

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

BERRY PLASTICS CORP
Form 10-K
March 22, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 1, 2005

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 33-75706

BPC HOLDING CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

35-1813706

(State or other jurisdiction (IRS employer
of incorporation or organization) identification number)

BERRY PLASTICS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

35-1814673

(State or other jurisdiction (IRS employer
of incorporation or organization) identification number)

101 Oakley Street
Evansville, Indiana

47710

(Address of principal executive offices) (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrants: (1) have 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: Not applicable.

Indicate by check mark whether the registrants are accelerated filers (as

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

defined by Rule 12b-2 of Securities Exchange Act of 1934).
Yes [] No [X]

None of the voting stock of either registrant is held by a non-affiliate of such registrant. There is no public trading market for any class of voting stock of BPC Holding Corporation or Berry Plastics Corporation.

As of March 18, 2005, there were outstanding 3,378,305 shares of the Common Stock, \$.01 par value, of BPC Holding Corporation. As of March 18, 2005, there were outstanding 100 shares of the Common Stock, \$.01 par value, of Berry Plastics Corporation.

DOCUMENTS INCORPORATED BY REFERENCE
None

-1-

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-K includes "forward-looking statements," within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with respect to our financial condition, results of operations and business and our expectations or beliefs concerning future events. Such statements include, in particular, statements about our plans, strategies and prospects under the headings "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business." You can identify certain forward-looking statements by our use of forward-looking terminology such as, but not limited to, "believes," "expects," "anticipates," "estimates," "intends," "plans," "targets," "likely," "will," "would," "could" and similar expressions that identify forward-looking statements. All forward-looking statements involve risks and uncertainties. Many risks and uncertainties are inherent in our industry and markets. Others are more specific to our operations. The occurrence of the events described and the achievement of the expected results depend on many events, some or all of which are not predictable or within our control. Actual results may differ materially from the forward-looking statements contained in this Form 10-K. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- a) changes in prices and availability of resin and other raw materials and our ability to pass on changes in raw material prices on a timely basis;
- b) catastrophic loss of our key manufacturing facility;
- c) risks related to our acquisition strategy and integration of acquired businesses;
- d) risks associated with our substantial indebtedness and debt service;
- e) performance of our business and future operating results;
- f) risks of competition, including foreign competition, in our existing and future markets;
- g) general business and economic conditions, particularly an economic downturn;
- h) increases in the cost of compliance with laws and regulations, including environmental laws and regulations; and
- i) the factors discussed in the section of this Form 10-K titled "Risk Factors."

Readers should carefully review the factors discussed in the section titled "Risk Factors" in this Form 10-K and other risk factors identified from

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

time to time in our periodic filings with the Securities and Exchange Commission and should not place undue reliance on our forward-looking statements. We undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

AVAILABLE INFORMATION

We make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments, if any, to those reports through our Internet website as soon as practicable after they have been electronically filed with or furnished to the SEC. Our internet address is www.berryplastics.com. The information contained on our website is not being incorporated herein. We are currently in the process of finalizing our Code of Ethics.

-2-

TABLE OF CONTENTS

BPC HOLDING CORPORATION BERRY PLASTICS CORPORATION

FORM 10-K FOR THE FISCAL YEAR ENDED JANUARY 1, 2005

	PAGE
PART I	
Item 1. Business.....	4
Item 2. Properties.....	11
Item 3. Legal Proceedings.....	11
Item 4. Submission of Matters to a Vote of Security Holders.....	11
PART II	
Item 5. Market for Registrants' Common Equity and Related Stockholder Matters.....	12
Item 6. Selected Financial Data.....	13
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	14
Item 7A. Quantitative and Qualitative Disclosures About Market Risk...	21
Item 7B. Risk Factors	22
Item 8. Financial Statements and Supplementary Data.....	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	27
Item 9A. Controls and Procedures.....	27
PART III	
Item 10. Directors and Executive Officers of the Registrants.....	28
Item 11. Executive Compensation.....	30
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholders Matters.....	33
Item 13. Certain Relationships and Related Transactions.....	35
Item 14. Principal Accountant Fees and Services.....	37
PART IV	
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K	39

-3-

PART I

ITEM 1. BUSINESS

Unless the context requires otherwise, references in this Form 10-K to "BPC Holding" or "Holding" refer to BPC Holding Corporation, references to "we," "our" or "us" refer to BPC Holding Corporation together with its consolidated subsidiaries, and references to "Berry Plastics" or the "Company" refer to Berry Plastics Corporation, a wholly owned subsidiary of BPC Holding Corporation.

GENERAL

We are one of the world's leading manufacturers and suppliers of a diverse mix of rigid plastics packaging products focusing on the open-top container, closure, aerosol overcap, drink cup and housewares markets. We sell a broad product line to over 12,000 customers. We concentrate on manufacturing higher quality, value-added products sold to image-conscious marketers of institutional and consumer products. We believe that our large operating scale, low-cost manufacturing capabilities, purchasing leverage, proprietary thermoforming technology and extensive collection of over 1,000 active proprietary molds provide us with a competitive advantage in the marketplace. We have been able to leverage our broad product offering, value-added manufacturing capabilities and long-standing customer relationships into leading positions across a number of products. Our top 10 customers represented approximately 35% of our fiscal 2004 net sales with no customer accounting for more than 8% of our fiscal 2004 net sales. The average length of our relationship with these customers was over 20 years. Our products are primarily sold to customers in industries that exhibit relatively stable demand characteristics and are considered less sensitive to overall economic conditions, such as pharmaceuticals, food, dairy and health and beauty. Additionally, we operate 16 high-volume manufacturing facilities and have extensive distribution capabilities.

We organize our business into four operating divisions: containers, closures, consumer products, and international. The following table displays our net sales by division for each of the past five fiscal years.

(\$ in millions)	2000	2001	2002	2003	2004
Containers	\$231.2	\$234.5	\$250.4	\$288.5	\$518.3
Closures	97.1	110.1	113.3	125.3	127.5
Consumer products	64.7	94.8	110.0	116.1	130.4
International	15.1	22.3	20.6	22.0	38.0
	-----	-----	-----	-----	-----
Total net sales	\$408.1	\$461.7	\$494.3	\$551.9	\$814.2
	=====	=====	=====	=====	=====

In 2004, we created the international segment as a separate operating and reporting segment to increase sales and improve service to international customers utilizing existing resources. The international segment includes our foreign facilities and business from domestic facilities that is shipped or billed to foreign locations. The 2003 and prior results for the foreign

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

facilities have been reclassified to the international segment; however, business from domestic facilities that were shipped or billed to foreign locations cannot be separately identified for 2003 and prior. Accordingly, the amounts disclosed under the new reporting structure are not comparable between 2004 and previous years. Additional financial information about our business segments is provided in Note 14 of the "Notes to Consolidated Financial Statements," which are included elsewhere in this Form 10-K.

HISTORY

Imperial Plastics was established in 1967 in Evansville, Indiana. Berry Plastics, Inc. ("Old Berry") was formed in 1983 to purchase substantially all of the assets of Imperial Plastics. In 1988, Old Berry acquired Gilbert Plastics of New Brunswick, New Jersey, a leading manufacturer of aerosol overcaps, and subsequently relocated Gilbert Plastics' production to Old Berry's Evansville, Indiana facility. In 1990, the Company and Holding, the holder of 100% of the outstanding capital stock of the Company, were formed to purchase the assets of Old Berry.

