements are not necessarily indicative of results of operations and cash flows for the full fiscal year.

In these notes, we refer to fiscal year or fiscal quarter when we reference or discuss a year or quarter, unless otherwise indicated. For purposes of these notes, we include our subsidiary and operations in the Commonwealth of Puerto Rico with those of our U.S. operations, unless otherwise indicated.

Beginning with fiscal 2010, our fiscal year ends on September 30. Prior to 2010, our fiscal year ended on the Sunday closest to September 30 (fiscal 2009 ended September 27, 2009). Our North America Packaging Corporation (NAMPAC) and ICL Industrial Containers ULC (ICL) subsidiaries have had and will continue to have a September 30 fiscal year end. Fiscal 2009 results of operations and cash flows for NAMPAC and ICL are included in the unaudited condensed consolidated financial statements for the three and six months ended March 31, 2009 and fiscal 2009 year-end balances are as of September 30, 2009. In 2009, there were no significant or unusual transactions between the fiscal end and calendar end dates that were excluded from the consolidated financial statements.

**Business and Segment Information**

BHC is a holding company without independent operations. BWAY, the operating subsidiary of BHC, manufactures and distributes metal and rigid plastic containers primarily to manufacturers of industrial and consumer products for use as packaging. We have operations in the United States and Canada and primarily sell to customers located in these geographic markets. We report our operations in two business segments: metal packaging and plastic packaging (see Note 14, Business Segments).

**Recent Acquisitions**

**Ball Plastics**

On October 23, 2009, we acquired substantially all of the assets and assumed certain of the liabilities from Ball Plastic Container Corp. related to its plastic packaging plant and business located in Newnan, Georgia. The facility produces injection molded plastic pails and certain other products. The acquisition of Ball Plastics fits with our core skills. We acquired the net assets for approximately \$32.3 million, which we funded using available cash on hand. We refer to this acquisition and the associated acquired business as Ball Plastics.



**Table of Contents**

We recorded the acquired assets and assumed liabilities at fair value in accordance with applicable accounting guidance. We have allocated the purchase price based on our estimates of fair value. The results of operations for Ball Plastics are included in the consolidated financial statements from the acquisition date. Ball Plastics is included in our plastic packaging segment.

Our purchase price allocation for the fair value of assets acquired and liabilities assumed is summarized in the table below. Our initial accounting for the acquisition was incomplete for certain assets at December 31, 2009. We completed the accounting for those assets in the second quarter of 2010. The adjustments resulted in a \$0.1 million increase in current assets, a \$0.9 million decrease in the fair value of property, plant and equipment, a \$5.3 million decrease in the fair value of customer relationship intangible and an increase in goodwill of \$6.2 million (which also reflects an increase of \$0.1 million related to current liabilities assumed). The impact of the adjustments on previously recognized depreciation and amortization expense was immaterial.

(\$ in millions)

	<b>Ball Plastics</b>
<b><u>Purchase price allocation</u></b>	
Current assets	\$ 4.6
Property, plant and equipment	9.5
Intangible assets subject to amortization (customer relationships)	7.5
Goodwill	11.3
Total assets acquired	32.9
<b><u>Current liabilities assumed</u></b>	<b>0.6</b>
Purchase price	\$ 32.3

We allocated the acquired goodwill and intangible assets to our plastic packaging segment. Goodwill related to this acquisition is deductible for U.S. income tax purposes. The estimated useful life of the acquired customer relationships is approximately 16 years.

**Central Can**

In August 2009, we acquired Central Can Company, Inc. (Central Can) in a stock purchase transaction. Central Can, located in Chicago, Illinois, produces and sells rigid general line metal and plastic containers. We acquired the stock for approximately \$27.7 million in cash, which was funded with available cash on hand. The Central Can purchase price allocation is preliminary and subject to completion.

**Recently Issued Accounting Standards**

There have been no developments to recently issued accounting standards not yet adopted, including the expected dates of adoption and estimated effects on our consolidated financial statements, from those disclosed in the Annual Report.

**2. AGREEMENT AND PLAN OF MERGER****The Merger**

On March 28, 2010, BHC, Picasso Parent Company, Inc. (Picasso) and Picasso Merger Sub, Inc. (Merger Sub) entered into an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the Merger Agreement, each outstanding share of BHC common stock (other than shares held by stockholders that properly exercise their statutory appraisal rights and certain other shares) will be converted into the right to receive \$20.00 per share in cash, without interest. In addition, each applicable stock option outstanding as of the closing date will be cashed-out for a cash amount equal to the excess, if any, of the per share merger consideration over such stock option's exercise price. All other stock options will be cancelled without any payment.



## Edgar Filing: BWAY CORP - Form 10-Q

Picasso is wholly owned by investment funds organized by Madison Dearborn Partners, LLC, a private equity investment firm based in Chicago, Illinois, (MDP). Merger Sub is a subsidiary of Picasso. Picasso and Merger Sub were formed solely for the purpose of entering into the Merger Agreement. Upon completion of the merger, BHC will be a wholly owned indirect subsidiary of Picasso.

## **Table of Contents**

The BHC Board of Directors (the BHC Board) unanimously approved the merger based on the unanimous recommendation of the transaction committee of the BHC Board, which was comprised of members of the BHC Board who are not employees of BHC and who are independent of those of BHC's stockholders who are affiliates of Kelso & Company. The merger is subject to regulatory and stockholder and approvals (as described below) and certain other conditions.

If the stockholders approve the merger by the requisite votes and the other conditions to the closing are satisfied or waived, Merger Sub and BHC will merge and BHC will remain as the surviving corporation. BHC common stock will no longer be listed on the New York Stock Exchange and registration of the common stock under the Exchange Act will be terminated. The merger is anticipated to be completed in the second or third calendar quarter of 2010. Subject to certain exceptions, Picasso or BHC may terminate the Merger Agreement if the merger has not been consummated by October 7, 2010.

## **Conditions to the Merger**

The respective obligations of BHC, Picasso and Merger Sub to complete the merger are subject to certain closing conditions, which include, among other things:

the Merger Agreement must have been duly adopted by holders of (a) a majority of the outstanding shares of BHC common stock entitled to vote thereon and (b) a majority of the outstanding shares of BHC common stock entitled to vote thereon that are not held by affiliates of Kelso;

expiration or termination of the waiting period under applicable antitrust laws, and the receipt of all other material consents from governmental entities;

absence of legal prohibitions to the merger; and

the ratio of BHC's Consolidated Debt for Borrowed Money (as defined in the Merger Agreement) to Consolidated EBITDA (as defined in the Merger Agreement), as determined in accordance with the Merger Agreement, not being in excess of 5.4:1 (the Maximum Leverage Ratio).

Although obtaining equity or debt financing is not a condition to the completion of the merger, the failure of Picasso or Merger Sub to obtain sufficient financing is likely to result in the failure of the merger to be completed. In that case, subject to certain other conditions set forth in the Merger Agreement, Picasso may be obligated to pay BHC a termination fee of \$27.5 million.

## **Financing**

The necessary financing for the Merger, including payment of transaction fees and expenses and refinancing of BHC's existing debt for borrowed money, is expected to be funded through a combination of the following:

equity financing of approximately \$296 million to be provided or secured by investment funds organized by MDP;

a \$565 million senior secured credit facility, consisting of a \$490 million term loan facility and a \$75 million revolving credit facility, but, in the case of the revolving credit facility, only to the extent necessary (i) for utilization arising from letters of credit issued under the existing credit facilities that are rolled into the revolving credit facility and (ii) to cover any OID or upfront fees in lieu thereof implemented pursuant to the market flex provisions of the Fee Letter, dated March 28, 2010, among the Joint Lead Arrangers (as defined below), Parent, Merger Sub and Holdings (as defined below);

## Edgar Filing: BWAY CORP - Form 10-Q

(i) new senior unsecured notes yielding gross cash proceeds of \$200 million issued by Merger Sub and/or (ii) up to \$200 million of senior unsecured bridge loans under a senior unsecured bridge loan facility, provided that the aggregate amount of the senior notes and/or the bridge loans will be reduced dollar-by-dollar by the amount of our existing 10% senior subordinated notes due 2014 that are not tendered and not otherwise defeased and the related tender premiums thereon not required to be paid; and

approximately \$31.9 million of cash on hand of BHC.

## **Table of Contents**

### **Financial Advisory Fees**

Pursuant to an engagement letter between BHC and Goldman, Sachs & Co. (Goldman Sachs), BHC has agreed to pay Goldman Sachs a transaction fee of approximately \$9.0 million, a significant portion of which is contingent upon consummation of the merger, plus reasonable out-of-pocket expenses.

### **Merger and Transaction Costs**

BHC recognized approximately \$5.0 million in merger-related transaction costs in the six months ended March 31, 2010. These costs related primarily to an initial fee to Goldman Sachs, legal and other advisory fees and expenses, and transaction committee retainer and meeting fees and expenses.

Upon consummation of the merger, we will pay MDP a fee of approximately \$6.3 million plus out-of-pocket expenses incurred in connection with the merger.

### **Termination**

BHC and Picasso may, by mutual written consent, terminate the Merger Agreement and abandon the merger at any time prior to the completion of the merger, whether before or after the adoption of the Merger Agreement by BHC's stockholders.

The Merger Agreement may also be terminated and the merger abandoned at any time prior to the completion of the merger, as follows:

subject to certain limitations, by either Picasso or BHC, if:

the merger has not been consummated by the termination date, as such date may be extended in accordance with the Merger Agreement;

the stockholders meeting has been held and completed and BHC's stockholders have not adopted the Merger Agreement by the requisite votes; or

an order permanently restraining, enjoining or otherwise prohibiting consummation of the merger has become final and non-appealable.

by BHC, if:

subject to certain limitations, at any time prior to the adoption of the Merger Agreement by BHC's stockholders by the requisite votes (x) the BHC Board authorizes BHC to enter into an Alternative Acquisition Agreement (as defined in the Merger Agreement) with respect to a Superior Proposal (as defined in the Merger Agreement), and (y) immediately prior to or concurrently with the termination of the Merger Agreement (i) we enter into an Alternative Acquisition Agreement with respect to a Superior Proposal, and (ii) we pay Picasso a termination fee (as described below);

there has been a breach of a representation, warranty, covenant or agreement made by Picasso or Merger Sub in the Merger Agreement, which breach would give rise to the failure of the condition to BHC's obligations to close the Merger relating to the accuracy of the representations and warranties of Picasso and Merger Sub or compliance by Picasso and Merger Sub with their obligations under the Merger Agreement, and such breach or failure to be true cannot be cured by the Termination Date, or if capable of being cured, has not been cured within certain notice periods (provided that we will not have this right to

## Edgar Filing: BWAY CORP - Form 10-Q

terminate if we are then in material breach of any of our representations, warranties, covenants or other agreements that would result in the closing conditions with respect to our representations and warranties or compliance with our obligations not being satisfied); or

the mutual conditions of both parties and the conditions of Picasso and Merger Sub have been satisfied (other than those conditions that by their terms are to be satisfied at the closing of the merger), we have notified Picasso in writing that we are prepared to close the merger and Picasso and Merger Sub fail to consummate the transactions contemplated by the Merger Agreement on the date on which the closing should have occurred under the Merger Agreement.

---

**Table of Contents**

by Picasso, if:

the BHC Board (i) makes a Change of Recommendation (as defined in the Merger Agreement), (ii) approves, adopts or recommends any acquisition proposal or otherwise declares advisable (publicly or otherwise) or proposes to approve, adopt or recommend (publicly or otherwise) an acquisition proposal, or (iii) approves or recommends or enters into or allows BHC or any of its subsidiaries to enter into an alternative acquisition agreement;

there has been a breach of a representation, warranty, covenant or agreement made by BHC in the Merger Agreement, which breach would give rise to the failure of the condition to Picasso's and Merger Sub's obligation to close the merger relating to the accuracy of the representations and warranties of BHC or compliance by BHC with its obligations under the Merger Agreement, and such breach or failure to be true cannot be cured by the termination date, or if capable of being cured, has not been cured within certain notice periods (provided that Picasso will not have this right to terminate if it is then in material breach of any of its representations, warranties, covenants or other agreements that would result in the closing conditions with respect to the representations and warranties of Picasso and Merger Sub or compliance with their obligations not being satisfied); or

subject to certain limitations, BHC has not timely delivered to Picasso and Merger Sub a certificate as to the ratio of BHC's Consolidated Debt for Borrowed Money to Consolidated EBITDA, or if such certificate states that such ratio is in excess of 5.4:1.

