

BERRY PLASTICS GROUP INC  
Form 10-Q  
May 05, 2015

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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 28, 2015  
or

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

Commission File Number 001-35672  
BERRY PLASTICS GROUP, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

20-5234618  
(IRS employer  
identification number)

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

47710  
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

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 such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes  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). Yes  No

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

Class	Outstanding at May 5, 2015
Common Stock, \$.01 par value per share	119.4 million shares

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## CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 with respect to our financial condition, results of operations and business and our expectations or beliefs concerning future events. The forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “would,” “could,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” “outlook,” “anticipates” or “looking forward” or similar expressions that relate to our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this Form 10-Q.

Readers should carefully review the factors discussed in our most recent Form 10-K in the section titled “Risk Factors” and other risk factors identified from time to time in our periodic filings with the Securities and Exchange Commission.

Berry Plastics Group, Inc.  
 Form 10-Q Index  
 For Quarterly Period Ended March 28, 2015

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## Part I. Financial Information

## Item 1. Financial Statements

Berry Plastics Group, Inc.  
Consolidated Statements of Income  
(Unaudited)  
(in millions of dollars, except per share amounts)

	Quarterly Period Ended		Two Quarterly Periods Ended	
	March 28, 2015	March 29, 2014	March 28, 2015	March 29, 2014
Net sales	\$ 1,224	\$ 1,210	\$ 2,444	\$ 2,350
Costs and expenses:				
Cost of goods sold	1,000	1,023	2,037	1,987
Selling, general and administrative	86	82	171	159
Amortization of intangibles	23	25	48	51
Restructuring and impairment charges	3	3	8	13
Operating income	112	77	180	140
Debt extinguishment	—	2	—	2
Other expense (income), net	1	—	—	(1 )
Interest expense, net	52	57	105	112
Income before income taxes	59	18	75	27
Income tax expense	21	6	24	9
Consolidated net income	\$ 38	\$ 12	\$ 51	\$ 18
Net income per share:				
Basic	\$ 0.32	\$ 0.10	\$ 0.43	\$ 0.15
Diluted	0.31	0.10	0.41	0.15
Outstanding weighted-average shares:				
Basic	119.0	116.6	118.7	116.3
Diluted	124.1	121.7	123.4	120.5

Berry Plastics Group, Inc.  
Consolidated Statements of Comprehensive Income  
(Unaudited)  
(in millions of dollars)

	Quarterly Period Ended		Two Quarterly Periods Ended	
	March 28, 2015	March 29, 2014	March 28, 2015	March 29, 2014
Consolidated net income	\$ 38	\$ 12	\$ 51	\$ 18
Currency translation	(20 )	(3 )	(34 )	(4 )
Interest rate hedge	(13 )	3	(20 )	3
Provision for income taxes related to other comprehensive income items	4	(1 )	6	(1 )
Comprehensive income	\$ 9	\$ 11	\$ 3	\$ 16

See notes to consolidated financial statements.



Berry Plastics Group, Inc.  
Consolidated Balance Sheets  
(in millions of dollars)

	March 28, 2015	September 27, 2014
	(Unaudited)	
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 119	\$ 129
Accounts receivable (less allowance of \$2 at March 28, 2015 and \$3 at September 27, 2014)	481	491
<b>Inventories:</b>		
Finished goods	348	353
Raw materials and supplies	261	251
	609	604
Deferred income taxes	246	166
Prepaid expenses and other current assets	33	42
<b>Total current assets</b>	<b>1,488</b>	<b>1,432</b>
Property, plant, and equipment, net	1,315	1,364
Goodwill, intangible assets and deferred costs, net	2,410	2,471
Other assets	1	1
<b>Total assets</b>	<b>\$ 5,214</b>	<b>\$ 5,268</b>
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 365	\$ 395
Accrued expenses and other current liabilities	322	314
Current portion of long-term debt	43	58
<b>Total current liabilities</b>	<b>730</b>	<b>767</b>
Long-term debt, less current portion	3,767	3,860
Deferred income taxes	480	386
Other long-term liabilities	310	356
<b>Total liabilities</b>	<b>5,287</b>	<b>5,369</b>
Redeemable non-controlling interest	13	13
<b>Stockholders' equity (deficit)</b>		
Common stock (119.4 and 118.0 shares issued, respectively)	1	1
Additional paid-in capital	392	367
Non-controlling interest	3	3
Accumulated deficit	(391 )	(442 )
Accumulated other comprehensive loss	(91 )	(43 )
<b>Total stockholders' equity (deficit)</b>	<b>(86 )</b>	<b>(114 )</b>
<b>Total liabilities and stockholders' equity (deficit)</b>	<b>\$ 5,214</b>	<b>\$ 5,268</b>

See notes to consolidated financial statements.





Berry Plastics Group, Inc.  
Consolidated Statement of Changes in Stockholders' Equity (Deficit)  
For the Two Quarterly Period Ended March 28, 2015 and March 29, 2014  
(Unaudited)  
(in millions of dollars)

	Common Stock	Additional Paid-in Capital	Non-controlling Interest	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at September 28, 2013	\$ 1	\$ 322	\$ 3	\$ (18 )	\$ (504 )	\$ (196 )
Proceeds from issuance of common stock	—	10	—	—	—	10
Obligation under tax receivable agreement	—	13	—	—	—	13
Stock compensation expense	—	10	—	—	—	10
Consolidated net income	—	—	—	—	18	18
Interest rate hedge, net of tax	—	—	—	2	—	2
Currency translation	—	—	—	(4 )	—	(4 )
Balance at March 29, 2014	\$ 1	\$ 355	\$ 3	\$ (20 )	\$ (486 )	\$ (147 )
Balance at September 27, 2014	\$ 1	\$ 367	\$ 3	\$ (43 )	\$ (442 )	\$ (114 )
Proceeds from issuance of common stock	—	13	—	—	—	13
Stock compensation expense	—	12	—	—	—	12
Consolidated net income	—	—	—	—	51	51
Interest rate hedge, net of tax	—	—	—	(14 )	—	(14 )
Currency translation	—	—	—	(34 )	—	(34 )
Balance at March 28, 2015	\$ 1	\$ 392	\$ 3	\$ (91 )	\$ (391 )	\$ (86 )

See notes to consolidated financial statements.