We have continued to grow both organically and through acquisition by acquiring companies that we believed would improve our financial performance in the long-term, expand our product lines, or in some cases, provide us with a new or complementary product line. In 1992, we acquired the assets of the Mammoth Containers division of Genpak Corporation. In 1995, we acquired substantially all of the assets of Sterling Products, Inc., a producer of

-4-

injection-molded plastic drink cups and lids, and Tri-Plas, Inc., a manufacturer of injection-molded containers. In 1997, we acquired (1) certain assets of Container Industries, Inc., a manufacturer and marketer of injection-molded industrial and pry-off containers, (2) PackerWare Corporation ("PackerWare"), a manufacturer and marketer of plastic containers, drink cups, housewares, and lawn and garden products, (3) substantially all of the assets of Virginia Design Packaging Corp., a manufacturer and marketer of injection-molded containers used primarily for food packaging, and (4) Venture Packaging, Inc., a manufacturer and marketer of injection-molded containers used in the food, dairy and various other markets. In 1998, we acquired all of the capital stock of Norwich Injection Moulders Limited (now known as Berry Plastics UK Limited) and substantially all of the assets of the Knight Engineering and Plastics Division of Courtaulds Packaging Inc., a manufacturer of aerosol overcaps. In 1999, we acquired all of the outstanding capital stock of CPI Holding Corporation, the parent company of Cardinal Packaging, Inc., a manufacturer and marketer of open-top containers. In 2000, we acquired all of the outstanding capital stock of (1) Poly-Seal Corporation ("Poly-Seal"), a manufacturer and marketer of closures and (2) Capsol S.p.a. ("Capsol") and the whole quota capital of a related company, Ociesse S.r.l. Capsol is a manufacturer and marketer of aerosol overcaps and closures. In 2001, we acquired all of the outstanding capital stock of Pescor Plastics, Inc. ("Pescor"), a manufacturer and marketer of drink cups, and in 2002, we acquired the Alcoa Flexible Packaging injection molding assets from Mount Vernon Plastics Corporation ("Mount Vernon"). In 2003, we acquired (1) the 400 series continuous threaded injection molded closure assets from CCL Plastic Packaging, (2) the injection molded overcap lid assets from APM Inc., and (3) all of the outstanding capital stock of Landis Plastics, Inc. (the "Landis Acquisition"), a manufacturer and marketer of open-top containers.

MERGER

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

On July 22, 2002, GS Berry Acquisition Corp., (the "Buyer") a newly formed entity controlled by various private equity funds affiliated with Goldman, Sachs & Co., merged (the "Merger") with and into Holding, pursuant to an agreement and plan of merger, dated as of May 25, 2002. At the effective time of the Merger, (1) each share of common stock of Holding issued and outstanding immediately prior to the effective time of the Merger was converted into the right to receive cash pursuant to the terms of the merger agreement, and (2) each share of common stock of the Buyer issued and outstanding immediately prior to the effective time of the Merger was converted into one share of common stock of Holding. Additionally, in connection with the Merger, we retired all of Holding's senior secured notes and Berry Plastics' senior subordinated notes, repaid all amounts owed under our credit facilities, redeemed all of the outstanding preferred stock of Holding, entered into a new credit facility and completed an offering of new senior subordinated notes of Berry Plastics. Immediately following the Merger, private equity funds affiliated with Goldman Sachs owned approximately 63% of the outstanding common stock of Holding, private equity funds affiliated with J.P. Morgan Chase & Co. owned approximately 29% and members of our management owned the remaining 8%.

RECENT DEVELOPMENTS

Southern Packaging

In November 2004, we entered into a series of agreements with Southern Packaging Group Ltd. ("Southern Packaging"), and its principal shareholder, Mr. Pan Shun Ming, to jointly expand participation in the plastic packaging business in China and the surrounding region. In connection therewith, Berry acquired a 10% stake in Southern Packaging for \$3.2 million as a result of Southern Packaging's successful listing on the Singapore Stock Exchange.

PRODUCT OVERVIEW

We organize our product lines into three categories: containers, closures and consumer products.

-5-

Containers

We classify our containers into six product lines: thinwall, pry-off, dairy, polypropylene, industrial and specialty. The following table describes our container product lines.

PRODUCT LINE -----	DESCRIPTION -----	SIZES -----	MAJOR END MA -----
Thinwall	Thinwalled, multi-purpose containers with or without handles and lids	8 oz. to 2 gallons	Food, promotional products, toys and
Pry-off	Containers having a tight lid-fit and requiring an opening device	4 oz. to 2 gallons	Building products, adhesives, chemi
Dairy	Thinwall containers in traditional dairy market sizes and styles	4 oz. to 5 lbs., Multi-pack	Cultured dairy products including y and dips, and frozen desserts

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

Polypropylene	Usually clear containers in round, oblong or rectangular shapes	6 oz.	Food, deli, sauces and salads to 5 lbs.
Industrial	Thick-walled, larger pails designed to accommodate heavy loads	2.5 to 5 gallons	Building products, chemicals, paint
Specialty	Customer specific	Various	Premium consumer items, such as tob

The largest end-uses for our containers are food products, building products, chemicals and dairy products. We have a diverse customer base for our container lines, and no single container customer exceeded 8% of our total net sales in fiscal 2004.

We believe that we offer the broadest product line among U.S.-based injection-molded plastic container manufacturers as well as numerous thermoformed container offerings. Our container capacities range from 4 ounces to 5 gallons and are offered in various styles with accompanying lids, bails and handles, some of which we produce, as well as a wide array of decorating options. In addition to a complete product line, we have sophisticated printing capabilities, in-house graphic arts and tooling departments, low-cost manufacturing capability with 14 plants strategically located throughout the United States and a dedication to high-quality products and customer service. Our product engineers work with customers to design and commercialize new containers. In addition, as part of our dedication to customer service, on occasion, we provide filling machine equipment to some of our customers, primarily in the dairy market, and we also provide the services necessary to operate such equipment. We believe providing such equipment and services increases customer retention by increasing the customer's production efficiency. The cost of, and revenue from, such equipment and services is not material.

We service several large food and dairy customers and their branded products. Additionally, we seek to develop niche container products and new applications by taking advantage of our state-of-the-art decorating and graphic arts capabilities and dedication to service and quality. We believe that these capabilities have given us a significant competitive advantage in certain high-margin niche container applications for specialized products. Examples include popcorn containers for new movie promotions and professional and college sporting and entertainment events, where the ability to produce sophisticated and colorful graphics is crucial to the product's success. In order to identify new applications for existing products, we rely extensively on our national sales force. Once these opportunities are identified, our sales force works with our product design engineers to satisfy customers' needs.

In non-industrial containers, our strongest competitors include Airlite, Solo (formerly Sweetheart), and Polyainers. We also produce commodity industrial pails for a market that is dominated by large volume competitors such as Letica, Plastikan, NAMPAC and Ropak. We do not have a significant share in this large market.

Closures

Our closures division focuses on aerosol overcaps and closures.

-6-

Aerosol Overcaps

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

We believe we are the worldwide leading producer of injection-molded aerosol overcaps. Our aerosol overcaps are used in a wide variety of consumer goods including spray paints, household and personal care products, insecticides and numerous other commercial and consumer products. Most U.S. manufacturers of aerosol products, and companies that fill aerosol products on a contractual basis, are our customers for some portion of their needs. Approximately 20% of the U.S. injection-molded market consists of manufacturers who produce overcaps in-house for their own needs.