**Termination Fees and Expense Reimbursement**

**Termination Fee**

We will be required to pay a designee of Picasso a termination fee equal to \$12.5 million if:

Picasso or BHC terminates the Merger Agreement due to our stockholders not having adopted the Merger Agreement by the requisite votes, any Person shall have publicly made a bona fide Acquisition Proposal (as defined in the Merger Agreement) after the date of this agreement but prior to such stockholders meeting, and within 12 months of such termination we enter into a definitive agreement with respect to an Acquisition Proposal, with respect to, in general, more than 50% of the voting power of the capital stock or more than 50% of the consolidated assets of BHC and such Acquisition Proposal is consummated;

Picasso terminates the Merger Agreement due to the BHC Board (i) making a Change of Recommendation, (ii) approving, adopting or recommending any Acquisition Proposal (publicly or otherwise) or proposing to approve, adopt or recommend (publicly or otherwise) an Acquisition Proposal, or (iii) approving or recommending or entering into or allowing BHC or any of its Subsidiaries to enter into an Alternative Acquisition Agreement; or

we terminate the Merger Agreement after the BHC Board has authorized BHC to enter into an Alternative Acquisition Agreement with respect to a Superior Proposal and we enter into an Alternative Acquisition Agreement with respect to a Superior Proposal.

**Expense Reimbursement**

In all other circumstances other than those in which BHC is required to pay a termination fee, BHC may be obligated to reimburse transaction expenses incurred by Picasso, Merger Sub and MDP up to \$3.0 million upon termination of the Merger Agreement, if our stockholders meeting has been held and completed and our stockholders have not adopted the Merger Agreement by the requisite votes at such meeting or any adjournment or postponement of such meeting. In addition, BHC will be obligated to reimburse Picasso and Merger Sub up to an additional \$1 million of such expenses not previously reimbursed if within 12 months of such termination, we enter into a definitive agreement with respect to an Acquisition Proposal with respect to, in general, more than 50% of the voting power of the capital stock or more than 50% of the consolidated assets of BHC, and such Acquisition Proposal is consummated.

**Picasso Fee**

Picasso must pay us a termination fee of \$27.5 million in the event we terminate the Merger Agreement because:

there has been a breach of any representation, warranty, covenant or agreement made by Picasso or Merger Sub in the Merger Agreement, which breach would give rise to the failure of the condition to BHC's obligation to close the Merger relating to the accuracy of the representations and warranties of Picasso and Merger Sub or compliance by Picasso and Merger Sub with their obligations under the Merger Agreement, and such breach or failure to be true cannot be cured by the Termination Date, or if capable of being cured, has not been cured within certain notice periods; or

**Table of Contents**

the mutual conditions of both parties and the conditions of Picasso and Merger Sub have been satisfied (other than those conditions that by their terms are to be satisfied at the closing of the Merger), BHC has given notice to Picasso in writing that it is prepared to consummate the closing and Picasso and Merger Sub fail to consummate the transactions contemplated by the Merger Agreement on the date the closing should have occurred under the Merger Agreement.

**Leverage Termination Fee**

Picasso would be obligated to pay us a termination fee of \$5.0 million if:

all of the mutual conditions of the parties and the conditions to the obligations of Picasso and Merger Sub have been satisfied (other than the condition which requires that our Consolidated Debt for Borrowed Money to Consolidated EBITDA ratio not exceed the Maximum Leverage Ratio) and BHC or Picasso terminates the Merger Agreement because the merger has not been consummated by October 7, 2010 (which date may be extended in certain circumstances); or

Picasso terminates the Merger Agreement because we have not timely delivered the Leverage Ratio Certificate or we deliver a Leverage Ratio Certificate which states that the ratio of Consolidated Debt for Borrowed Money to Consolidated EBITDA exceeds the Maximum Leverage Ratio.

Certain investment funds organized by MDP have agreed severally to guarantee the obligation of Picasso to pay the Picasso Fee or the Leverage Termination Fee, as applicable.

**Expenses**

Except as otherwise provided above and, subject to the terms and conditions of the Merger Agreement, except for certain obligations of Picasso and Merger Sub to reimburse BHC for documented reasonable out-of-pocket costs and expenses incurred in connection with Picasso's financing for the merger and any tender offer or consent solicitation with respect to the notes issued by BWAY, whether or not the merger is consummated, all costs and expenses incurred in connection with the Merger Agreement and the merger and the other transactions contemplated by the Merger Agreement shall be paid by the party incurring such expenses. The surviving corporation shall pay all charges and expenses in connection with the merger, including those of the paying agent.

**Treatment of Stock Options**

Stock options that will be cashed-out upon the consummation of the merger consist of all outstanding and vested stock option as of the closing date, all unvested options related to grants since our initial public offering in 2007 and each outstanding option which would otherwise vest if the average per share closing price of BHC common stock over any consecutive 45-day period is at least \$19.26 and the closing price on the 45th day of such period is at least \$16.37 (which options represent one-third of such currently unvested options).

**3. SUPPLEMENTAL CASH FLOW DISCLOSURES**

The following information supplements the unaudited condensed consolidated statements of cash flows for the six months ended March 31, 2010 and March 29, 2009:

(\$ in millions)

	Six Months Ended	
	March 31, 2010	March 29, 2009
<b><u>Cash paid during the period for:</u></b>		
Interest	\$ 15.8	\$ 13.6
Income taxes	12.2	1.3



Edgar Filing: BWAY CORP - Form 10-Q

Business acquisitions

Fair value of assets acquired	\$ 32.9	\$
Fair value of liabilities assumed	(0.6)	
Cash paid for business acquisitions	32.3	

Non-cash investing and financing activities

Amounts owed for capital expenditures	\$ 1.4	\$ 0.7
Assets acquired through capital lease	0.8	

**Table of Contents****4. INVENTORIES**

The components of inventories as of March 31, 2010 and September 27, 2009 were:

(\$ in millions)

	March 31, 2010	September 27, 2009
Raw materials	\$ 30.8	\$ 21.6
Work-in-progress	40.9	35.7
Finished goods	36.1	29.7
Total inventories	\$ 107.8	\$ 87.0

**5. OTHER CURRENT ASSETS AND LIABILITIES**

The components of other current assets and other current liabilities as of March 31, 2010 and September 27, 2009 were:

(\$ in millions)

	March 31, 2010	September 27, 2009
<b><u>Other current assets</u></b>		
Income taxes receivable	\$ 6.2	\$
Deferred tax assets	9.4	9.3
Other	8.8	6.3
Total other current assets	\$ 24.4	\$ 15.6
<b><u>Other current liabilities</u></b>		
Accrued salaries and wages	\$ 13.1	\$ 18.8
Accrued interest	10.6	11.9
Accrued rebates	5.6	4.2
Income taxes payable		3.6
Self insurance	6.9	6.7
Other	17.8	18.1
Total other current liabilities	\$ 54.0	\$ 63.3

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

We do not carry any financial instruments at fair value. Other than our long-term debt, we believe the carrying amounts of financial instruments at March 31, 2010 approximate the fair values of those instruments.

Estimated fair value of long-term debt at March 31, 2010:

(\$ in millions)

Edgar Filing: BWAY CORP - Form 10-Q

	Carrying Value	Estimated Fair Value
<u>Long-term debt</u>		
10% senior subordinated notes due April 2014, gross of debt discount	\$ 228.5	\$ 242.3
Variable rate term loan, U.S. dollar denominated, maturing July 2013	148.7	147.3
Variable rate term loan, Canadian dollar denominated, maturing July 2013	48.0	47.5
	425.2	\$ 437.1
Unaccreted debt discount	(24.3)	
Total long-term debt	\$ 400.9	

**Table of Contents**

We have estimated the fair value of our long-term debt financial instruments based on quoted market prices in the secondary credit market.

**7. GOODWILL AND OTHER INTANGIBLE ASSETS****Goodwill**

The change in goodwill for the six months ended March 31, 2010 by reportable segment was:

(\$ in millions)

	<b>Metal Packaging</b>	<b>Plastic Packaging</b>	<b>Total</b>
Balance, September 27, 2009	\$ 128.7	\$ 130.3	\$ 259.0
Acquired (1)	(0.1)	11.2	11.1
Currency translation adjustment	0.7	1.3	2.0
Balance, March 31, 2010	\$ 129.3	\$ 142.8	\$ 272.1

(1) See Recent Acquisitions under Note 1, General.

**Other Intangible Assets**

The components of other intangible assets at March 31, 2010 and September 27, 2009 were:

(\$ in millions)

	<b>March 31, 2010</b>			<b>September 27, 2009</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b><u>Amortizable intangible assets</u></b>						
Customer relationships	\$ 196.8	\$ (81.8)	\$ 115.0	\$ 187.5	\$ (74.3)	\$ 113.2
Tradenames	26.3	(11.6)	14.7	26.1	(10.5)	15.6
Total amortizable intangible assets	223.1	(93.4)	129.7	213.6	(84.8)	128.8
<b><u>Indefinite-lived intangible assets</u></b>						
Technology	0.6		0.6	0.6		0.6
Total other intangible assets	\$ 223.7	\$ (93.4)	\$ 130.3	\$ 214.2	\$ (84.8)	\$ 129.4

The estimated useful lives of customer relationships range from 13 to 18 years and the estimated useful lives of tradenames range from 10 to 15 years.

**Expected Future Amortization Expense**

Expected future amortization expense at March 31, 2010 was:

Edgar Filing: BWAY CORP - Form 10-Q

(\$ in millions)

Fiscal year	Amortization Expense
2010 <i>(remainder)</i>	\$ 8.0
2011	15.5
2012	14.9
2013	13.8
2014	13.1
Thereafter	64.4
<b>Total expected future amortization expense</b>	<b>\$ 129.7</b>

**Table of Contents****8. LONG-TERM DEBT****Outstanding Long-Term Debt**

Long-term debt outstanding at March 31, 2010 and September 27, 2009 consisted of:

(\$ in millions)

	March 31, 2010	September 27, 2009
<b><u>Long-term debt</u></b>		
10% senior subordinated notes due April 2014	\$ 228.5	\$ 228.5
Variable rate term loan, U.S. dollar denominated, maturing July 2013	148.7	153.8
Variable rate term loan, Canadian dollar denominated, maturing July 2013	48.0	46.5
	425.2	428.8
Unamortized debt discount	(24.3)	(26.5)
<b>Total long-term debt</b>	<b>400.9</b>	<b>402.3</b>
Less current portion of long-term debt	(1.0)	(6.5)
<b>Long-term debt, net of current portion</b>	<b>\$ 399.9</b>	<b>\$ 395.8</b>

The weighted-average interest rate on variable rate credit facility borrowings was approximately 2.2% at March 31, 2010 and approximately 2.6% at September 27, 2009.

**Current Portion of Long-Term Debt**

The current portion of long-term debt at September 27, 2009 included a mandatory repayment of \$6.5 million. Of the repayment, \$5.0 million represented a repayment on the U.S. dollar denominated term loan and \$1.5 million represented a repayment on the Canadian dollar denominated term loan. The repayments occurred in December 2009.

Under the terms of the credit agreement, non-scheduled repayments generally reduce the subsequent four scheduled payments and then reduce the remaining payments thereafter on a pro rata basis. The next scheduled repayments on the term loans are not due until December 2010 because of the repayments in December 2009. The current portion of long-term debt at March 31, 2010 includes scheduled repayments due in the next twelve months. In the event of excess cash flow for the current fiscal year, we may be required to make an excess cash flow payment in December 2010 that exceeds the scheduled repayments.

**Scheduled Maturities of Long-Term Debt**

Scheduled maturities of long-term debt at March 31, 2010 were:

(\$ in millions)

Fiscal year	Amount Due
2011	\$ 2.1
2012	2.0
2013	192.6
2014	228.5

Total scheduled maturities of long-term debt	\$ 425.2
--	----------

**Senior Subordinated Notes****2014 Notes**

On April 6, 2009, BWAY completed a private placement offering of approximately \$228.5 million aggregate principal amount of 10% Senior Subordinated Notes due April 15, 2014 (the 2014 Notes) which priced at a discount to par of 87.513%. The 2014 Notes were issued pursuant to an indenture, dated as of April 6, 2009 (the Indenture), among BWAY, the Guarantors (as defined below) and The Bank of New York Mellon Trust Company, N.A., as trustee (the Trustee.)

---

## **Table of Contents**

The 2014 Notes are unsecured and subordinated to all of BWAY's existing and future senior debt, including its existing credit facilities. Each of BWAY's 100% owned U.S. subsidiaries (individually, a Guarantor or collectively, the Guarantors) have guaranteed the 2014 Notes with a guarantee that will be unsecured and subordinated to all existing and future senior debt of each such subsidiary. If any subsidiary of BWAY that is not a Guarantor guarantees certain indebtedness of BWAY in the future, such subsidiary will guarantee the 2014 Notes.

