

BWAY CORP
Form 10-Q
February 13, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended January 4, 2004

or

.. **Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _____ to _____

Commission File Number 333-104388

BWAY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

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36-3624491

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

8607 Roberts Drive, Suite 250

Atlanta, Georgia

30350-2237

(Address of principal executive offices)

770-645-4800

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of February 12, 2004, there were 1,000 shares of BWAY Corporation's Common Stock outstanding.

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Quarterly Report on Form 10-Q
For the quarterly period ended January 4, 2004

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BWAY Corporation and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(\$ in thousands)	Successor	
	January 4, 2004	September 28, 2003
Assets		
Current assets		
Cash and equivalents	\$ 75	\$ 248
Accounts receivable, net of allowance for doubtful accounts of \$899 and \$961	48,692	54,767
Inventories, net	59,442	50,868
Current income taxes receivable	5,122	3,973
Deferred tax asset	8,386	8,386
Other	3,206	2,375
Total current assets	124,923	120,617
Property, plant and equipment, net		
Other assets	117,890	120,357
Goodwill	120,223	120,123
Other intangibles, net (Note 3)	69,754	71,373
Deferred financing fees, net of accumulated amortization of \$2,659 and \$2,164	8,951	9,143
Other	1,562	1,712
Total other assets	200,490	202,351
Total Assets	\$ 443,303	\$ 443,325
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 50,512	\$ 63,151
Accrued salaries and wages	6,324	10,991
Accrued interest	4,621	9,358
Accrued rebates	8,182	6,883
Other	11,991	12,783
Total current liabilities	81,630	103,166
Long-term debt		
Other long-term liabilities	238,890	217,170
Deferred income taxes	30,831	30,831

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Other	12,982	12,671
Total long-term liabilities	43,813	43,502
Commitments and contingencies		
Stockholder's equity		
Preferred stock, \$.01 par value, shares authorized 5,000,000		
Common stock, \$.01 par value, shares authorized 24,000,000; shares issued 1,000		
Additional paid-in capital	73,622	73,622
Retained earnings	5,348	5,865
Total stockholder's equity	78,970	79,487
Total Liabilities and Stockholder's Equity	\$ 443,303	\$ 443,325

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

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BWAY Corporation and Subsidiaries

Consolidated Statements of Income (Unaudited)

<i>(\$ in thousands)</i>	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u>	
	<u>January 4, 2004</u>	<u>December 29, 2002</u>
Net sales	\$ 131,038	\$ 128,894
Costs, expenses and other:		
Cost of products sold (excluding depreciation and amortization)	112,817	111,954
Depreciation and amortization	9,253	4,290
Selling and administrative expense	3,385	3,607
Merger-related transaction costs		1,362
Restructuring charge	62	
Interest expense, net	6,472	2,982
Equity investor fees	124	
Other, net	(39)	33
Total costs, expenses and other	132,074	124,228
Income (loss) before income taxes	(1,036)	4,666
Provision for (benefit from) income taxes	(519)	1,967
Net income (loss)	\$ (517)	\$ 2,699

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

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BWAY Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

<i>(\$ in thousands)</i>	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u>	
	<u>January 4, 2004</u>	<u>December 29, 2002</u>
Operating activities:		
Net income (loss)	\$ (517)	\$ 2,699
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	7,634	4,188
Amortization of other intangibles	1,619	102
Amortization of deferred financing costs	495	245
Provision for doubtful accounts	(62)	106
Restructuring charge	62	
Loss (gain) on disposition of property, plant and equipment	(84)	38
Stock-based compensation	121	
Changes in assets and liabilities:		
Accounts receivable	6,137	3,900
Inventories	(8,574)	(4,306)
Other assets	(681)	116
Accounts payable	(2,595)	(3,661)
Accrued and other liabilities	(7,981)	(3,577)
Income taxes, net	(1,149)	(2,034)
Net cash used in operating activities	<u>(5,575)</u>	<u>(2,184)</u>
Investing activities:		
Capital expenditures	(6,890)	(3,175)
Proceeds from disposition of property, plant and equipment	78	22
Net cash used in investing activities	<u>(6,812)</u>	<u>(3,153)</u>
Financing activities:		
Net borrowings under bank revolving credit facility	21,720	1,448
Decrease in unpresented bank drafts	(9,181)	(13,015)
Principal payments under capital leases	(22)	(12)
Issuance of treasury stock for stock options exercised		545
Funds placed in escrow related to merger transaction		(3,000)
Financing costs incurred	(303)	
Net cash provided by (used in) financing activities	<u>12,214</u>	<u>(14,034)</u>
Net decrease in cash and equivalents	(173)	(19,371)
Cash and equivalents, beginning of period	248	19,490
Cash and equivalents, end of period	<u>\$ 75</u>	<u>\$ 119</u>