We believe that, over the years, we have developed several significant competitive advantages, including (1) a reputation for outstanding quality, (2) short lead-time requirements to fill customer orders, (3) long-standing relationships with major customers, (4) the ability to accurately reproduce colors, (5) proprietary packing technology that minimizes freight cost and warehouse space, (6) high-speed, low-cost molding and decorating capability and (7) a broad product line of proprietary molds. We continue to develop new products in the overcap market with special decoration and functional features.

In fiscal 2004, no single aerosol overcap customer accounted for over 1% of our total net sales. Competitors include Dubuque Plastics, Cobra and Plasticum. In addition, a number of companies, including several of our customers, currently produce aerosol overcaps for their own use.

Closures

We believe our combined product line offerings to the closures market establish us as a leading provider of closures. Our product line offerings include continuous thread, dispensing, tamper evident and child resistant closures. In addition, we are a leading provider of (1) fitments and plugs for medical applications, (2) cups and spouts for liquid laundry detergent, (3) dropper bulb assemblies for medical and personal care applications, and (4) jiggers for mouthwash products.

Our closures are used in a wide variety of consumer goods markets, including health and beauty aids, pharmaceutical, household chemicals, commercial chemicals, and food and dairy. We are a major provider of closures to many of the leading companies in these markets.

We believe the capabilities and expertise we have established as a closure provider create significant competitive advantages, including the latest in single and bi-injection technology, molding of thermoplastic and thermoset resins, compression molding of thermoplastic resins, and lining and assembly applications applying the latest in computerized vision inspection technology. In addition, we have an in-house package development and design group focused on developing new closures to meet our customers' proprietary needs. We have a strong reputation for quality and have received numerous "Supplier Quality Achievement Awards" from customers in different markets.

In fiscal 2004, no single closure customer accounted for over 1% of our total net sales. Competitors include Owens-Illinois, Kerr/Suncoast, Phoenix Closures, Portola, Rexam Closures, and Seaquist Closures.

Consumer Products

Our consumer products division focuses on drink cups and housewares.

Drink Cups

We believe that we are the largest provider of injection-molded plastic drink cups in the United States. As beverage producers, convenience stores and fast food restaurants increase their marketing efforts for larger sized drinks, we believe that the plastic drink cup market should expand because of plastic's

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

desirability over paper for larger drink cups. We produce injection-molded plastic cups that range in size from 12 to 64 ounces. Primary markets are fast food and family dining restaurants, convenience stores, stadiums and retail stores. Many of our cups are decorated, often as promotional items, and we believe we have a reputation in the industry for innovative, state-of-the-art graphics capability.

We launched our thermoformed drink cup line in fiscal 2001. Since then, we have become the largest supplier of 32 ounce or larger thermoformed polypropylene drink cups. Our thermoformed product line offers sizes ranging from 12 to 44 ounces. Our thermoform process uses polypropylene instead of more expensive polystyrene in producing deep draw drink cups. This offers a material competitive advantage versus thermoformed polystyrene drink cups.

-7-

In fiscal 2004, no single drink cup customer accounted for more than 2% of our total net sales. Drink cup competitors include Huhtamaki (formerly Packaging Resources Incorporated), Solo (formerly Sweetheart), Carthage Cup, International Paper, Radnor Holdings, Letica, and WNA (formerly Cups Illustrated).

Housewares

Our participation in the housewares market is primarily focused on producing seasonal (spring and summer) semi-disposable plastic housewares and plastic garden products. Examples of our products include plates, bowls, pitchers, tumblers and outdoor flowerpots. We sell virtually all of our products in this market through major national retail marketers and national chain stores, such as Wal-Mart. PackerWare is our recognized brand name in these markets and PackerWare branded products are often co-branded by our customers. Our strategy in this market has been to provide high value to consumers at a relatively modest price, consistent with the key price points of the retail marketers. We believe outstanding service and the ability to deliver products with timely combination of color and design further enhance our position in this market. This focus allowed PackerWare to be named Wal-Mart's category manager for its seasonal housewares department.

In fiscal 2004, no single housewares customer accounted for more than 4% of our total net sales. Housewares competitors include Arrow Plastics, United Plastics, and imported products from China,.

MARKETING AND SALES

We reach our large and diversified base of over 12,000 customers primarily through our direct field sales force of over 70 dedicated professionals. Our field sales, production and support staff meet with customers to understand their needs and improve our product offerings and services. While these field sales representatives are focused on individual product lines, they are also encouraged to sell all of our products to serve the needs of our customers. We believe that a direct field sales force is able to better focus on target markets and customers, with the added benefit of permitting us to control pricing decisions centrally. We also utilize the services of manufacturing representatives to assist our direct sales force. We believe that we produce a high level of customer satisfaction. Highly skilled customer service representatives are strategically located throughout our facilities to support the national field sales force. In addition, telemarketing representatives, marketing managers and sales/marketing executives oversee the marketing and sales efforts. Manufacturing and

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

engineering personnel work closely with field sales personnel to satisfy customers' needs through the production of high-quality, value-added products and on-time deliveries.

Our sales force is supported by technical specialists and our in-house graphics and design personnel. Our Graphic Arts department includes computer-assisted graphic design capabilities and in-house production of photopolymer printing plates. We also have a centralized Color Matching and Materials Blending department that utilizes a computerized spectrophotometer to insure that colors match those requested by customers.

MANUFACTURING

We primarily manufacture our products using either injection or thermoform molding presses. In both cases, the process begins with raw plastic pellets which are then converted into finished products. In the injection process, the raw pellets are melted to a liquid state and injected into a multi-cavity steel mold where the resin is allowed to solidify to take the final shape of the part. In the thermoform process, the raw resin is softened to the point where sheets of material are drawn into multi-cavity molds and formed over the molds to form the desired shape. The final parts are then either cut and trimmed in the mold or trimmed as a secondary process. In both processes, the cured parts are transferred from the molding process via automated handling equipment to corrugated containers for shipment to customers or for post-molding secondary operations (offset printing, labeling, silkscreening, handle applications, etc.). We believe that our molding, handling, and post-molding capabilities are among the best in the industry.

Our overall manufacturing philosophy is to be a low-cost producer by using (1) high-speed molding machines, (2) modern multi-cavity hot runner, cold runner and insulated runner molds, (3) extensive material handling automation and (4) sophisticated printing technology. We utilize state-of-the-art robotic packaging processes for large volume products, which enable us to reduce breakage while lowering warehousing and shipping costs. Each plant has maintenance capability to support molding and post-molding operations. We have historically made, and intend to continue to make, significant capital investments in plant and equipment because of our objectives to improve productivity, maintain competitive advantages and foster continued growth. Over the past five fiscal years our capital expenditures in plant and equipment, exclusive of acquisitions, were \$175.6 million.

-8-

PRODUCT DEVELOPMENT AND DESIGN

We believe our technology base and research and development support are among the best in the rigid plastics packaging industry. Using three-dimensional computer aided design technology, our full time product designers develop innovative product designs and models for the packaging market. We can simulate the molding environment by running unit-cavity prototype molds in small injection-molding machines for research and development of new products. Production molds are then designed and outsourced for production by various companies with which we have extensive experience and established relationships or built by one of our two in-house tooling divisions located in Evansville and Chicago. Our engineers oversee the mold-building process from start to finish. Many of our customers work in partnership with our technical representatives to develop new, more competitive products. We have enhanced our relationships with these customers by providing the technical service needed to develop products combined with our internal graphic arts support.