BWAY may redeem the 2014 Notes, in whole or in part, at any time on or after April 15, 2011 at the redemption prices set forth in the 2014 Notes. In addition, prior to April 15, 2011, BWAY may redeem up to 35% of the 2014 Notes with the net proceeds of one or more equity offerings at a redemption price equal to 110% of the principal amount plus accrued interest. If BWAY undergoes a change of control or sells certain of its assets, it may be required to offer to purchase the 2014 Notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

We expect to refinance some or all of the 2014 Notes in connection with the proposed merger. See "Financing" under Note 2, "Agreement and Plan of Merger."

The Indenture contains covenants limiting BWAY's and the Guarantors' ability to: (i) incur additional debt or issue certain preferred stock; (ii) pay dividends or distributions on capital stock or repurchase capital stock; (iii) make certain investments; (iv) create liens on assets to secure debt; (v) engage in transactions with affiliates; (vi) merge or consolidate with another company; and (vii) transfer and sell assets, in each case subject to a number of limitations and exceptions provided in the Indenture.

Upon the occurrence of customary events of default, the Trustee or the holders of 25% of the principal amount of the outstanding 2014 Notes may declare the principal of and accrued and unpaid interest on the 2014 Notes to be due and payable. Upon the occurrence of certain bankruptcy events affecting BWAY or certain of its subsidiaries, the principal of and accrued and unpaid interest on the 2014 Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any holder.

The 2014 Notes were offered in the United States to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States pursuant to Regulation S under the Securities Act.

We incurred costs of approximately \$5.5 million associated with the issuance of the 2014 Notes. The amount included an underwriting fee of approximately \$4.3 million. We capitalized the costs and are amortizing them to interest expense over the term of the 2014 Notes.

At March 31, 2010, we complied with applicable financial covenants related to the 2014 Notes.

## **Credit Facility**

Our credit facility consists of a U.S. denominated term loan (the U.S. term loan), a \$50.0 million revolving credit facility (the U.S. revolver), a Canadian denominated term loan (the Canadian term loan) and a US\$5.0 million equivalent revolving credit facility (the Canadian revolver), (collectively, the credit facility). We initially borrowed \$190.0 million on the U.S. term loan and Cdn\$56.4 million (US\$50.0 million equivalent at the borrowing date) on the Canadian term loan. We have subsequently made repayments of these term loans that we may not re-borrow.

BWAY is the borrower of the U.S. term loan and only BWAY can borrow on the U.S. revolver. ICL is the borrower of the Canadian term loan and only ICL can borrow on the Canadian revolver. ICL can draw on the Canadian revolver in either U.S. dollars or Canadian dollars.

The term loans mature on July 17, 2013 and the revolving credit facilities mature on July 17, 2012.

The term loans are subject to scheduled quarterly repayments. Voluntary prepayments or mandatory repayments may offset scheduled repayments. In December 2009, we made a \$5.0 million mandatory repayment on the U.S. term loan and a \$1.6 million mandatory repayment on the Canadian term loan. These mandatory repayments offset the scheduled quarterly repayments for 2010. Scheduled quarterly repayments of approximately \$0.4 million on the U.S. term loan and approximately \$0.1 million on the Canadian term loan will resume in December 2010 and continue through March 31, 2013. The remaining unpaid balance is due on the maturity date.



---

## **Table of Contents**

Amounts repaid on the term loans may not be re-borrowed. The mandatory repayments in December 2009 represented a portion of excess cash flow, as defined in the credit agreement, from 2009.

We expect to refinance the credit facility in connection with the proposed merger. See Financing under Note 2, Agreement and Plan of Merger.

Interest accrues on the term loans at a variable base rate plus a fixed margin. At March 31, 2010, the effective interest rate was approximately 2.1% on outstanding U.S. loan borrowings and approximately 2.5% on outstanding Canadian term loan borrowings.

Interest on outstanding revolving credit facility borrowings, if any, accrues at a variable base rate plus a variable margin. The margin is based on a consolidated total leverage ratio, as defined in the credit agreement. At March 31, 2010, we had \$5.3 million in standby letter of credit commitments that reduced the amount available to borrow under the U.S. revolver to \$44.7 million. At March 31, 2010, we had \$0.2 million in standby letter of credit commitments that reduced the amount available to borrow under the Canadian revolver to \$4.8 million.

BHC and each of our U.S. subsidiaries have guaranteed the U.S. term loan and U.S. revolver, each of which is secured by substantially all the U.S. assets of BWAY and the assets of BHC. In addition, we have pledged as collateral all of the issued and outstanding stock of our U.S. subsidiaries, which are 100% owned, and, subject to certain limitations, the outstanding stock of ICL. ICL has guaranteed the Canadian term loan and Canadian revolver, each of which is secured by all of the assets of ICL.

The credit agreement contains covenants that, among other things, limit our ability (and the ability of some or all of our subsidiaries) to: incur additional debt, pay dividends or distributions on our capital stock or to repurchase our capital stock, make certain investments, loans or advances, create liens on our assets to secure debt, engage in transactions with affiliates, merge or consolidate with another company, transfer and sell assets and make acquisitions. The credit agreement limits the amount of capital expenditures we may expend annually, and we may be required to make mandatory repayments of the term loans based on excess cash flow.

We are required to maintain a minimum consolidated interest coverage ratio, as defined in the credit agreement, and we may not exceed a maximum consolidated total leverage ratio, as defined in the credit agreement. These ratios are calculated using consolidated EBITDA, which, as defined in the credit agreement, permits certain adjustments including cash restructuring charges. However, these adjustments, including cash restructuring charges, may be limited over a certain period or in the aggregate.

At March 31, 2010, we complied with all applicable financial covenants contained in the credit agreement. We maintained a consolidated interest coverage ratio of approximately 4.5, which exceeded the minimum required ratio of 3.05, and a consolidated total leverage ratio of approximately 2.8, which was less than the maximum required ratio of 3.55.

The covenants contained in the credit agreement are subject to a number of important limitations and exceptions.

## **Debt Issuance Costs**

We are amortizing original debt issuance costs of approximately \$12.8 million related to the 2014 Notes and our credit facility. We amortize these costs to interest expense over the term of the related debt utilizing a method that approximates the effective yield method. At March 31, 2010 and September 27, 2009, approximately \$7.6 million and \$8.7 million, respectively, of deferred costs remained unamortized. We record deferred debt issuance costs in other assets.

**Table of Contents****9. EMPLOYEE BENEFIT OBLIGATIONS****Employee Benefit Obligation Liabilities**

Employee benefit obligations at March 31, 2010 and September 27, 2009 were:

(\$ in millions)

	March 31, 2010	September 27, 2009
<b><u>Employee benefit obligation liabilities</u></b>		
Defined benefit pension plans	\$ 13.6	\$ 14.0
Retiree medical and other postretirement benefits	7.6	7.5
Deferred compensation	6.5	6.3
<b>Total employee benefit obligation liabilities</b>	<b>\$ 27.7</b>	<b>\$ 27.8</b>

Employee benefit obligations recorded in other current liabilities at March 31, 2010 and September 27, 2009 were approximately \$1.2 million. Employee benefit obligations recorded in other liabilities at March 31, 2010 and September 27, 2009 were approximately \$26.5 million and \$26.6 million, respectively.

In 2010, we expect to contribute approximately \$1.4 million to the pension plans, of which \$0.9 million has been contributed during the six months ended March 31, 2010.

**Components of Net Periodic Benefit Cost**

The components of net periodic benefit costs for the three and six months ended March 31, 2010 and March 29, 2009 were:

(\$ in millions)

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 29, 2009	March 31, 2010	March 29, 2009
<b><u>Defined benefit pension plans</u></b>				
Interest cost	\$ 0.4	\$ 0.2	\$ 0.8	\$ 0.4
Expected return on plan assets	(0.3)	(0.2)	(0.6)	(0.3)
Amortization of actuarial loss	0.2		0.3	
	0.3		0.5	0.1
<b><u>Other benefits</u></b>				
Interest cost	0.1	0.1	0.2	0.2
<b>Total net periodic benefit cost</b>	<b>\$ 0.4</b>	<b>\$ 0.1</b>	<b>\$ 0.7</b>	<b>\$ 0.3</b>

**Multiemployer Pension Liabilities**

At March 31, 2010 and September 27, 2009, we had accrued pension withdrawal liabilities of \$3.7 million related to multiemployer pension plans that covered certain union employees at our former Franklin Park, Illinois facility, which we closed in 2008 (see Note 10, Restructuring.)



**Table of Contents****10. RESTRUCTURING**

The components of restructuring liabilities by reportable segment, including certain amounts not allocated to a segment, as of September 27, 2009 and March 31, 2010 and the change in the liabilities during the six months ended March 31, 2010 were as follows:

(\$ in millions)

	Balance, September 27, 2009	Additions	Expenditures	Balance, March 31, 2010
<b><u>Plastic packaging segment</u></b>				
Severance and benefit costs	\$	\$ 0.3	\$	\$ 0.3
Facility closure costs	0.7	0.1	(0.5)	0.3
Total plastic packaging segment restructuring liabilities	0.7	0.4	(0.5)	0.6
<b><u>Metal packaging segment</u></b>				
Severance and benefit costs	1.5	0.6	(1.3)	0.8
Pension withdrawal liabilities	3.7			3.7
Facility closure costs	1.3	1.2	(0.9)	1.6
Total metal packaging segment restructuring liabilities	6.5	1.8	(2.2)	6.1
<b><u>Corporate unallocated</u></b>				
Severance and benefit costs	1.3	0.2	(0.9)	0.6
Relocation and closure costs		0.3	(0.2)	0.1
Total corporate unallocated restructuring liabilities	1.3	0.5	(1.1)	0.7
Total restructuring liabilities	\$ 8.5	\$ 2.7	\$ (3.8)	\$ 7.4

Excluding \$3.6 million of pension withdrawal liabilities included in other liabilities at September 27, 2009 and March 31, 2010, restructuring liabilities, including \$0.1 million of pension withdrawal liabilities, are included in other current liabilities.

**Restructuring Initiatives**

**Division Consolidation.** In May 2009, we implemented a plan to eliminate our operating divisions and restructure management in order to operate the company as a single entity. Management believes the change in the operating structure change will increase management efficiency and lower overhead expenses in support of its continued efforts to reduce our overall cost base. Under the plan, we closed our divisional offices, eliminated approximately 25 salaried positions and relocated approximately 20 salaried positions.

We estimate the plan will result in restructuring expenses of approximately \$3.1 million, consisting of approximately \$1.6 million for severance and benefits, approximately \$1.3 million for employee relocations and approximately \$0.2 million for other associated costs. We recognized approximately \$2.4 million of the estimated expenses in fiscal 2009. In the first six months of 2010, we recognized approximately \$0.2 million for severance and benefits and approximately \$0.4 million for employee relocation expenses. We expect to recognize the remaining expenses in remainder of 2010.

**Franklin Park and Cleveland.** In 2008, in connection with our on-going productivity and cost-savings initiatives, we closed manufacturing facilities in Franklin Park, Illinois ( Franklin Park ) and Cleveland, Ohio ( Cleveland ). Although operations have ceased at the facilities, we will continue to incur certain holding costs until the facility leases expire. The restructuring plans for Franklin Park and Cleveland are discussed in further detail in Note 16, Restructuring, of Notes to Consolidated Financial Statements in Item 8 of the Annual Report.



**Table of Contents**

**Central Can.** In conjunction with the Central Can acquisition in 2009, management committed to a plan to close our Brampton, Ontario and Kilbourn manufacturing facilities. Kilbourn is located in Chicago, Illinois. We will consolidate the facilities into the acquired Central Can facility. We recorded a reorganization liability in purchase accounting of approximately \$1.2 million for severance and benefits for the elimination of redundant positions at Central Can.

In the first six months of 2010, we recorded restructuring expenses related to Brampton of \$0.6 million for severance and benefits for eliminated positions and \$1.1 million for leasehold, shutdown and holding costs. In the remainder of 2010, we expect to record restructuring expenses of approximately \$1.1 million.