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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 10,768	\$ 5,227
Income taxes	\$ 630	\$ 4,002
Noncash investing and financing activities:		
Amounts owed for capital expenditures	\$ 1,040	\$ 77

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

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BWAY Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

1. GENERAL

BWAY Corporation (BWAY) is a holding company whose significant subsidiary, BWAY Manufacturing, Inc. (BWAY Manufacturing) (collectively the Company) manufactures and distributes metal containers and rigid plastic containers and provides material center services primarily in the United States and Canada. The Company has prepared the accompanying consolidated financial statements without audit. Certain information and footnote disclosures, including significant accounting policies, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The consolidated financial statements as of January 4, 2004 (Successor) and September 28, 2003 (Successor) and for the three months ended January 4, 2004 (Successor) and December 29, 2002 (Predecessor) include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for these periods. Operating results for the three months ended January 4, 2004 are not necessarily indicative of the results that may be expected for the entire year. These statements and the accompanying notes should be read in conjunction with our Annual Report on Form 10-K for the year ended September 28, 2003.

BWAY is a wholly-owned subsidiary of BCO Holding Company, an affiliate of Kelso & Company, L.P., as a result of the merger agreement entered into with BCO Holding and BCO Acquisition, Inc. pursuant to which all outstanding shares of the BWAY s common stock, with certain exceptions, were acquired on February 7, 2003 (the Merger).

Due to the Merger, the consolidated statements of income, consolidated statements of stockholders equity and the consolidated statements of cash flows for the three months ended January 4, 2004 and December 29, 2002 are presented as Predecessor and Successor, respectively, as these periods relate to the period succeeding the Merger and to the period preceding the Merger, respectively.

On August 25, 2003, BWAY Manufacturing acquired substantially all of the assets of SST Industries, a manufacturer of rigid plastic containers for industrial packaging markets, which added these plastic containers to the Company s available products (the SST Acquisition).

The Company operates on a 52/53-week fiscal year ending on the Sunday closest to September 30 of the applicable year. The first three quarterly fiscal periods end on the Sunday closest to December 31, March 31 or June 30 of the applicable quarter. Fiscal 2004 is a 53-week fiscal year with the additional week occurring in the first fiscal quarter, which ended January 4, 2004.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion 25, Accounting for Stock Issued to Employees, and related interpretations (APB 25). Accordingly, the Company is not required to record compensation expense when the exercise price of stock options granted to employees or directors is equal to or greater than the fair market value of the stock when the option is granted.

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In October 1995, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) 123, *Accounting for Stock-Based Compensation*, which allows the Company to continue to follow the guidance of APB 25, but requires pro-forma disclosures of net income and earnings as if the Company had adopted SFAS 123. In December 2002, the FASB issued SFAS 148, *Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123*, which, among other things, requires prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to stock-based employee compensation.

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The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u>	
	<u>January 4, 2004</u>	<u>December 29, 2002</u>
Expected dividends	0.0%	0.0%
Expected volatility	0.0%	53.6%
Risk-free interest rate	3.0%	5.3%
Expected lives (in years)	5.0	4.7

If compensation expense for the Company's stock-based compensation plans had been determined based on the fair value at the grant dates of the awards under those plans in accordance with the provisions of SFAS 123, the Company's net income (loss) would have been as follows:

	<u>Successor</u>	<u>Predecessor</u>
	<u>Three Months Ended</u>	
	<u>January 4, 2004</u>	<u>December 29, 2002</u>
<i>(\$ in thousands)</i>		
Net income (loss), as reported	\$ (517)	\$ 2,699
Stock-based compensation included in net income (loss), net of tax ⁽¹⁾	60	
Pro forma stock-based compensation under SFAS 123, net of tax	(570)	(248)
Pro forma net income (loss)	\$ (1,027)	\$ 2,451

⁽¹⁾ The \$60 thousand of stock-based compensation, net of tax, recorded in the first quarter of fiscal 2004 related to variable stock options issued pursuant to the Holding Incentive Plan in fiscal 2003.

2. INVENTORIES

Inventories consist of the following:

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<i>(\$ in thousands)</i>	Successor	
	January 4, 2004	September 28, 2003
Inventories at FIFO cost:		
Raw materials	\$ 6,222	\$ 6,622
Work-in-process		