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

We spent \$3.8 million, \$3.5 million and \$2.9 million on research and development in 2004, 2003, and 2002, respectively.

We also utilize our in-house graphic design department to develop color and styles for new products. Our design professionals work directly with our customers to develop new styles and use computer-generated graphics to enable our customers to visualize the finished product.

QUALITY ASSURANCE

Each plant extensively utilizes Total Quality Management philosophies, including the use of statistical process control and extensive involvement of employees to increase productivity. This teamwork approach to problem-solving increases employee participation and provides necessary training at all levels. Teams use the Six Sigma methodology to improve internal processes and service the customer. All of our facilities except for two facilities (Richmond and Phoenix) that were acquired in connection with the Landis Acquisition in 2003 have been ISO certified, which requires demonstrated compliance by a company with a set of shipping, trading and technology standards promulgated by the International Organization for Standardization ("ISO"). We are actively pursuing ISO certification in the remaining two facilities. Extensive testing of parts for size, color, strength and material quality using statistical process control techniques and sophisticated technology is also an ongoing part of our quality assurance activities.

SYSTEMS

We utilize a fully integrated computer software system at each of our plants, excluding our Milan facility, that produces complete financial and operational reports. This accounting and control system is expandable to add new features and/or locations as we grow. In addition, we have in place a sophisticated quality assurance system, a bar code based material management system and an integrated manufacturing system.

SOURCES AND AVAILABILITY OF RAW MATERIALS

The most important raw material purchased by us is plastic resin. We purchased approximately \$283.0 million of resin in fiscal 2004 with approximately 26% of our resin pounds being high density polyethylene ("HDPE"), 15% linear low density polyethylene and 59% polypropylene ("PP"). We have contractual price escalators and de-escalators tied to the price of resin with customers representing approximately 60% of net sales that result in price increases/decreases to many of our customers in a relatively short period of time, typically quarterly. In addition, we have historically had success in passing through price increases and decreases in the price of resin to customers without indexed price agreements. For example, in fiscal 2004, our net sales increased by \$262.3 million over fiscal 2003, of which approximately \$23.5 million was attributable to increased selling prices. This occurred in an environment of rapidly escalating resin prices. Less than 10% of our net sales are generated from fixed-price arrangements, and we have at times and may continue to enter into negotiated purchase agreements with resin suppliers related to these fixed price arrangements. Due to the recent volatility in the resin markets, in the fourth quarter of 2004 we entered into resin forward hedging transactions with respect to approximately 15% of our estimated 2005 resin needs and 10% of our 2006 estimated resin needs. We can further mitigate the effect of resin price movements through our ability to accommodate raw material switching for certain products between HDPE and PP as prices fluctuate and reducing the quantity of resin in certain of our products. Based on information from *Plastics News*, an industry publication, prices of HDPE and PP on January 1, 2005 were \$0.655 per pound and \$0.64 per pound, respectively, reflecting increases of \$0.20 per pound, or 44%, and \$0.23 per pound, or 56%, over the respective prices from December 27, 2003.

Our plastic resin purchasing strategy is to deal with only high-quality, dependable suppliers, such as Dow, Basell, Nova, Total (formerly Atofina), Equistar, Sunoco, BP Amoco, and ExxonMobil. Although we do not have any supply requirements contracts with our key suppliers, we believe that we have maintained strong relationships with these key suppliers and expect that such relationships will continue into the foreseeable future. Based on our experience, we believe that adequate quantities of plastic resins will be available at market prices, but we can give you no assurances as to such availability or the prices thereof.

EMPLOYEES

At the end of fiscal 2004, we had approximately 4,550 employees. Poly-Seal Corporation, a wholly owned subsidiary, and the United Steelworkers of America are parties to a collective bargaining agreement which expires on April 24, 2005. At the end of fiscal 2004, approximately 330 employees of Poly-Seal Corporation, all of which are located in our Baltimore facility, were covered by this agreement. None of our other domestic employees are covered by collective bargaining agreements. We believe our relations with our employees are good.

PATENTS AND TRADEMARKS

We rely on a combination of patents, trade secrets, unpatented know-how, trademarks, copyrights and other intellectual property rights, nondisclosure agreements and other protective measures to protect our proprietary rights. We do not believe that any individual item of our intellectual property portfolio is material to our current business. We employ various methods, including confidentiality and non-disclosure agreements with third parties, employees and consultants, to protect our trade secrets and know-how. We have licensed, and may license in the future, patents, trademarks, trade secrets, and similar proprietary rights to and from third parties.

ENVIRONMENTAL MATTERS AND GOVERNMENT REGULATION

Our past and present operations and our past and present ownership and operations of real property are subject to extensive and changing federal, state, local and foreign environmental laws and regulations pertaining to the discharge of materials into the environment, the handling and disposition of wastes or otherwise relating to the protection of the environment. We believe that we are in substantial compliance with applicable environmental laws and regulations. However, we cannot predict with any certainty that we will not in the future incur liability under environmental statutes and regulations with respect to non-compliance with environmental laws, contamination of sites formerly or currently owned or operated by us (including contamination caused by prior owners and operators of such sites) or the off-site disposal of hazardous substances.

Like any manufacturer, we are subject to the possibility that we may receive notices of potential liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination. Liability under CERCLA is retroactive, and liability for the entire cost of a cleanup can be

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

imposed on any responsible party. No such notices are currently pending.

The FDA regulates the material content of direct-contact food containers and packages, including certain thinwall containers we manufacture pursuant to the Federal Food, Drug and Cosmetics Act. Certain of our products are also regulated by the Consumer Product Safety Commission ("CPSC") pursuant to various federal laws, including the Consumer Product Safety Act. Both the FDA and the CPSC can require the manufacturer of defective products to repurchase or recall such products and may also impose fines or penalties on the manufacturer. Similar laws exist in some states, cities and other countries in which we sell our products. In addition, laws exist in certain states restricting the sale of packaging with certain levels of heavy metals, imposing fines and penalties for non-compliance. Although we use FDA approved resins and pigments in containers that directly contact food products and believe they are in material compliance with all such applicable FDA regulations, and we believe our products are in material compliance with all applicable requirements, we remain subject to the risk that our products could be found not to be in compliance with such requirements.

-10-

The plastics industry, including us, is subject to existing and potential federal, state, local and foreign legislation designed to reduce solid wastes by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements, disposal fees and limits on the use of plastic products. In particular, certain states have enacted legislation requiring products packaged in rigid plastic containers to comply with standards intended to encourage recycling and increased use of recycled materials. In addition, various consumer and special interest groups have lobbied from time to time for the implementation of these and other similar measures. We believe that the legislation promulgated to date and such initiatives to date have not had a material adverse effect on us. There can be no assurance that any such future legislative or regulatory efforts or future initiatives would not have a material adverse effect on us.

ITEM 2. PROPERTIES

The following table sets forth our principal manufacturing facilities:

LOCATION -----	SQUARE FOOTAGE -----	USE ---	OWNED/LEASED -----
Evansville, IN	580,000	Headquarters and manufacturing	Owned
Henderson, NV	175,000	Manufacturing	Owned
Iowa Falls, IA	100,000	Manufacturing	Owned
Charlotte, NC	150,000	Manufacturing	Owned
Lawrence, KS	424,000	Manufacturing	Owned
Suffolk, VA	110,000	Manufacturing	Owned
Monroeville, OH	350,000	Manufacturing	Owned
Norwich, England	88,000	Manufacturing	Owned
Woodstock, IL	170,000	Manufacturing	Owned
Streetsboro, OH	140,000	Manufacturing	Owned
Baltimore, MD	244,000	Manufacturing	Owned
Milan, Italy	125,000	Manufacturing	Leased
Chicago, IL	472,000	Manufacturing	Leased
Richmond, IN	160,000	Manufacturing	Owned

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

Syracuse, NY	215,000	Manufacturing	Leased
Phoenix, AZ	266,000	Manufacturing	Leased

We believe that our property and equipment is well-maintained, in good operating condition and adequate for our present needs.