**Ball Plastics.** In conjunction with the Ball Plastics acquisition in the first quarter, management committed to a plan to close our Toccoa, Georgia manufacturing facility. We will consolidate the facility into the acquired Ball Plastics facility located in Newnan, Georgia. We expect the facility to be closed by the end of the fiscal year. The closure will affect approximately 85 employees (77 hourly and 8 salaried) and will result in restructuring charges of approximately \$0.8 million in facility lease, closure and holding costs and approximately \$0.5 million in severance and benefit costs. We recorded approximately \$0.3 million in the second quarter of 2010 related to accrued severance and benefits. We expect to record approximately \$0.8 million in the remainder of fiscal 2010. In addition to restructuring expenses, we expect to record additional depreciation of approximately \$0.3 million related to long-lived assets that will be taken out of service.

**Additional Depreciation.** In addition to the above restructuring costs, we recorded additional depreciation related to long-lived assets that will be taken out of service. We recorded additional depreciation of \$0.6 million in 2009 and \$1.7 million in the first six months of 2010. We expect to record an additional \$1.1 million in remainder of 2010.

**11. STOCKHOLDERS EQUITY****Net Income per Share**

Net income per share for the three and six months ended March 31, 2010 and March 29, 2009 was:

(\$ in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 29, 2009	March 31, 2010	March 29, 2009
Net income	\$ 4.4	\$ 8.7	\$ 5.2	\$ 6.0
<b><u>Basic net income per share</u></b>				
Weighted-average number of shares outstanding (000s)	22,360	21,907	22,288	21,886
Basic net income per share	\$ 0.20	\$ 0.40	\$ 0.23	\$ 0.27
<b><u>Diluted net income per share</u></b>				
Weighted-average number of shares outstanding (000s)	22,360	21,907	22,288	21,886
Dilutive effect of stock options (000s)	1,917	1,088	1,969	1,021
Weighted-average number of shares outstanding assuming dilution (000s)	24,277	22,995	24,257	22,907
Diluted net income per share	\$ 0.18	\$ 0.38	\$ 0.21	\$ 0.26

For the three and six months ended March 31, 2010 and March 29, 2009, approximately 1.4 million and 1.9 million, respectively, of outstanding stock options were not included in the diluted net income per share calculation because the options were out-of-the-money, unvested with vesting based on an unachieved market condition or to do so would otherwise have been anti-dilutive.



**Table of Contents****Comprehensive Income Information**

The components of comprehensive income for the three and six months ended March 31, 2010 and March 29, 2009 were:

(\$ in millions)

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 29, 2009	March 31, 2010	March 29, 2009
<u>Comprehensive income</u>	\$	\$	\$	\$
Net income	4.4	8.7	5.2	6.0
Foreign currency translation adjustments	0.9	(0.5)	1.8	(4.6)
Comprehensive income	\$ 5.3	\$ 8.2	\$ 7.0	\$ 1.4

The components of accumulated other comprehensive loss as of September 27, 2009 and March 31, 2010 and the change during the period were:

(\$ in millions)

	Pension and Other Postretirement Items (net of tax)	Cumulative Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
<u>Accumulated other comprehensive loss</u>			
Balance, September 27, 2009	\$ (4.6)	\$ 0.8	\$ (3.8)
Change		1.8	1.8
Balance, March 31, 2010	\$ (4.6)	\$ 2.6	\$ (2.0)

**12. SHARE-BASED COMPENSATION****Summary of Share-Based Compensation Plans**

We describe our share-based compensation plans in Note 11, Share-Based Compensation, of Notes to Consolidated Financial Statements in Item 8 of the Annual Report.

In the first six months of 2010, we granted options to acquire 75,000 shares of BHC common stock. The options vest in three equal tranches beginning on each of the first three anniversaries of the grant date. In the first six months of 2010, we awarded 15,140 shares of BHC restricted common stock to our independent directors. We awarded the restricted stock awards pursuant to our independent director compensation policy. The restricted stock will vest on September 30, 2010. At March 31, 2010, there were 1,303,063 shares available for grant under our share-based compensation plans.

At March 31, 2010, there were 662,834 unvested options related to grants after the IPO that would vest and approximately \$3.5 million of stock-based compensation expense that would be recognized, each upon a change of control such as the proposed merger transaction. At March 31, 2010, there were 956,865 unvested options with market price based vesting conditions of which 1/3 would vest under the proposed merger transaction. The remaining 2/3 would be canceled and approximately \$5.9 million of previously recognized stock-based compensation expense would be reversed.



## Edgar Filing: BWAY CORP - Form 10-Q

The weighted-average grant date fair value for options granted during the first six months of 2010 was \$8.76 per share subject to option. We calculate grant date fair value based on the Black-Scholes Model with the following assumptions: (i) no dividend yield on BHC's common stock; (ii) expected stock price volatility of 54.2%; (iii) a risk-free interest rate of 2.7%; and (iv) an expected option term of 6.0 years. We estimated the expected option term using the simplified method for plain vanilla options. We describe the Black-Scholes Model and the assumptions used to determine grant date fair value under Grant Date Fair Value in Note 11, Share-Based Compensation, of Notes to Consolidated Financial Statements in Item 8 of the Annual Report.

**Table of Contents****Stock-Based Compensation Expense**

Stock-based compensation expense in the statement of operations for the three and six months ended March 31, 2010 and March 29, 2009 was as follows:

(\$ in millions)

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 29, 2009	March 31, 2010	March 29, 2009
<u>Stock-based compensation expense (a)</u>				
Cost of products sold (excluding depreciation and amortization) (b)	\$ 0.2	\$ (0.2)	\$ 0.3	\$
Selling and administrative expense (c)	0.1	0.5	0.1	1.2
Total stock-based compensation expense	\$ 0.3	\$ 0.3	\$ 0.4	\$ 1.2

- (a) Stock-based compensation expense is included in corporate undistributed expenses in the business segment disclosure in Note 14, Business Segments.
- (b) In the three months ended March 29, 2009, stock-based compensation expense included \$0.1 million of accrued stock-based compensation and \$(0.3) million related to the reversal of previously recognized stock-based compensation expense due to the forfeiture of unvested options during the quarter, each related to exit options with vesting conditions that were modified at the June 2007 initial public offering.
- (c) In the three and six months ended March 29, 2009, stock-based compensation expense included \$0.5 million and \$1.2 million, respectively, related to exit options with vesting conditions that were modified at the June 2007 initial public offering. In the six months ended March 31, 2010, stock-based compensation expense included \$(0.2) million related to the reversal of previously recognized stock-based compensation expense due to the forfeiture of unvested options related to exit options with vesting conditions that were modified at the June 2007 initial public offering.

**13. COMMITMENTS AND CONTINGENCIES****Environmental**

We are subject to a broad range of federal, state, provincial 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 material compliance with all applicable environmental, health and safety laws, although 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 operations we use, store and dispose of hazardous substances.

Some of our current and former facilities are currently involved in environmental investigations, remediation or other claims resulting from the release of hazardous substances or the presence of other contaminants. Except to the extent otherwise disclosed, we believe the likelihood is remote that any material losses may have resulted from identified environmental remediation matters or environmental investigations relating to current or former facilities. While we do not believe that any identified investigation or remediation obligations will have a material adverse effect on our financial position, results of operations or cash flows, there is no assurance 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 financial position, results of operations or cash flows.

In a letter dated March 14, 2007, the United States Environmental Protection Agency ( EPA ) informed us that corrective action was required at our Cincinnati facility to address documented releases of hazardous substances at the site. The documented releases referenced by the EPA occurred prior to our ownership of the site. The EPA has requested that we enter into an Administrative Order on Consent under the Resource Conservation and Recovery Act (RCRA) with respect to corrective action obligations. We are working with the EPA to address their concerns, and we have notified the former owner of the site that we believe has indemnity obligations to us with respect to these claims.



## **Table of Contents**

From time to time, we receive requests for information or are identified as a potentially responsible party (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 by our predecessors in interest. While we do not believe that any of these identified matters will have a material adverse effect on our financial position, results of operations or cash flows, there is no assurance that such obligations will not arise in the future.

We are a member of a PRP group related to a waste disposal site in Georgia. Our status as a PRP was 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. We joined the PRP group in order to reduce exposure, which is estimated to be approximately \$0.1 million.

We record reserves for environmental liabilities when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. At March 31, 2010 and September 27, 2009, we had accrued approximately \$0.2 million related to environmental liabilities, including those amounts noted above. These accruals are estimates and future expenditures may exceed these amounts. Accrued environmental liabilities are included in other current liabilities.

## **Self Insurance**

The majority of our medical and workers' compensation benefits are under high-deductible plans with certain stop loss arrangements. We determine our workers' compensation liability using actuarial data based on filed claims, and we determine our medical claims liability based on our analysis of historical claims. At March 31, 2010 and September 27, 2009, we had accrued \$6.9 million and \$6.7 million, respectively, related to these liabilities, which are included in other current liabilities.

## **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, results of operations or cash flows. We had accrued liabilities relating to pending litigation matters, including lead paint litigation, of approximately \$2.9 million at March 31, 2010 and \$2.3 million at September 27, 2009. We are also involved in certain proceedings relating to environmental matters as described under "Environmental" above.

In April 2010, the parties in *Plaze* (previously disclosed), agreed to settle the matter. The amount of the agreed upon settlement, subsequently paid by BWAY, was accrued at March 31, 2010. The parties have executed a settlement agreement, and we anticipate that the case will be dismissed with prejudice shortly.

## **Litigation Relating to the Merger**

On April 5, 2010, a putative stockholder class action lawsuit was filed in the Superior Court of Fulton County, State of Georgia, against BHC, the members of the BHC Board, the Chief Financial Officer of BHC, MDP, Picasso and Merger Sub. The complaint in the lawsuit, Civil Action No. 2010CV183869, asserts that the members of the BHC Board and the Chief Financial Officer breached their fiduciary duties by causing BHC to enter into the Merger Agreement and further asserts that BHC, MDP, Picasso and Merger Sub aided and abetted those alleged breaches of duty. The complaint seeks, among other relief, an order enjoining the consummation of the Merger and rescinding the Merger Agreement.

We believe that this lawsuit is without merit and intend to defend it vigorously.

---

## **Table of Contents**

### **Lead Paint Litigation**

#### **Wisconsin Personal Injury Lawsuits**

In 2006, our Armstrong Containers, Inc. (Armstrong) subsidiary was named in thirty-three (33) lead paint related personal injury lawsuits in Wisconsin. Since that time, all but six (6) of these cases have been dismissed, leaving only the Godoy, Burton, Clark, Gibson, Stokes and Owens cases, each previously disclosed. Burton, Clark, Gibson, Stokes and Owens were all previously stayed pending the resolution of an appeal in Godoy to the Wisconsin Supreme Court. The Wisconsin Supreme Court has affirmed the trial court's dismissal of plaintiffs' design defect claim, and Godoy has returned to the trial court and the stays in the other cases have been lifted. The dismissal of plaintiff's design defect claim still leaves plaintiff in this action with a failure to warn claim pending. The parties now are engaging in discovery in these cases.

In January 2010, an additional lead paint related personal injury case was filed against Armstrong, as well as other defendants, in the United States District Court for the Eastern District of Wisconsin (Sifuentes). This case is substantially similar to the other cases noted above and brings the total number of open cases related to this litigation to seven (7). There were no other actions filed, settled or otherwise dismissed during the three and six months ended March 31, 2010.

The amount of each claim pending is unknown and no cases to date have been settled.

Armstrong has been named as one of several defendants in the lead paint related personal injury cases based upon allegations related to its alleged corporate predecessor's products that predated our ownership of Armstrong.

The lawsuits have been tendered to Armstrong's insurers, for which Armstrong had insurance policies in place during the potentially relevant period. Various insurers are participating in the defense of the cases.

Although we continue to believe that we have valid defenses against the plaintiffs in the lead paint related personal injury litigation, litigation is inherently subject to many uncertainties. We cannot predict with any degree of certainty the potential liability or likelihood of the outcome of this litigation. In addition, because of the dismissal of prior cases, we are unable to provide additional information concerning the underlying risks of the lead paint related personal injury cases. At March 31, 2010 and September 27, 2009, we had not accrued any amounts for lead paint related personal injury claims.

We continue to incur certain legal fees and expenses that may not be covered by insurance. During the three and six months ended March 31, 2010 and March 29, 2009, we did not incur any legal fees and expenses related to lead paint litigation that were not covered by insurance.

We discuss lead paint litigation under "Litigation - Lead Paint Litigation" in Note 17, "Commitments and Contingencies," of Notes to Consolidated Financial Statements in Item 8 of the Annual Report.

#### **Letters of Credit**

At March 31, 2010, a bank had issued \$5.6 million of standby letters of credit on our behalf, primarily in favor of our workers' compensation insurers.