Berry Plastics Group, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

	Two Quarterly Periods Ended	
	March 28, 2015	March 29, 2014
<b>Cash Flows from Operating Activities:</b>		
Consolidated net income	\$ 51	\$ 18
<b>Adjustments to reconcile net cash provided by operating activities:</b>		
Depreciation	128	119
Amortization of intangibles	48	51
Non-cash interest expense	3	4
Deferred income tax	22	10
Debt extinguishment	—	2
Stock compensation expense	12	10
Impairment of long-lived assets	2	2
Other non-cash items	(1 )	—
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable, net	(1 )	(8 )
Inventories	(10 )	(35 )
Prepaid expenses and other assets	(2 )	1
Accounts payable and other liabilities	(40 )	76
<b>Net cash from operating activities</b>	<b>212</b>	<b>250</b>
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(79 )	(114 )
Proceeds from sale of assets	13	1
Acquisition of business, net of cash acquired	—	(96 )
<b>Net cash from investing activities</b>	<b>(66 )</b>	<b>(209 )</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from long-term borrowings	—	1,126
Repayments on long-term borrowings	(125 )	(1,150 )
Proceeds from issuance of common stock	13	10
Payment of tax receivable agreement	(39 )	(32 )
Debt financing costs	—	(11 )
<b>Net cash from financing activities</b>	<b>(151 )</b>	<b>(57 )</b>
Effect of exchange rate changes on cash	(5 )	—
<b>Net change in cash</b>	<b>(10 )</b>	<b>(16 )</b>
Cash and cash equivalents at beginning of period	129	142
<b>Cash and cash equivalents at end of period</b>	<b>\$ 119</b>	<b>\$ 126</b>

See notes to consolidated financial statements.

Berry Plastics Group, Inc.  
Notes to Consolidated Financial Statements  
(Unaudited)  
(tables in millions of dollars, except per share data)

1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements of Berry Plastics Group, Inc. ("the Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") pursuant to the rules and regulations of the Securities and Exchange Commission for interim reporting. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included, and all subsequent events up to the time of the filing have been evaluated. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's most recent Form 10-K filed with the Securities and Exchange Commission.

2. Recently Issued Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued a final standard on revenue recognition. Under the new standard, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In order to do so, an entity would follow the five-step process for in-scope transactions: 1) identify the contract with a customer, 2) identify the separate performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the separate performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. For public entities, the provisions of the new standard are effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. In April 2015, the FASB proposed to defer the effective date of the new revenue recognition standard by one year, but to permit entities to adopt one year earlier if they choose. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. There are areas within the standard that are currently under review and reconsideration by the FASB, which could lead to future updates to the standard. As the outcomes of this process could lead to changes to the standard, we are still in the process of determining our approach to the adoption of this new standard, and the anticipated impact to the consolidated financial statements.

Classification of Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company is evaluating the impact the adoption of this standard will have on its financial statements.

3. Acquisitions

Rexam Healthcare Containers and Closures

In June 2014, the Company acquired Rexam's Healthcare Containers and Closures business ("C&C") for a purchase price of \$130 million, net of cash acquired. The C&C business produces bottles, closures, and specialty products for pharmaceutical and over-the-counter healthcare applications. The C&C acquisition has been accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the identifiable assets and liabilities based on estimated fair values at the acquisition date. The acquired assets and assumed liabilities consisted of working capital of \$29 million, property and equipment of \$85 million, non-current deferred tax benefit of \$4 million, intangible assets of \$9 million, goodwill of \$6 million, and other long-term liabilities of \$3 million. The Company has not finalized the purchase price allocation to deferred income taxes, other long-term liabilities, and is reviewing the working capital acquired.

4. Restructuring and Impairment Charges

The Company incurred restructuring costs related to severance, asset impairment, and facility exit costs of \$3 million and \$3 million for the quarterly periods ended and \$8 million and \$13 million for the two quarterly periods ended March 28, 2015 and March 29, 2014, respectively. The tables below set forth the significant components of the restructuring charges recognized, by segment:

	Quarterly Period Ended		Two Quarterly Periods Ended	
	March 28, 2015	March 29, 2014	March 28, 2015	March 29, 2014
Rigid Open Top	\$ 1	\$ 1	\$ 2	\$ 2
Rigid Closed Top	2	1	3	1
Engineered Materials	—	1	—	4
Flexible Packaging	—	—	3	6
Consolidated	\$ 3	\$ 3	\$ 8	\$ 13

The table below sets forth the activity with respect to the restructuring accrual at March 28, 2015:

	Severance and termination benefits	Facilities exit costs and other	Non-cash	Total
Balance at September 27, 2014	\$ 5	\$ 8	\$ —	\$ 13
Charges	1	5	2	8
Non-cash asset impairment	—	—	(2 )	(2 )
Cash payments	(4 )	(4 )	—	(8 )
Balance at March 28, 2015	\$ 2	\$ 9	\$ —	\$ 11

5. Accrued Expenses, Other Current Liabilities and Other Long-Term Liabilities

The following table sets forth the totals included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets:

	March 28, 2015	September 27, 2014
Employee compensation, payroll and other taxes	\$ 87	\$ 99
Interest	42	44
Rebates	48	50
Restructuring	11	