-11-

ITEM 3. LEGAL PROCEEDINGS

We are party to various legal proceedings involving routine claims which are incidental to our business. Although our legal and financial liability with respect to such proceedings cannot be estimated with certainty, we believe that any ultimate liability would not be material to our financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

By Written Consent in Lieu of a Meeting of the Stockholders of BPC Holding Corporation dated March 3, 2004, stockholders that hold a majority of the stock entitled to vote approved an amendment to the BPC Holding Corporation 2002 Stock Option Plan to increase the number of Fixed Priced Options available under such plan from 250,038 to 300,038.

By Written Consent in Lieu of a Meeting of the Stockholders of BPC Holding Corporation dated December 16, 2004, stockholders that hold a majority of the stock entitled to vote approved an amendment to the BPC Holding Corporation 2002 Stock Option Plan to increase the number of Fixed Priced Options available under such plan from 300,038 to 307,545.

-12-

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established public trading market for any class of common stock of Holding or the Company. With respect to the capital stock of Holding, as of March 18, 2005, there were 133 holders of the common stock. All of the issued and outstanding common stock of the Company is held by Holding.

DIVIDEND POLICY

Holding has not paid cash dividends on its capital stock since the Merger. As a holding company with no independent operations, the ability of Holding to pay cash dividends will be dependent on the receipt of dividends or other payments from the Company. Under the terms of the Indenture dated as of July 22, 2002, as supplemented (the "Indenture"), among the Company, Holding, all of its direct and indirect domestic subsidiaries, and U.S. Bank Trust National Association, as Trustee ("U.S. Bank"), the Company has restrictions regarding the payment of dividends on its common stock. In addition, the Company's second amended and restated senior secured credit facility, as amended, contains covenants that, among other things, restrict the payment of dividends by the Company. In addition, Delaware law limits Holding's ability to pay dividends from current or historical earnings or profits or capital

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

surplus. Any determination to pay cash dividends on common stock of the Company or Holding in the future will be at the discretion of the Board of Directors of the Company and Holding, respectively.

EQUITY COMPENSATION PLAN INFORMATION

See Item 12 of this Form 10-K entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters".

-13-

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data are derived from our consolidated financial statements. The data should be read in connection with the consolidated financial statements, related notes and other financial information included herein. Our fiscal year is a 52/53 week period ending generally on the Saturday closest to December 31. All references herein to "2004," "2003," "2002," "2001," and "2000" relate to the fiscal years ended January 1, 2005, December 27, 2003, December 28, 2002, December 29, 2001, and December 30, 2000, respectively. For analysis purposes, the results under Holding's prior ownership ("Predecessor") have been combined with results subsequent to the Merger on July 22, 2002. Our historical consolidated financial information may not be comparable to or indicative of our future performance. For a discussion of certain factors that materially affect the comparability of the consolidated financial data or cause the data reflected herein not to be indicative of our future financial condition or results of operations, see "Risk Factors."

	BPC HOLDING CORPORA			
	FISCAL			
	COMPANY	COMPANY	COMBINED COMPANY & PREDECESSOR	PREDE
	2004	2003	2002	2001
	(IN THOUSANDS OF DOLLARS)			
Statement of Operations Data:				
Net sales	\$814,213	\$551,876	\$494,303	\$4
Cost of goods sold	639,329	420,750	371,273	3
	174,884	131,126	123,030	1
Gross profit				
Operating expenses (a)	81,008	59,936	77,467	
	93,876	71,190	45,563	
Operating income				
Other expenses (income) (b)	-	(7)	299	
Loss on extinguished debt (c)	-	250	25,328	
Interest expense, net (d)	53,185	45,413	49,254	
	40,691	25,534	(29,318)	
Income (loss) before income taxes				
Income taxes (benefit)	17,740	12,486	3,298	

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

Net income (loss)	22,951	13,048	(32,616)	
Preferred stock dividends	-	-	6,468	
Amortization of preferred stock discount	-	-	574	
Net income (loss) attributable to common stockholders	\$ 22,951	\$ 13,048	\$ (39,658)	\$ (
Balance Sheet Data (at end of year):				
Working capital	\$ 90,094	\$ 87,571	\$ 64,201	\$
Fixed assets	281,972	282,977	193,132	2
Total assets	1,005,144	1,015,806	760,576	4
Total debt	697,558	751,605	609,943	4
Stockholders' equity (deficit)	183,891	152,591	75,163	(1
Other Data:				
Depreciation and amortization (e)	60,816	44,078	41,965	
Capital expenditures	52,624	29,949	28,683	

(a) Operating expenses include \$20,987 related to the Merger during fiscal 2002.

(b) Other expenses (income) consist of net losses (gains) on disposal of property and equipment for the respective years.

(c) The loss on extinguished debt in 2003 represents the legal costs associated with amending the senior credit facility in connection with the Landis Acquisition. As a result of the retirement all of Holding's senior secured notes and Berry Plastics' senior subordinated notes and the repayment of all amounts owed under our credit facilities in connection with the Merger, \$6.6 million of existing deferred financing fees and \$18.7 million of prepayment fees and related charges were charged to expense in 2002 as a loss on extinguished debt. In 2000, the loss on extinguished debt relates to deferred financing fees written off as a result of amending the retired senior credit facility.

(d) Includes non-cash interest expense of \$1,862, \$2,318, \$2,476, \$11,268, and \$18,047, in fiscal 2004, 2003, 2002, 2001, and 2000, respectively.

(e) Depreciation and amortization excludes non-cash amortization of deferred financing fees and debt premium/discount amortization which are included in interest expense.

-14-

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "BPC Holding" or "Holding" refer to BPC Holding Corporation, references to "we," "our" or "us" refer to BPC Holding Corporation together with its consolidated subsidiaries, and references to "Berry Plastics" or the "Company" refer to Berry Plastics Corporation, a wholly owned subsidiary of BPC Holding

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

Corporation. For analysis purposes, the results under Holding's prior ownership ("Predecessor") have been combined with results subsequent to the merger on July 22, 2002 described below. You should read the following discussion in conjunction with the consolidated financial statements of Holding and its subsidiaries and the accompanying notes thereto, which information is included elsewhere herein. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section at the end of this discussion. Our actual results may differ materially from those contained in any forward-looking statements.

On July 22, 2002, GS Berry Acquisition Corp., (the "Buyer") a newly formed entity controlled by various private equity funds affiliated with Goldman, Sachs & Co., merged (the "Merger") with and into Holding, pursuant to an agreement and plan of merger, dated as of May 25, 2002. At the effective time of the Merger, (1) each share of common stock of Holding issued and outstanding immediately prior to the effective time of the Merger was converted into the right to receive cash pursuant to the terms of the merger agreement, and (2) each share of common stock of the Buyer issued and outstanding immediately prior to the effective time of the Merger was converted into one share of common stock of Holding. Additionally, in connection with the Merger, we retired all of Holding's senior secured notes and Berry Plastics' senior subordinated notes, repaid all amounts owed under our credit facilities, redeemed all of the outstanding preferred stock of Holding, entered into a new credit facility and completed an offering of new senior subordinated notes of Berry Plastics. Immediately following the Merger, private equity funds affiliated with Goldman Sachs owned approximately 63% of the outstanding common stock of Holding, private equity funds affiliated with J.P. Morgan Chase & Co. owned approximately 29% and members of our management owned the remaining 8%.