#### **Collective Bargaining Agreements**

At March 31, 2010, approximately 30% of our hourly workforce was covered by eight separate collective bargaining agreements. Two of the collective bargaining agreements, representing approximately 20% of our unionized workforce, will become amendable in the next twelve months.

#### **Commodity Risk**

We are subject to various risks and uncertainties related to changing commodity prices for, and the availability of, the raw materials (primarily steel and plastic resin) and energy (primarily electricity and natural gas) used in our manufacturing processes.

**Table of Contents****Merger Transaction**

As further discussed in Note 2, Agreement and Plan of Merger, we entered into a merger agreement at the end of March 2010. Under the merger agreement and other related agreements, we may be subject to certain fees and expenses under certain circumstances if the transaction is not consummated.

**14. BUSINESS SEGMENTS**

Management reviews operations along our product lines in two reportable segments: metal packaging and plastic packaging. We differentiate the segments based on the nature of the products they manufacture. The primary raw materials and manufacturing processes are unique for each segment. We describe our business segments in further detail in Note 18, Business Segments, of Notes to Consolidated Financial Statements in Item 8 of the Annual Report.

We do not allocate stock-based compensation expense or certain other general administrative expenses to our business segments for reporting purposes. These unallocated expenses are included in our business segment disclosures as corporate undistributed expenses.

Our segment asset disclosures include those inventories, property, plant and equipment, goodwill and other intangible assets applicable to the segment. Total assets not allocated to our business segments are identified as corporate.

The accounting policies of our segments are the same as those described in Note 2, Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements in Item 8 of the Annual Report.

In the periods presented, there were no significant inter-segment sales. Management uses a measure of segment earnings to evaluate segment performance. We calculate segment earnings as segment gross profit (excluding depreciation and amortization) less selling expenses (Segment Earnings).

The following tables set forth certain financial information attributable to our business segments for the three and six months ended March 31, 2010 and March 29, 2009:

(\$ in millions)

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 29, 2009	March 31, 2010	March 29, 2009
<b><u>Net sales</u></b>				
Metal packaging	\$ 155.5	\$ 133.6	\$ 298.6	\$ 264.5
Plastic packaging	92.5	72.5	168.4	154.1
Consolidated net sales	248.0	206.1	467.0	418.6
<b><u>Income Before Income Taxes</u></b>				
<b><u>Segment earnings</u></b>				
Metal packaging	\$ 29.3	\$ 22.3	\$ 49.7	\$ 33.8
Plastic packaging	8.9	14.7	18.7	21.5
Segment earnings	38.2	37.0	68.4	55.3
<b><u>Expenses not distributed to segments</u></b>				
Corporate undistributed expenses	3.1	4.0	6.9	7.5
Depreciation and amortization (summarized below)	13.1	10.8	26.8	21.9
Restructuring	0.7	0.7	2.7	1.4

Edgar Filing: BWAY CORP - Form 10-Q

Interest, net	8.8	7.4	17.7	15.6
Merger transaction costs	5.0		5.0	
Business acquisition costs			0.5	
Other	0.4	0.2	0.8	(0.6)
Total expenses not distributed to segments	31.1	23.1	60.4	45.8
Consolidated income before income taxes	\$ 7.1	\$ 13.9	\$ 8.0	\$ 9.5
<u>Depreciation and amortization</u>				
Metal packaging	\$ 5.8	\$ 5.0	\$ 12.5	\$ 10.4
Plastic packaging	6.9	5.4	13.5	10.8
Segment depreciation and amortization	12.7	10.4	26.0	21.2
Corporate	0.4	0.4	0.8	0.7
Consolidated depreciation and amortization	\$ 13.1	\$ 10.8	\$ 26.8	\$ 21.9

**Table of Contents**

The following table sets forth total assets attributable to our business segments as of March 31, 2010 and September 27, 2009:

(\$ in millions)

	March 31, 2010	September 27, 2009
<b>Total assets</b>		
Metal packaging	\$ 333.7	\$ 336.0
Plastic packaging	329.1	290.0
Total segment assets	662.8	626.0
Corporate	218.4	229.5
Total assets	\$ 881.2	\$ 855.5

The following table sets forth the percentage of consolidated net sales and net sales by business segment by customer geographic location for the three and six months ended March 31, 2010 and March 29, 2009:

(\$ in millions)

	Three Months Ended		Six Months Ended	
	March 31, 2010	March 29, 2009	March 31, 2010	March 29, 2009
<b>Consolidated net sales</b>				
United States	92%	92%	91%	92%
Canada	8	8	8	8
Other			1	
Total	100%	100%	100%	100%
<b>Metal packaging net sales</b>				
United States	92%	93%	92%	93%
Canada	8	6	7	6
Other		1	1	1
Total	100%	100%	100%	100%
<b>Plastic packaging net sales</b>				
United States	90%	89%	90%	89%
Canada	10	10	10	10
Other		1		1
Total	100%	100%	100%	100%

**15. SUPPLEMENTAL GUARANTOR SUBSIDIARIES INFORMATION**

The 2014 Notes are guaranteed on a full, unconditional joint and several basis by our U.S. based subsidiaries, which are 100% owned. In the following tables, we present condensed consolidating financial information for BWAY and its subsidiaries as of March 31, 2010 and September 27, 2009, and for the three and six months ended March 31, 2010 and March 29, 2009. We have segregated the subsidiary



## Edgar Filing: BWAY CORP - Form 10-Q

information into guarantor subsidiaries and non-guarantor subsidiaries. We have not presented separate financial statements for the guarantor subsidiaries or the non-guarantor subsidiaries because we do not believe the separate financial statements would provide investors with any additional, materially useful information.

**Table of Contents****BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Balance Sheet Information****March 31, 2010**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
<u>Current assets</u>					
Cash and cash equivalents	\$ 9.9	\$ 22.0	\$ 7.4	\$	\$ 39.3
Accounts receivable, net	76.8	48.2	6.2		131.2
Inventories, net	60.4	43.2	4.2		107.8
Other current assets	54.4	4.8	2.7	(37.5)	24.4
<b>Total current assets</b>	<b>201.5</b>	<b>118.2</b>	<b>20.5</b>	<b>(37.5)</b>	<b>302.7</b>
Property, plant and equipment, net	82.3	76.6	7.1		166.0
Goodwill	131.4	107.0	33.7		272.1
Other intangible assets, net	38.0	71.2	21.1		130.3
Other assets	8.8	0.7	0.6		10.1
Intercompany		101.8		(101.8)	
Investment in subsidiaries	323.8	26.4		(350.2)	
<b>Total assets</b>	<b>\$ 785.8</b>	<b>\$ 501.9</b>	<b>\$ 83.0</b>	<b>\$ (489.5)</b>	<b>\$ 881.2</b>
<b>Liabilities and Stockholder's Equity</b>					
<u>Current liabilities</u>					
Accounts payable	\$ 65.6	\$ 52.5	\$ 5.3	\$	\$ 123.4
Other current liabilities	45.0	45.0	1.5	(37.5)	54.0
Current portion of long-term debt	0.7		0.3		1.0
<b>Total current liabilities</b>	<b>111.3</b>	<b>97.5</b>	<b>7.1</b>	<b>(37.5)</b>	<b>178.4</b>
Long-term debt	352.2		47.7		399.9
Deferred tax liabilities	10.8	34.5	1.2		46.5
Intercompany	78.2	23.2	0.4	(101.8)	
Other liabilities	25.4	22.9	0.2		48.5
<b>Total liabilities</b>	<b>577.9</b>	<b>178.1</b>	<b>56.6</b>	<b>(139.3)</b>	<b>673.3</b>
<u>Stockholder's equity</u>					
Preferred stock					
Common stock					
Additional paid-in capital	147.2	261.5	19.6	(281.1)	147.2
Retained earnings	62.7	62.9	4.2	(67.1)	62.7
Accumulated other comprehensive (loss) income	(2.0)	(0.6)	2.6	(2.0)	(2.0)
<b>Total stockholder's equity</b>	<b>207.9</b>	<b>323.8</b>	<b>26.4</b>	<b>(350.2)</b>	<b>207.9</b>

Edgar Filing: BWAY CORP - Form 10-Q

Total liabilities and stockholder's equity	\$ 785.8	\$ 501.9	\$ 83.0	\$ (489.5)	\$ 881.2
--	----------	----------	---------	------------	----------

**Table of Contents****BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Balance Sheet Information**

September 27, 2009

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$ 58.0	\$ 21.7	\$ 9.0	\$	\$ 88.7
Accounts receivable, net	58.5	38.1	7.2		103.8
Inventories, net	59.8	22.7	4.5		87.0
Other current assets	43.2	4.1	0.6	(32.3)	15.6
<b>Total current assets</b>	<b>219.5</b>	<b>86.6</b>	<b>21.3</b>	<b>(32.3)</b>	<b>295.1</b>
Property, plant and equipment, net	73.3	79.7	7.9		160.9
Goodwill	120.3	107.1	31.6		259.0
Other intangible assets, net	33.6	74.7	21.1		129.4
Other assets	9.9	0.5	0.7		11.1
Intercompany		93.6		(93.6)	
Investment in subsidiaries	320.7	26.7		(347.4)	
<b>Total assets</b>	<b>\$ 777.3</b>	<b>\$ 468.9</b>	<b>\$ 82.6</b>	<b>\$ (473.3)</b>	<b>\$ 855.5</b>
<b>Liabilities and Stockholder's Equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 56.9	\$ 35.0	\$ 6.1	\$	\$ 98.0
Other current liabilities	47.1	47.2	1.3	(32.3)	63.3
Current portion of long-term debt	5.0		1.5		6.5
<b>Total current liabilities</b>	<b>109.0</b>	<b>82.2</b>	<b>8.9</b>	<b>(32.3)</b>	<b>167.8</b>
Long-term debt	350.8		45.0		395.8
Deferred tax liabilities	10.9	34.5	1.1		46.5
Intercompany	83.5	9.5	0.6	(93.6)	
Other liabilities	24.8	22.1	0.2		47.1
<b>Total liabilities</b>	<b>579.0</b>	<b>148.3</b>	<b>55.8</b>	<b>(125.9)</b>	<b>657.2</b>
<b>Stockholder's equity</b>					
Preferred stock					
Common stock					
Additional paid-in capital	144.6	261.4	19.6	(281.0)	144.6
Retained earnings	57.5	61.6	6.4	(68.0)	57.5
Accumulated other comprehensive (loss) income	(3.8)	(2.4)	0.8	1.6	(3.8)
<b>Total stockholder's equity</b>	<b>198.3</b>	<b>320.6</b>	<b>26.8</b>	<b>(347.4)</b>	<b>198.3</b>

Edgar Filing: BWAY CORP - Form 10-Q

Total liabilities and stockholder's equity	\$ 777.3	\$ 468.9	\$ 82.6	\$ (473.3)	\$ 855.5
--	----------	----------	---------	------------	----------

**Table of Contents****BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Statement of Operations Information****For the three months ended March 31, 2010**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 132.8	\$ 104.6	\$ 10.6	\$	\$ 248.0
<u>Costs and expenses</u>					
Cost of products sold (excluding depreciation and amortization)	104.5	94.8	8.7	(0.1)	207.9
Depreciation and amortization	5.6	6.7	0.8		13.1
Selling and administrative	3.5	1.3	0.2		5.0
Restructuring	0.6		0.1		0.7
Interest, net	8.2	0.3	0.3		8.8
Other	5.0		0.3	0.1	5.4
<b>Total costs and expenses</b>	<b>127.4</b>	<b>103.1</b>	<b>10.4</b>		<b>240.9</b>
Income before income taxes	5.4	1.5	0.2		7.1
Provision for income taxes	2.0	0.7			2.7
Equity in income of subsidiaries	1.0	0.2		(1.2)	
<b>Net income</b>	<b>\$ 4.4</b>	<b>\$ 1.0</b>	<b>\$ 0.2</b>	<b>\$ (1.2)</b>	<b>\$ 4.4</b>

**BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Statement of Operations Information****For the three months ended March 29, 2009**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 129.6	\$ 65.0	\$ 11.5	\$	\$ 206.1
<u>Costs and expenses</u>					
Cost of products sold (excluding depreciation and amortization)	106.5	51.0	9.3	(0.1)	166.7
Depreciation and amortization	5.2	4.8	0.8		10.8
Selling and administrative	5.3	0.9	0.2		6.4
Restructuring	0.4	0.2	0.1		0.7
Interest, net	6.9		0.5		7.4
Other	0.4	(0.3)		0.1	0.2

Edgar Filing: BWAY CORP - Form 10-Q

Total costs and expenses	124.7	56.6	10.9	192.2
Income before income taxes	4.9	8.4	0.6	13.9
Provision for income taxes	1.8	3.2	0.2	5.2
Equity in income of subsidiaries	5.6	0.4		(6.0)
Net income	\$ 8.7	\$ 5.6	\$ 0.4	\$ (6.0) \$ 8.7

**Table of Contents****BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Statement of Operations Information****For the six months ended March 31, 2010**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 263.9	\$ 181.1	\$ 22.0	\$	\$ 467.0
<b>Costs and expenses</b>					
Cost of products sold (excluding depreciation and amortization)	214.6	161.0	19.3	(0.1)	394.8
Depreciation and amortization	11.2	12.6	3.0		26.8
Selling and administrative	8.8	1.5	0.4		10.7
Restructuring	0.9	0.1	1.7		2.7
Interest, net	16.6	0.4	0.7		17.7
Other	5.9	(0.1)	0.4	0.1	6.3
<b>Total costs and expenses</b>	<b>258.0</b>	<b>175.5</b>	<b>25.5</b>		<b>459.0</b>
Income (loss) before income taxes	5.9	5.6	(3.5)		8.0
Provision for (benefit from) income taxes	2.0	2.1	(1.3)		2.8
Equity in income (loss) of subsidiaries	1.3	(2.2)		0.9	
<b>Net income (loss)</b>	<b>\$ 5.2</b>	<b>\$ 1.3</b>	<b>\$ (2.2)</b>	<b>\$ 0.9</b>	<b>\$ 5.2</b>

**BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Statement of Operations Information****For the six months ended March 29, 2009**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net sales	\$ 256.2	\$ 137.3	\$ 25.1	\$	\$ 418.6
<b>Costs and expenses</b>					
Cost of products sold (excluding depreciation and amortization)	222.7	115.1	21.2	(0.2)	358.8
Depreciation and amortization	10.4	9.8	1.7		21.9
Selling and administrative	10.0	1.6	0.4		12.0
Restructuring	0.8	0.5	0.1		1.4
Interest, net	14.5		1.1		15.6
Other	0.6	(0.4)	(1.0)	0.2	(0.6)
<b>Total costs and expenses</b>	<b>259.0</b>	<b>126.6</b>	<b>23.5</b>		<b>409.1</b>



Edgar Filing: BWAY CORP - Form 10-Q

(Loss) income before income taxes	(2.8)	10.7	1.6		9.5
(Benefit from) provision for income taxes	(1.0)	3.9	0.6		3.5
Equity in income of subsidiaries	7.8	1.0		(8.8)	
Net income	\$ 6.0	\$ 7.8	\$ 1.0	\$ (8.8)	\$ 6.0

**Table of Contents****BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Statement of Cash Flows Information****For the six months ended March 31, 2010**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net cash (used in) provided by operating activities	\$ (12.4)	\$ 12.2	\$ (0.2)	\$	\$ (0.4)
<b>Cash flows from investing activities</b>					
Capital expenditures	(6.0)	(6.0)	(0.4)		(12.4)
Business acquisitions	(32.3)				(32.3)
Change in intercompany		(5.7)		5.7	
Other	0.2				0.2
Net cash used in investing activities	(38.1)	(11.7)	(0.4)	5.7	(44.5)
<b>Cash flows from financing activities</b>					
Repayments of other long-term debt	(5.0)		(1.6)		(6.6)
Change in intercompany	5.7			(5.7)	
Other	1.7	(0.2)			1.5
Net cash provided by (used in) financing activities	2.4	(0.2)	(1.6)	(5.7)	(5.1)
Effect of exchange rate changes on cash flows			0.6		0.6
Net (decrease) increase in cash and cash equivalents	(48.1)	0.3	(1.6)		(49.4)
Cash and cash equivalents, beginning of period	58.0	21.7	9.0		88.7
Cash and cash equivalents, end of period	\$ 9.9	\$ 22.0	\$ 7.4	\$	\$ 39.3

**BWAY Corporation and Subsidiaries****Supplemental Unaudited Condensed Consolidating Statement of Cash Flows Information****For the six months ended March 29, 2009**

(\$ in millions)

	<b>BWAY Corporation</b>	<b>Guarantor Subsidiaries</b>	<b>Other Subsidiaries</b>	<b>Eliminations</b>	<b>Consolidated</b>
Net cash used in operating activities	\$ (11.3)	\$ (9.1)	\$ (0.6)	\$	\$ (21.0)
<b>Cash flows from investing activities</b>					
Capital expenditures	(3.5)	(2.8)	(0.4)		(6.7)
Change in intercompany		9.0	0.5	(9.5)	

Edgar Filing: BWAY CORP - Form 10-Q

Net cash (used in) provided by investing activities	(3.5)	6.2	0.1	(9.5)	(6.7)
<u>Cash flows from financing activities</u>					
Repayments of other long-term debt	(14.4)		(3.7)		(18.1)
Borrowings of revolving credit facility	(0.1)				(0.1)
Change in intercompany	(9.5)			9.5	
Net cash used in financing activities	(24.0)		(3.7)	9.5	(18.2)
Effect of exchange rate changes on cash flows			(1.5)		(1.5)
Net decrease in cash and cash equivalents	(38.8)	(2.9)	(5.7)		(47.4)
Cash and cash equivalents, beginning of period	78.3	5.3	8.5		92.1
Cash and cash equivalents, end of period	\$ 39.5	\$ 2.4	\$ 2.8	\$	\$ 44.7

---

## **Table of Contents**

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

In this discussion and analysis, we refer to our fiscal periods unless otherwise indicated. Fiscal year 2009 ended September 27, 2009 and fiscal 2010 will end September 30, 2010. The second quarter and first six months of fiscal 2010 ended March 31, 2010 and the second quarter and first six months of 2009 ended March 29, 2009.

In addition, in our discussion of results of operations, we discuss gross margin, gross margin percentage and segment earnings. We define gross margin as net sales less cost of products sold, which excludes depreciation and amortization. We define gross margin percentage as gross margin divided by net sales. We define segment earnings as segment net sales less segment cost of products sold and segment related selling expenses. Segment cost of products sold also excludes segment depreciation and amortization.

### **Segments**

We report our results of operations in two segments: metal packaging and plastic packaging. Our products within each of these segments include:

*Metal packaging:* general line rigid metal containers made from steel, including paint cans and components, aerosol cans, steel pails, oblong cans and a variety of other specialty cans, including ammunition boxes, that our customers use to package paint, household and personal care products, automotive after-market products, paint thinners, driveway and deck sealants, ammunition and other end-use products.

*Plastic packaging:* injection-molded plastic pails and blow-molded tight-head containers, bottles and drums that our customers use to package petroleum products, agricultural chemicals, other chemical applications, paint, ink, edible oils, high-tech coatings, high-solid coatings, roofing mastic and adhesives, driveway sealants and other end-use products.

### **Factors Affecting Our Results of Operations**

For a discussion of factors affecting our results of operations, including net sales, expenses and raw materials, see "Factors Affecting Our Results of Operations" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" of the Annual Report.

In the fourth quarter of fiscal 2009, we acquired Central Can. On October 23, 2009, in the first quarter of 2010, we acquired the Ball Plastics business. In this discussion and analysis, we refer to these acquisitions as the "recent acquisitions." However, due to the integration of the recent acquisitions into our existing business and the commonality of customers, we are unable to provide a meaningful discussion of the separate impact of the recent acquisitions on net sales and gross margin in this discussion and analysis. We discuss the recent acquisitions under "Recent Acquisitions" in Note 1, "General," of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

On March 28, 2010, BHC entered into an agreement and plan of merger with certain affiliates of a private equity firm. Pursuant to the agreement, each outstanding share of BHC common stock (with certain exceptions, including shares held by stockholders that properly exercise their statutory appraisal rights) will be converted into the right to receive \$20.00 per share in cash. See Note 2, "Agreement and Plan of Merger," of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

### **Overview**

Principal changes in our results of operations for the three months ended March 31, 2010 (the second quarter of 2010) as compared to the three months ended March 29, 2009 (the second quarter of 2009), (each, the second quarter) and for the six months ended March 31, 2010 (year to date 2010) as compared to the six months ended March 29, 2009 (year to date 2009), (each, year to date) were these:

## **Table of Contents**

Second quarter consolidated net sales increased 20.3% to \$248.0 million and gross margin percentage decreased to 16.2% from 19.1%. Year to date consolidated net sales increased 11.6% to \$467.0 million and gross margin percentage increased to 15.5% from 14.3%.

Metal packaging net sales increased 16.4% to \$155.5 million and gross margin percentage increased to 19.6% from 17.6%. Year to date metal packaging net sales increased 12.9% to \$298.6 million and gross margin percentage increased to 17.4% from 13.7%.

Plastic packaging net sales increased 27.6% to \$92.5 million and gross margin percentage decreased to 10.6% from 21.7%. Year to date plastic packaging net sales increased 9.3% to \$168.4 million and gross margin percentage decreased to 12.1% from 15.2%.

Second quarter gross margin was favorably impacted by higher volume and continued benefits from cost reduction and productivity improvement initiatives. These favorable impacts were offset by the unfavorable impact of resin cost increases and the impact of timing between the pass through of those cost increases through higher selling prices.

In the second quarter of 2010, consolidated sales volume (in units), increased approximately 9.2%, metal packaging volume increased approximately 10.9% and plastic packaging volume increased approximately 6.2%, each excluding the effect of the recent acquisitions.

In the second quarter of 2010, we recorded \$5.0 million in transaction costs related to the proposed merger. The costs consisted primarily of a \$3.0 million initial fee paid to Goldman Sachs, as financial advisor to the transaction committee, and for legal and other advisory fees and expenses.

In the first six months of 2010, we closed our manufacturing facility in Brampton, Ontario and announced our intention to close our manufacturing facility in Toccoa, Georgia. We recorded restructuring expenses of \$2.1 million for severance, lease costs and shutdown expenses related to these facility closures. In the first six months of 2010, we also recorded restructuring expense of \$0.6 million related to our one company management consolidation initiative implemented in the third quarter of 2009. In the second quarter of 2010, we completed the migration of operations from Kilbourn to Central Can.

## **Results of Operations**

Management reviews operations along our product lines in two reportable segments: metal packaging and plastic packaging. We describe our business segments in Note 14, Business Segments, of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

The following tables set forth changes in our statements of operations for the three months ended March 31, 2010 (Second Quarter 2010) and March 29, 2009 (Second Quarter 2009) and for the six months ended March 31, 2010 (YTD 2010) and March 29, 2009 (YTD 2009).

**Table of Contents**

(\$ in millions)

	Second Quarter 2010	Second Quarter 2009	Percentage Change
Net sales	\$ 248.0	\$ 206.1	20.3%
Cost of products sold (excluding depreciation and amortization)	207.9	166.7	24.7
Gross margin	40.1	39.4	1.8
Depreciation and amortization	13.1	10.8	21.3
Selling and administrative expense	5.0	6.4	(21.9)
Restructuring expense	0.7	0.7	
Interest expense, net	8.8	7.4	18.9
Merger transaction costs	5.0		NM
Business acquisition costs			
Other	0.4	0.2	100.0
Income before income taxes	7.1	13.9	(48.9)
Provision for income taxes	2.7	5.2	(48.1)
Net income	\$ 4.4	\$ 8.7	(49.4)%

NM Not Meaningful

(\$ in millions)

	YTD 2010	YTD 2009	Percentage Change
Net sales	\$ 467.0	\$ 418.6	11.6%
Cost of products sold (excluding depreciation and amortization)	394.8	358.8	10.0
Gross margin	72.2	59.8	20.7
Depreciation and amortization	26.8	21.9	22.4
Selling and administrative expense	10.7	12.0	(10.8)
Restructuring expense	2.7	1.4	92.9
Interest expense, net	17.7	15.6	13.5
Merger transaction costs	5.0		NM
Business acquisition costs	0.5		NM
Other	0.8	(0.6)	NM
Income before income taxes	8.0	9.5	(15.8)
Provision for income taxes	2.8	3.5	(20.0)
Net income	\$ 5.2	\$ 6.0	(13.3)%

NM Not Meaningful

**Net Sales**

(\$ in millions)

	Second Quarter 2010	Second Quarter 2009	Percentage Change
<b><u>Net sales by segment</u></b>			
Metal packaging	\$ 155.5	\$ 133.6	16.4%
Plastic packaging	92.5	72.5	27.6
Consolidated net sales	\$ 248.0	\$ 206.1	20.3%

(\$ in millions)

	YTD 2010	YTD 2009	Percentage Change
<b><u>Net sales by segment</u></b>			
Metal packaging	\$ 298.6	\$ 264.5	12.9%
Plastic packaging	168.4	154.1	9.3
Consolidated net sales	\$ 467.0	\$ 418.6	11.6%

**Table of Contents**

In the second quarter 2010, metal packaging net sales increased primarily due to an increase in volume, including volume related to the recent acquisitions, partially offset by lower selling prices related to the pass-through of changes in our raw material costs. Year to date, metal packaging net sales increased primarily due to an increase in volume, including volume related to the recent acquisitions, and to overall higher selling prices related to the pass-through of changes in our raw material costs.