OVERVIEW

We are one of the world's leading manufacturers and suppliers of a diverse mix of rigid plastics packaging products focusing on the open-top container, closure, aerosol overcap, drink cup and housewares markets. We sell a broad product line to over 12,000 customers. We concentrate on manufacturing higher quality, value-added products sold to image-conscious marketers of institutional and consumer products. We believe that our large operating scale, low-cost manufacturing capabilities, purchasing leverage, proprietary thermoforming technology and extensive collection of over 1,000 active proprietary molds provide us with a competitive advantage in the marketplace. We have been able to leverage our broad product offering, value-added manufacturing capabilities and long-standing customer relationships into leading positions across a number of products. Our top 10 customers represented approximately 35% of our fiscal 2004 net sales with no customer accounting for more than 8% of our fiscal 2004 net sales. The average length of our relationship with these customers was over 20 years. Our products are primarily sold to customers in industries that exhibit relatively stable demand characteristics and are considered less sensitive to overall economic conditions, such as pharmaceuticals, food, dairy and health and beauty. Additionally, we operate 16 high-volume manufacturing facilities and have extensive distribution capabilities. We organize our business into four operating divisions: containers, closures, consumer products, and international. At the end of fiscal 2004, we had approximately 4,550 employees.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We disclose those accounting policies that we consider to be significant in determining the amounts to be utilized for communicating our consolidated financial position, results of operations and cash flows in the second note to our consolidated financial statements included elsewhere herein. Our

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results are likely to differ from these estimates, but management does not believe such differences will materially affect our financial position or results of operations. We believe that the following accounting policies are the most critical because they have the greatest impact on the presentation of our financial condition and results of operations.

-15-

Accounts receivable. We evaluate our allowance for doubtful accounts on a quarterly basis and review any significant customers with delinquent balances to determine future collectibility. We base our determinations on legal issues (such as bankruptcy status), past history, current financial and credit agency reports, and the experience of our credit representatives. We reserve accounts that we deem to be uncollectible in the quarter in which we make the determination. We maintain additional reserves based on our historical bad debt experience. We believe, based on past history and our credit policies, that our net accounts receivable are of good quality. A ten percent increase or decrease in our bad debt experience would not have a material impact on the results of operations of the Company. Our allowance for doubtful accounts was \$3.2 million and \$2.7 million as of January 1, 2005 and December 27, 2003, respectively.

Inventory obsolescence. We evaluate our reserve for inventory obsolescence on a quarterly basis and review inventory on-hand to determine future salability. We base our determinations on the age of the inventory and the experience of our personnel. We reserve inventory that we deem to be not salable in the quarter in which we make the determination. We believe, based on past history and our policies and procedures, that our net inventory is salable. A ten percent increase or decrease in our inventory obsolescence experience would not have a material impact on the results of operations of the Company. Our reserve for inventory obsolescence was \$3.8 million and \$4.1 million as of January 1, 2005 and December 27, 2003, respectively.

Medical insurance. We offer our employees medical insurance that is primarily self-insured by us. As a result, we accrue a liability for known claims as well as the estimated amount of expected claims incurred but not reported. We evaluate our medical claims liability on a quarterly basis and obtain an independent actuarial analysis on an annual basis. Based on our analysis, we believe that our recorded medical claims liability should be sufficient. A ten percent increase or decrease in our medical claims experience would not have a material impact on the results of operations of the Company. Our accrued liability for medical claims was \$2.0 million and \$3.0 million, including reserves for expected medical claims incurred but not reported, as of January 1, 2005 and December 27, 2003, respectively.

Workers' compensation insurance. Starting in fiscal 2000, we converted the majority of our facilities to a large deductible program for workers' compensation insurance. On a quarterly basis, we evaluate our liability based on third-party adjusters' independent analyses by claim. Based on our analysis, we believe that our recorded workers' compensation liability should be sufficient. A ten percent increase or decrease in our workers' compensations claims experience would not have a material impact on the results of operations of the Company. Our accrued liability for workers' compensation

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

claims was \$3.5 million and \$3.1 million as of January 1, 2005 and December 27, 2003, respectively.

Revenue recognition. Revenue from sales of products is recognized at the time product is shipped to the customer at which time title and risk of ownership transfer to the purchaser.

Impairments of Long-Lived Assets. In accordance with the methodology described in FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we review long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. No impairments were recorded in the financial statements included in this Form 10-K.

Deferred Taxes and Effective Tax Rates. We estimate the effective tax rates and associated liabilities or assets for each legal entity of ours in accordance with FAS 109. We use tax-planning to minimize or defer tax liabilities to future periods. In recording effective tax rates and related liabilities and assets, we rely upon estimates, which are based upon our interpretation of United States and local tax laws as they apply to our legal entities and our overall tax structure. Audits by local tax jurisdictions, including the United States Government, could yield different interpretations from our own and cause the Company to owe more taxes than originally recorded. For interim periods, we accrue our tax provision at the effective tax rate that we expect for the full year. As the actual results from our various businesses vary from our estimates earlier in the year, we adjust the succeeding interim periods effective tax rates to reflect our best estimate for the year-to-date results and for the full year. As part of the effective tax rate, if we determine that a deferred tax asset arising from temporary differences is not likely to be utilized, we will establish a valuation allowance against that asset to record it at its expected realizable value. Our valuation allowance against deferred tax assets was \$1.3 million and \$16.9 million as of January 1, 2005 and December 27, 2003, respectively. The decrease of \$15.6 million in 2004 can be primarily attributed to the use of fully reserved net operating losses and increases in the temporary differences related to property and equipment.

-16-

Based on a critical assessment of our accounting policies and the underlying judgments and uncertainties affecting the application of those policies, we believe that our consolidated financial statements provide a meaningful and fair perspective of Holding and its consolidated subsidiaries. This is not to suggest that other risk factors such as changes in economic conditions, changes in material costs and others could not adversely impact our consolidated financial position, results of operations and cash flows in future periods.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R (Revised 2004,) Share-Based Payment ("SFAS No. 123R"), which requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost will be measured based on the fair value of the equity or liability instruments issued. We currently

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

disclose pro forma compensation expense quarterly and annually by calculating the stock option grants' fair value using the Black-Scholes model and disclose the impact on net income (loss) in a Note to the Consolidated Financial Statements. Upon adoption, pro forma disclosure will no longer be an alternative. For nonpublic companies, as defined, the effective date of SFAS No. 123R is the beginning of the first annual reporting period that begins after December 15, 2005, although early adoption is allowed. We expect to adopt SFAS No. 123R in the first quarter of 2006, but have not yet evaluated what effect the adoption of this new standard will have on our financial position or results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, Inventory Costs, an amendment of ARB No. 43, Chapter 4 ("SFAS 151"). SFAS 151 requires the exclusion of certain costs from inventories and the allocation of fixed production overheads to inventories to be based on normal capacity of the production facilities. The provisions of SFAS 151 are effective for costs incurred during fiscal years beginning after June 15, 2005. Earlier adoption is permitted for inventory costs incurred during fiscal years beginning after the issuance date of SFAS 151. We have not yet evaluated what effect the adoption of this new standard will have on our financial position or results of operations.