In the second quarter 2010, plastic packaging net sales, increased primarily due to an increase in volume, including volume related to the recent acquisitions, and to higher selling prices related to the pass-through of changes in our raw material costs. Year to date, plastic packaging net sales decreased primarily due to lower selling prices related to the pass-through of changes in our raw material costs, partially offset by an increase in volume, including volume related to the recent acquisitions.

**Cost of Products Sold and Gross Margin**

(\$ in millions)

	Second Quarter 2010	Second Quarter 2009	Percentage Change
<u>Cost of products sold by segment</u>			
Metal packaging	\$ 125.1	\$ 110.1	13.6%
Plastic packaging	82.6	56.8	45.4
Segment CPS	207.7	166.9	24.4
Corporate undistributed expenses	0.2	(0.2)	NM
Consolidated CPS	\$ 207.9	\$ 166.7	24.7%

NM Not Meaningful

(\$ in millions)

	YTD 2010	YTD 2009	Percentage Change
<u>Cost of products sold by segment</u>			
Metal packaging	\$ 246.6	\$ 228.2	8.1%
Plastic packaging	147.9	130.6	13.2
Segment CPS	394.5	358.8	9.9
Corporate undistributed expenses	0.3		NM
Consolidated CPS	\$ 394.8	\$ 358.8	10.0%

NM Not Meaningful

(\$ in millions)



Edgar Filing: BWAY CORP - Form 10-Q

	Second Quarter 2010	Second Quarter 2009	Percentage Change
<b><u>Gross margin by segment</u></b>			
Metal packaging	\$ 30.5	\$ 23.5	29.8%
Plastic packaging	9.8	15.7	(37.6)
Segment gross margin	40.3	39.2	2.8
Corporate undistributed expenses	(0.2)	0.2	NM
Consolidated gross margin	\$ 40.1	\$ 39.4	1.8%
<b><u>Gross margin percentage</u></b>			
Metal packaging	19.6%	17.6%	
Plastic packaging	10.6%	21.7%	
Consolidated	16.2%	19.1%	

NM Not Meaningful

**Table of Contents**

(\$ in millions)

	YTD 2010	YTD 2009	Percentage Change
<b>Gross margin by segment</b>			
Metal packaging	\$ 52.1	\$ 36.3	43.5%
Plastic packaging	20.4	23.5	(13.2)
Segment gross margin	72.5	59.8	21.2
Corporate undistributed expenses	(0.3)		NM
Consolidated gross margin	\$ 72.2	\$ 59.8	20.7%
<b>Gross margin percentage</b>			
Metal packaging	17.4%	13.7%	
Plastic packaging	12.1%	15.2%	
Consolidated	15.5%	14.3%	

NM Not Meaningful

In 2010, higher sales associated with the recent acquisitions and volume, partially offset by productivity and lower spending, contributed to an increase in metal packaging and plastic packaging cost of products sold. Plastics packing segment cost of products sold increased due to, and gross margin percentage was adversely impacted by, higher resin costs in the second quarter of 2010. Plastic packaging segment gross margin percentage was adversely impacted by the timing and magnitude of increases in the cost of resin in the second quarter of 2010. In the second quarter of 2010, selling price increases to pass through resin cost changes lagged the cost increases as several of the increases were implemented retroactively. In contrast, segment gross margin reflected the benefits from a decreasing resin cost environment in the second quarter of 2009.

In the second quarter and YTD 2010 and 2009, corporate undistributed expenses in costs of products sold related to stock-based compensation expense.

**Depreciation and Amortization**

(\$ in millions)

	Second Quarter 2010	Second Quarter 2009	Percentage Change
<b>Depreciation and amortization by segment</b>			
Metal packaging	\$ 5.8	\$ 5.0	16.0%
Plastic packaging	6.9	5.4	27.8
Segment depreciation and amortization	12.7	10.4	22.1
Corporate undistributed expenses	0.4	0.4	
Consolidated depreciation and amortization	\$ 13.1	\$ 10.8	21.3%

(\$ in millions)

Edgar Filing: BWAY CORP - Form 10-Q

	YTD 2010	YTD 2009	Percentage Change
<u>Depreciation and amortization by segment</u>			
Metal packaging	\$ 12.5	\$ 10.4	20.2%
Plastic packaging	13.5	10.8	25.0
Segment depreciation and amortization	26.0	21.2	22.6
Corporate undistributed expenses	0.8	0.7	14.3
Consolidated depreciation and amortization	\$ 26.8	\$ 21.9	22.4%

In 2010, the recent acquisitions were responsible for approximately \$1.6 million and \$2.2 million of segment depreciation and amortization for metal packaging and plastic packaging, respectively. In 2010, metal packaging also included \$1.7 million of additional depreciation associated with restructuring activities (\$1.5 million in metal packaging and \$0.2 million in plastic packaging). Excluding these changes, consolidated depreciation and amortization expense decreased approximately 2.5%.

**Table of Contents****Selling and Administrative Expense**

(\$ in millions)

	Second Quarter 2010	Second Quarter 2009	Percentage Change
<b><u>Selling and administrative expense by segment</u></b>			
Metal packaging	\$ 1.2	\$ 1.2	%
Plastic packaging	0.9	1.0	(10.0)
Segment selling and administrative expense	2.1	2.2	(4.5)
Corporate undistributed expenses	2.9	4.2	(31.0)
Consolidated selling and administrative expense	\$ 5.0	\$ 6.4	(21.9)%

(\$ in millions)

	YTD 2010	YTD 2009	Percentage Change
<b><u>Selling and administrative expense by segment</u></b>			
Metal packaging	\$ 2.4	\$ 2.5	(4.0)%
Plastic packaging	1.7	2.0	(15.0)
Segment selling and administrative expense	4.1	4.5	(8.9)
Corporate undistributed expenses	6.6	7.5	(12.0)
Consolidated selling and administrative expense	\$ 10.7	\$ 12.0	(10.8)%

The decrease in segment selling and administrative expenses is primarily due to reduced spending related to cost reduction initiatives, including the division consolidation initiative implemented in the third quarter of 2009.

Corporate undistributed selling and administrative expense in the second quarter of 2009 included stock-based compensation expense of \$0.5 million related to options modified in 2007. Excluding the impact of this stock-based compensation, corporate undistributed expenses decreased \$0.8 million from 2009 primarily related to the timing of performance based bonus expense and professional fees.

Corporate undistributed selling and administrative expense YTD 2010 and YTD 2009 included stock-based compensation expense of \$(0.2) million and \$1.2 million related to options modified in 2007. Excluding the impact of this stock-based compensation, corporate undistributed expenses increased \$0.5 million from 2009 primarily related to higher professional fees and higher performance based bonus expense. See

Stock-Based Compensation Expense under Note 12, Share-Based Compensation, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further information.

**Restructuring Expense**

In the third quarter of 2009, we implemented a plan to eliminate our operating divisions and restructure management in order to operate the company as a single entity. In the second quarter and YTD 2010, we recorded \$0.2 million and \$0.5 million, respectively, related to the plan for severance and relocation expenses.

In the second quarter of 2010, we announced our intention to close our Toccoa, Georgia manufacturing facility and consolidate the business into our recently acquired Newnan, Georgia manufacturing facility. We recorded approximately \$0.3 million of restructuring expense during the quarter related to the plan for severance costs.

## Edgar Filing: BWAY CORP - Form 10-Q

Restructuring expense in the second quarter and YTD 2009 primarily related to severance and facility shutdown costs associated with initiatives implemented in the second half of 2008 involving the closure of our Franklin Park and Cleveland and the elimination of certain redundant positions.

See Note 10, Restructuring, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report for further information.

---

## **Table of Contents**

### **Interest, Other and Income Taxes**

**Interest expense, net.** Interest expense, net, increased 18.9% to \$8.8 million in the second quarter of 2010 and 13.5% to \$17.7 million YTD 2010, primarily due to the refinancing of our senior notes in April 2009. Interest expense in the second quarter of 2010 and YTD 2010 related to the refinanced senior notes increased \$1.8 million and \$3.6 million, respectively, (including \$1.1 million and \$2.2 million, respectively, of debt discount accretion) over the comparable periods of 2009. See Senior Subordinated Debt under Note 9, Long-Term Debt, of Notes to Consolidated Financial Statements in Item 8 of the Annual Report for further information on the refinancing of the senior notes.

**Merger transaction costs.** In connection with the proposed merger, we recognized approximately \$5.0 million in merger-related transaction costs in the six months ended March 31, 2010. The costs consisted primarily of a \$3.0 million initial fee to Goldman Sachs, as financial advisor to the transaction committee, and for legal and other advisory fees and expenses. See Note 2, Agreement and Plan of Merger, of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

**Business acquisition costs.** The amount represents acquisition expenses related to the Ball Plastics acquisition. New accounting guidance effective for us at the beginning of 2010 no longer permits the capitalization of transaction costs and expenses related to the completion of a successful business combination.

**Other.** In 2010, other included realized foreign exchange losses of approximately \$0.4 million versus realized foreign exchange gains of approximately \$1.0 million in 2009 primarily related to fluctuations in the exchange rate of the U.S. dollar relative to the Canadian dollar.

**Provision for income taxes.** The provision for income taxes for the first six months of 2010 was \$2.8 million for an effective tax rate of approximately 35% as compared to a provision for income taxes for the first six months of 2009 of \$3.5 million for an effective tax rate of approximately 37%. Refunds of certain state income taxes of \$0.2 million in the first quarter of 2010 affected the reduction of the effective tax rate in the quarter. We expect the full-year effective tax rate to normalize to approximately 37%.

### **Liquidity and Capital Resources**

See our discussion of Liquidity and Capital Resources in Item 7, Management's Discussion and Analysis of the Annual Report for certain risk factors that could affect our liquidity and access to capital. These risks remain unchanged as of March 31, 2010.

We expect cash on hand, cash provided by operations and borrowings available under revolving credit facilities to 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, in the next 12 months. We expect to use cash provided by operations in excess of amounts needed for capital expenditures and required debt repayments to reduce our debt, to fund potential acquisitions or for other general corporate purposes. In the event the proposed merger is consummated, some cash on hand is expected to be used to fund a portion of the transaction. See Note 2, Agreement and Plan of Merger, of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report.

Our long-term debt, including available revolving credit facilities and certain covenants and restrictions, is discussed in Note 8, Long-Term Debt, of Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this report. At March 31, 2010, we complied with our debt covenants. With certain exceptions, our long-term debt arrangements prohibit us from paying cash dividends, including cash dividends between BWAY and BHC.

At March 31, 2010, BWAY had \$44.7 million and ICL had \$4.8 million available under revolving credit facilities. At March 31, 2010, we had \$39.3 million of cash on hand.

In December 2009, we made a mandatory excess cash flow repayment of \$6.6 million of the term loans. Because of the mandatory repayment, there are no scheduled quarterly repayments due until December 2010. Scheduled quarterly repayments will be approximately \$0.5 million and will continue through March 2013. The remaining balance will be due at maturity. In the event of excess cash flow for the current fiscal year, we may be required to make an excess cash flow payment in December 2010 that exceeds the scheduled repayments.

**Table of Contents**

At March 31, 2010, we had outstanding borrowings of \$196.7 million that were subject to variable interest rates at a weighted-average borrowing rate of 2.2%.

In 2010, we expect capital expenditures of approximately \$26.0 million to \$28.0 million.

**Cash Flow Information**

Summary of cash flows and changes in cash and cash equivalents for the six months ended March 31, 2010 (2010) and March 29, 2009 (2009):

(\$ in millions)

	2010	2009	Percentage Change
Cash used in operating activities	\$ (0.4)	\$ (21.0)	(98.1)%
Cash used in investing activities	(44.5)	(6.7)	NM
Cash used in financing activities	(5.1)	(18.2)	(72.0)
Effect of exchange rate changes	0.6	(1.5)	NM
 Net decrease in cash and cash equivalents	 \$ (49.4)	 \$ (47.4)	 4.2%
 Cash and cash equivalents, end of period	 \$ 39.3	 \$ 44.7	 (12.1)%

NM Not Meaningful

**Operating Activities**

Cash used in operating activities decreased \$20.6 million in the first six months of 2010 compared to cash used in operating activities in the first six months of 2009. The decrease is primarily due to a decrease in cash used for primary working capital (accounts receivable plus inventories less accounts payable), partially offset by higher income tax payments.

Cash used in operating activities for primary working capital was approximately \$19.0 million in the first six months of 2010 compared to approximately \$53.9 million in the first six months of 2009. The decrease in use of cash for primary working capital is primarily due to a use of cash to lower accounts payable in the first six months of 2009 primarily related to the timing of disbursements at the end of the quarter, partially offset by cash used due to increases in accounts receivable and inventories in the first six months of 2010.

**Investing Activities**

Cash used in investing activities increased \$37.7 million in the first six months of 2010 as compared to the first six months of 2009. In 2010, we used \$32.3 million of cash to acquire Ball Plastics. Capital expenditures in the first six months of 2010 increased \$5.7 million. Capital expenditures increased primarily due to capital projects associated with the recent acquisitions and company consolidation initiatives.

**Financing Activities**

Cash used in financing activities decreased \$13.1 million in the first six months of 2010 as compared to the first six months of 2009. The decrease is primarily due to lower repayments of the term loan. Our mandatory excess cash flow repayment related to 2009 was \$6.6 million paid in the first quarter of 2010 compared to \$17.6 million related to 2008 paid in the first quarter of 2009. The excess cash flow repayment decreased because the credit agreement allows the use of cash for permitted acquisitions to offset excess cash. In the fourth quarter of 2009, we used cash of approximately \$27.7 million to acquire Central Can.

## Edgar Filing: BWAY CORP - Form 10-Q

In the first six months of 2010, long-term debt outstanding, including the current portion, decreased \$1.4 million to \$400.9 million at March 31, 2010. The decrease was due to debt repayments of \$6.6 million offset by changes in the exchange rate used to translate Canadian dollar denominated debt to U.S. dollars for reporting purposes of \$3.0 million and the accretion of debt discount related to the 2014 notes of \$2.2 million. We use cash generated by our Canadian operations to service the Canadian dollar denominated debt.



## **Table of Contents**

### **Market Risk**

We have certain variable rate debt that exposes our cash flows and earnings to the market risk of interest rate changes. Our credit facility borrowings bear interest at an applicable margin (based on certain ratios contained in the credit agreement) plus a market rate of interest. At March 31, 2010, we had borrowings of \$196.7 million exposed to interest rate risk. Each 100 basis point increase in interest rates relative to these borrowings would reduce quarterly pretax earnings by approximately \$0.5 million.

### **Foreign Exchange**

Our reporting currency is the U.S. dollar. Fluctuations in the Canadian dollar relative to the U.S. dollar can affect our reported financial position, results of operations and cash flows. In the first six months of 2010 and 2009, approximately 8% of net sales were denominated in Canadian dollars. Excluding purchases denominated in Canadian dollars, which we generally funded through our Canadian operations, other purchases denominated in foreign currencies were not significant. We do not believe exchange rate changes related to such purchases expose us to a significant exchange rate risk.

### **Commodity Risk**

We require substantial amounts of raw materials in our operations, including steel, resin and energy. We are exposed to commodity price and quantity risks for a majority of these raw materials. In addition to steel and resin, we are exposed to fluctuations in the price of energy (primarily electricity and natural gas), the cost of freight (which is impacted by fluctuations in the price of fuel) and the cost of other components that we use in our manufacturing process.

We manage these risks by consolidating our purchases among a select group of suppliers and through provisions in sales agreements that allow for certain increases in raw material costs to be passed through to our customers. The consolidation of suppliers enables us to use leverage in negotiating pricing and supply. However, an interruption in the ability of these suppliers to provide raw materials could have a material adverse effect on our financial position, results of operations and cash flows. The availability and price of raw materials may also be subject to shortages in supply, suppliers' allocations to other purchasers, interruptions in production by suppliers, changes in exchange rates, global demand and worldwide price levels.

The price of raw materials has been subject to volatility in the past, and we do not foresee stabilization in these markets in the near future. Historically, we have been able to pass certain cost changes through to our customers. However, we may not be able to do so in the future. In addition, we may not be able to implement the pass through of cost changes to our customers in the same periods in which we experience the related changes to our costs.

In addition to steel and plastic resin, the prices of other items used in our manufacturing processes are exposed to commodity price risks, and we have experienced increases in the cost of these items above expected trends. Historically, we have not passed these price increases through to our customers. However, given the unprecedented increase in the cost of these other inputs, we are evaluating the impact of increasing our selling prices to compensate for these higher costs.

To the extent we are not able to leverage our purchasing power in the future as successfully as we have in the past, we may not be able to increase the selling price of our products to reflect increases in the costs of raw materials, or if we experience any interruptions or shortages in the supply of raw materials, our operating margins could be adversely affected. In addition, our manufacturing operations are dependent on the availability of natural gas and electricity. In certain cases, these energy sources may become difficult to obtain on acceptable terms due to external factors, or may only be available at a substantially increased cost, which could increase our operating costs or interrupt our ability to produce our products.

For an additional discussion of changes in steel and plastic resin costs and their impact on selling prices, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors Affecting Our Results of Operations of the Annual Report.

---

**Table of Contents**

**Critical Accounting Policies**

For a summary of our critical accounting policies, see Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies of the Annual Report. Our critical accounting policies have not changed since September 27, 2009.

**Off-Balance Sheet Arrangements**

At March 31, 2010, a bank had issued \$5.5 million of standby letters of credit on our behalf, primarily in favor of our workers' compensation insurers. Other than these standby letters of credit, we do not have any off-balance sheet arrangements.

**Contractual Obligations**

At March 31, 2010, the nature of our contractual obligations, as presented in the Annual Report, had not materially changed. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations and Commercial Commitments of the Annual Report.

**Environmental Matters**

For a discussion of contingencies related to environmental matters, see Environmental Matters in Note 13, Commitments and Contingencies, of Notes to Condensed Consolidated Financial Statements, included in Part I, Item 1 of this report, which we incorporate herein by reference.

**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 Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, which is incorporated herein by reference.

Our business is exposed to variations in prices of raw materials and energy. See Part I, Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations Commodity Risk, which is incorporated herein by reference.

Our purchases from foreign suppliers in transactions denominated in foreign currencies are not significant. We do not believe exchange rate changes related to fluctuations in the value of these foreign currencies in relation to the U.S. dollar expose us to a significant market risk.

**Item 4. Controls and Procedures**

**Disclosure Controls and Procedures**

Management, including the principal executive officer and principal financial officer, performed an evaluation of the effectiveness of the Company's disclosure controls and procedures as of March 31, 2010. Based on this evaluation, management, including the principal executive officer and principal financial officer, concluded that the disclosure controls and procedures of the Company were effective as of March 31, 2010.

---

**Table of Contents**

**Changes in Internal Control over Financial Reporting**

There has been no change in the Company's internal control over financial reporting during the most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

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, results of operations or cash flows. We are also involved in certain proceedings relating to environmental matters as described under "Environmental" in Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations." We had accrued liabilities relating to pending litigation matters of \$2.9 million at March 31, 2010 and \$2.3 million at September 27, 2009.

There have been no material changes to the legal proceedings disclosed in the Annual Report, except as noted below.

On January 28, 2010, an additional lead paint personal injury case was filed against our subsidiary, Armstrong Containers, Inc., as well as other defendants, in the United States District Court for the Eastern District of Wisconsin. The case is captioned *Cesar Sifuentes, Minor, by his Guardian ad litem, Susan M. Gramling v. American Cyanamid Co. et al.*; Case No. 10-C-0075. This case is substantially similar to the other lead paint cases previously disclosed.

In April 2010, the parties in *Plaze* (previously disclosed), agreed to settle the matter. The amount of the agreed upon settlement, subsequently paid by BWAY, was accrued at March 31, 2010. The parties have executed a settlement agreement, and we anticipate that the case will be dismissed with prejudice shortly.

**Litigation Relating to the Merger**

On April 5, 2010, a putative stockholder class action lawsuit was filed in the Superior Court of Fulton County, State of Georgia, against BHC, the members of the BHC Board, the Chief Financial Officer of BHC, MDP, Picasso and Merger Sub. The complaint in the lawsuit, Civil Action No. 2010CV183869, asserts that the members of the BHC Board and the Chief Financial Officer breached their fiduciary duties by causing BHC to enter into the Merger Agreement and further asserts that BHC, MDP, Picasso and Merger Sub aided and abetted those alleged breaches of duty. The complaint seeks, among other relief, an order enjoining the consummation of the Merger and rescinding the Merger Agreement.

We believe that this lawsuit is without merit and intend to defend it vigorously.

**Table of Contents****Item 5. Other Information**

BWAY Holding held its annual meeting of stockholders on February 22, 2010 (the Annual Meeting ) and submitted the following two matters to a vote of security holders through the solicitation of proxies. BWAY Holding filed the related proxy statement with the SEC on January 22, 2010.

The matters voted upon at the Annual Meeting and the number of votes cast are as follows:

- To elect nine members to serve on the Board of Directors of BWAY Holding:

Nominee	Votes For	Votes Against/ Withheld	Votes Abstained/ Broker Non-Votes
Jean Pierre M. Ergas	19,147,300	510,170	1,034,998
Warren J. Hayford	14,978,356	4,679,114	1,034,998
Earl L. Mason	14,796,068	4,861,402	1,034,998
Lawrence A. McVicker	19,120,854	536,616	1,034,998
David M. Roderick	19,365,180	292,290	1,034,998
Kenneth M. Roessler	19,157,745	499,725	1,034,998
Wellford L. Sanders, Jr.	14,964,728	4,692,742	1,034,998
David I. Wahrhaftig	19,157,047	500,423	1,034,998
Thomas R. Wall, IV	19,363,073	294,397	1,034,998

Each of the above nominees was a director prior to the election, and the BHC Board nominated each director for re-election. All of the nominees were re-elected at the Annual Meeting. Each director will hold office until BWAY Holding's 2011 annual meeting of stockholders or until his successor is duly elected and qualified.

- To ratify the appointment of Deloitte & Touche LLP as independent registered public accounting firm for the fiscal year ending September 30, 2010:

For:	20,186,857
Against:	488,306
Abstain:	17,305
Broker non-votes:	

**Item 6. Exhibits**

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger among Picasso Parent Company, Inc., Picasso Merger Sub, Inc. and BWAY Holding Company dated as of March 28, 2010 (Incorporated by reference to Form 8-K dated as of March 28, 2010 filed by BWAY Holding Company. File No. 1-33527)
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.



**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This filing contains statements (including information included or incorporated by reference herein) that may constitute forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995, including statements as to the Company's expectations, beliefs and strategies regarding the future. These forward-looking statements may involve risks and uncertainties that are difficult to predict, may be beyond the Company's control and could cause actual results to differ materially from those described in such statements. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to be correct. Important factors could adversely affect the Company's future financial performance and cause actual results to differ materially from the Company's expectations, including uncertainties associated with the proposed sale of the Company to affiliates of MDP, the anticipated timing of filings and approvals relating to the transaction, the expected timing of completion of the transaction, the ability of third parties to fulfill their obligations relating to the proposed transaction, the ability of the parties to satisfy the conditions to closing of the merger agreement to complete the transaction and the risk factors discussed from time to time by the Company in reports filed with the Securities and Exchange Commission (the SEC). Additional information on risk factors that may affect the business and financial results of the Company can be found in the Company's Annual Report on Form 10-K and in the filings of the Company made from time to time with the SEC. The Company undertakes no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents**

**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 Holding Company**

(Registrant)

Date: May 7, 2010

By: /s/ Kenneth M. Roessler  
Kenneth M. Roessler  
President and  
Chief Executive Officer  
*(Principal Executive Officer)*

Date: May 7, 2010

By: /s/ Michael B. Clauer  
Michael B. Clauer  
Executive Vice President and  
Chief Financial Officer  
*(Principal Financial Officer)*

**BWAY Corporation**

(Registrant)

Date: May 7, 2010

By: /s/ Kenneth M. Roessler  
Kenneth M. Roessler  
President and  
Chief Executive Officer  
*(Principal Executive Officer)*

Date: May 7, 2010

By: /s/ Michael B. Clauer  
Michael B. Clauer  
Executive Vice President and  
Chief Financial Officer  
*(Principal Financial Officer)*