ACQUISITIONS

We maintain a selective and disciplined acquisition strategy, which is focused on improving our financial performance in the long-term, enhancing our market positions and expanding our product lines or, in some cases, providing us with a new or complementary product line. Most businesses we have acquired had profit margins that are lower than that of our existing business, which results in a temporary decrease in our margins. We have historically achieved significant reductions in manufacturing and overhead costs of acquired companies by introducing advanced manufacturing processes, exiting low-margin businesses or product lines, reducing headcount, rationalizing facilities and machinery, applying best practices and capitalizing on economies of scale. In connection with our acquisitions, we have in the past and may in the future incur charges related to these reductions and rationalizations.

YEAR ENDED JANUARY 1, 2005
COMPARED TO YEAR ENDED DECEMBER 27, 2003

Net Sales. Net sales increased \$262.3 million, or 48%, to \$814.2 million in 2004 from \$551.9 million in 2003 with an approximate 4% increase in net selling price due to the pass through of higher resin costs passed through to our customers. Our base business volume, excluding selling price changes and acquired business, increased by approximately \$29.5 million or 6% in 2004. Container net sales increased \$229.8 million with the Landis Acquisition providing domestic container net sales of approximately \$221.3 million in 2004 versus \$20.1 million in 2003. Due to the movement of business between the acquired Landis facilities and our pre-existing facilities, the amount of sales related to the Landis Acquisition is estimated. The increase in container net sales is primarily a result of the Landis Acquisition, increased selling prices and base business growth in several of the division's product lines. Closure net sales increased \$2.2 million primarily due to the higher selling prices and increased volume in the United States closure product line partially offset by \$3.3 million of 2004 net sales reclassified to the international division as described below. Consumer products net sales increased \$14.3 million in 2004 primarily due to increased sales from thermoformed drink cups and housewares partially offset by reduced volume from injection drink cups. In 2004, we created our international division as a separate operating and reporting division to increase sales and improve service to international customers utilizing existing resources. The international segment includes the Company's

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

foreign facilities and business from domestic facilities that is shipped or billed to foreign locations. The 2003 results for the foreign facilities have been reclassified to the international segment; however, business from domestic facilities that were shipped or billed to foreign locations cannot be separately identified for 2003. The international division provided net sales of \$38.1 million in 2004 compared to \$22.0 million in 2003 primarily as a result of the effects of this reclassification and the Landis Acquisition.

-17-

Gross Profit. Gross profit increased \$43.8 million from \$131.1 million (24% of net sales) in 2003 to \$174.9 million (21% of net sales) in 2004. This increase of 33% includes the combined impact of the additional sales volume, productivity improvement initiatives, and the timing effect of the 4% increase in net selling prices due to higher resin costs passed through to our customers partially offset by increased raw material costs. The historical margin percentage of the business acquired in the Landis Acquisition was significantly less than the Company's historical gross margin percentage, which reduced our consolidated margin percentage. We have continued to consolidate products and business of recent acquisitions to the most efficient tooling, providing customers with improved products and customer service. As part of the Landis integration, in the fourth quarter of 2003, we closed our Monticello, Indiana facility, which was acquired in the Landis Acquisition. The business from this location was distributed throughout our facilities. In addition, we completed the integration of the Landis facilities in 2004 to our integrated computer software system. Also, significant productivity improvements were made on the base business in 2004, including the addition of state-of-the-art injection molding, thermoforming and post molding equipment at several of our facilities.

Operating Expenses. Selling expenses increased by \$2.5 million to \$26.4 million for 2004 from \$23.9 million principally as a result of increased selling expenses associated with higher sales partially offset by cost reduction efforts. General and administrative expenses increased from \$25.7 million to \$38.5 million in 2004. This increase of \$12.8 million can be primarily attributed to the Landis Acquisition and increased accrued bonus expenses. Research and development costs increased \$0.3 million to \$3.8 million in 2004 primarily as a result of the Landis Acquisition. Intangible asset amortization increased from \$3.3 million in 2003 to \$6.5 million for 2004, primarily as a result of additional intangible assets resulting from the Landis Acquisition. Other expenses were \$5.8 million for 2004 compared to \$3.6 million for 2003. Other expenses in 2004 include transition expenses of \$4.0 million related to the Landis Acquisition and \$1.8 million related to the shutdown and reorganization of facilities. Other expenses in 2003 include transition expenses of \$1.5 million related to recently acquired businesses, \$1.1 million related to the shutdown and reorganization of facilities, and \$1.0 million related to an acquisition that was not completed.

Interest Expense, Net. Net interest expense, including amortization of deferred financing costs and debt premium, for 2004 was \$53.2 million (7% of net sales) compared to \$45.7 million (8% of net sales) in 2003, an increase of \$7.5 million. This increase is primarily attributed to additional indebtedness utilized to finance the Landis Acquisition partially offset by decreased rates of interest on borrowings and debt principal reductions.

Income Taxes. In 2004, we recorded income tax expense of \$17.7 million for income taxes, or an effective tax rate of 44%, compared to \$12.5 million, or an effective tax rate of 49%, for fiscal 2003. The effective tax rate is greater than the statutory rate due to the impact of state taxes and foreign location losses for which no benefit was currently provided. The increase of

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

\$5.2 million over 2003 can be primarily attributed to improved operating performance.

Net Income. We recorded net income of \$23.0 million in 2004 compared to \$13.0 million in 2003 for the reasons stated above.

YEAR ENDED DECEMBER 27, 2003
COMPARED TO YEAR ENDED DECEMBER 28, 2002

Net Sales. Net sales increased \$57.6 million, or 12%, to \$551.9 million in 2003 from \$494.3 million in 2002 with an approximate 5% increase in net selling price due to higher resin costs passed through to our customers. Our base business volume, excluding selling price changes and acquired business, increased by approximately \$4.0 million or 1% in 2003. Container net sales increased \$38.1 million with the Landis Acquisition providing net sales of approximately \$20.1 million in 2003. The remaining increase in containers of \$18.0 million can be primarily attributed to higher selling prices primarily due to passing through the costs of increased resin prices. Closure net sales increased \$12.0 million in 2003 primarily due to the CCL acquisition, higher selling prices, and increased volume in the United States closure product line. Consumer products net sales increased \$6.1 million in 2003 primarily due to increased sales from the thermoformed drink cup line and retail housewares partially offset by a reduction in sales of a specialty drink cup line. In 2004, we created our international division as a separate operating and reporting division to increase sales and improve service to international customers utilizing existing resources. The international segment includes the Company's foreign facilities and business from domestic facilities that is shipped or billed to foreign locations. The 2003 and 2002 results for the foreign facilities have been reclassified to the international segment; however, business from domestic facilities that were shipped or billed to foreign locations cannot be separately identified for 2003 or 2002. The international division provided net sales of \$22.0 million in 2003 compared to \$20.6 million in 2002. This increase of \$1.4 million can be primarily attributed to foreign currency translation.

-18-

Gross Profit. Gross profit increased \$8.1 million from \$123.0 million (25% of net sales) in 2002 to \$131.1 million (24% of net sales) in 2003. This increase of 7% includes the combined impact of the added sales volume, productivity improvement initiatives and the timing effect of the 5% increase in net selling prices partially offset by higher raw material costs. We have continued to consolidate products and business of recent acquisitions to the most efficient tooling, providing customers with improved products and customer service. As part of the integration, in the fourth quarter of 2002 we closed our Fort Worth, Texas facility, which was acquired in the Pescor acquisition, and in the fourth quarter of 2003, we initiated the closing of our Monticello, Indiana facility. The Monticello facility was acquired in the Landis Acquisition. The business from these locations was distributed throughout our facilities. Also, significant productivity improvements were made in 2003, including the addition of state-of-the-art injection molding, thermoforming and post molding equipment at several of our facilities.

Operating Expenses. Selling expenses increased by \$1.7 million to \$23.9 million for 2003 from \$22.2 million principally as a result of increased selling expenses resulting from increased sales. General and administrative expenses increased from \$23.4 million to \$25.7 million in 2003. This increase of \$2.3 million can be primarily attributed to the Landis Acquisition and increased accrued bonus expenses. Research and development costs increased

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

\$0.6 million to \$3.5 million in 2003 primarily as a result of an increase in projects under development and the Landis Acquisition. Intangible asset amortization increased from \$2.4 million in 2002 to \$3.3 million for 2003, primarily as a result of intangibles resulting from the Merger and the Landis Acquisition. In connection with the Merger, the Predecessor incurred Merger related expenses of approximately \$21.0 million, consisting primarily of investment banking fees, bonuses to management, non-cash modification of stock option awards, legal costs, and fees to the largest voting stockholder of the Predecessor. Other expenses were \$3.6 million for 2003 compared to \$5.6 million for 2002. Other expenses in 2003 include transition expenses of \$1.5 million related to recently acquired businesses, \$1.1 million related to the shutdown and reorganization of facilities, and \$1.0 million related to an acquisition that was not completed. Other expenses in 2002 include transition expenses of \$1.3 million related to recently acquired businesses, \$4.1 million related to the shutdown and reorganization of facilities, and \$0.2 million related to an acquisition that was not completed.

Interest Expense, Net. Net interest expense, including amortization of deferred financing costs and debt premium, for 2003 was \$45.7 million (8% of net sales) compared to \$74.6 million (15% of net sales) in 2002, a decrease of \$28.9 million. This decrease is primarily attributed to \$18.7 million of prepayment fees and related charges and \$6.6 million of deferred financing fees written off in 2002 due to the extinguishment of debt in connection with the Merger and decreased rates of interest on borrowings in 2003.

Income Taxes. In 2003, we recorded income tax expense of \$12.5 million for income taxes, or an effective tax rate of 49%, compared to \$3.3 million for fiscal 2002. The effective tax rate is greater than the statutory rate due to the impact of state taxes and foreign location losses for which no benefit was currently provided. The increase of \$9.2 million over 2002 can be attributed to the Merger as the use of fully reserved net operating loss carryforwards that existed at the time of the Merger have been recorded as a reduction to goodwill.

Net Income (Loss). We recorded net income of \$13.0 million in 2003 compared to a net loss of \$32.6 million in 2002 for the reasons stated above.

INCOME TAX MATTERS

As of January 1, 2005, Holding has unused operating loss carryforwards of \$61.1 million for federal income tax purposes which begin to expire in 2012. Alternative minimum tax credit carryforwards of approximately \$3.8 million are available to Holding indefinitely to reduce future years' federal income taxes. As a result of the Merger, \$45.0 million of the unused operating loss carryforward is limited to approximately \$12.9 million per year, and \$16.0 million of the unused operating loss carryforward occurred subsequent to the Merger and is not subject to an annual limitation.

LIQUIDITY AND CAPITAL RESOURCES

On July 22, 2002, we entered into a credit and guaranty agreement and a related pledge security agreement with a syndicate of lenders led by Goldman Sachs Credit Partners L.P., as administrative agent (the "Credit Facility"). On November 10, 2003, in connection with the Landis Acquisition, we amended and restated the Credit Facility (the "Amended and Restated Credit Facility"). On August 9, 2004, the Amended and Restated Credit Facility was amended and

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

restated (the "Second Amended and Restated Credit Facility"). The Second Amended and Restated Credit Facility provides (1) a \$365.5 million term loan and (2) a \$100.0 million revolving credit facility. The proceeds from the new term loan were used to repay the outstanding balance of the term loans from the Amended and Restated Credit Facility. The Second Amended and Restated Credit Facility permits the Company to borrow up to an additional \$150.0 million of incremental senior term indebtedness from lenders willing to provide such loans subject to certain restrictions. The terms of the additional indebtedness will be determined by the market conditions at the time of borrowing. The maturity date of the term loan is July 22, 2010, and the maturity date of the revolving credit facility is July 22, 2008. The indebtedness under the Second Amended and Restated Credit Facility is guaranteed by Holding and all of its domestic subsidiaries. The obligations of the Company and the subsidiaries under the Second Amended and Restated Credit Facility and the guarantees thereof are secured by substantially all of the assets of such entities. At January 1, 2005 and December 27, 2003, there were no borrowings outstanding on the revolving credit facility.

Borrowings under the Second Amended and Restated Credit Facility bear interest, at the Company's option, at either (i) a base rate (equal to the greater of the prime rate or the federal funds rate plus 0.5%) plus the applicable margin (the "Base Rate Loans") or (ii) an adjusted eurodollar LIBOR (adjusted for reserves) plus the applicable margin (the "Eurodollar Rate Loans"). With respect to the term loan, the "applicable margin" is (i) with respect to Base Rate Loans, 1.25% per annum and (ii) with respect to Eurodollar Rate Loans, 2.25% per annum (4.22% at January 1, 2005). In addition, the applicable margins with respect to the term loan can be further reduced by an additional .25% per annum subject to the Company meeting a leverage ratio target, which was met based on the results through January 1, 2005. With respect to the revolving credit facility, the "applicable margin" is subject to a pricing grid which ranges from 2.75% per annum to 2.00% per annum, depending on the leverage ratio (2.50% based on results through January 1, 2005). The "applicable margin" with respect to Base Rate Loans will always be 1.00% per annum less than the "applicable margin" for Eurodollar Rate Loans. The interest rate applicable to overdue payments and to outstanding amounts following an event of default under the Second Amended and Restated Credit Facility is equal to the interest rate at the time of an event of default plus 2.00%. We also must pay commitment fees ranging from 0.375% per annum to 0.50% per annum on the average daily unused portion of the revolving credit facility. Pursuant to a requirement in the Credit Facility and as a result of an economic slowdown and corresponding interest rate reductions, we entered into an interest rate collar arrangement in October 2002 to protect \$50.0 million of the outstanding variable rate term loan debt from future interest rate volatility. Under the interest rate collar agreement, the Eurodollar rate with respect to the \$50.0 million of outstanding variable rate term loan debt will not exceed 6.75% or drop below 1.97%. The agreement was effective January 15, 2003 and terminates on July 15, 2006.

The Second Amended and Restated Credit Facility contains significant financial and operating covenants, including prohibitions on our ability to incur specified additional indebtedness or to pay dividends, and restrictions on our ability to make capital expenditures and investments and dispose of assets or consummate acquisitions. The Second Amended and Restated Credit Facility contains (1) a minimum interest coverage ratio as of the last day of any quarter of 2.15:1.00 per quarter for the quarters ending December 2004 and March 2005, 2.25:1.00 per quarter for the quarters ending June 2005 through March 2006, 2.35:1.00 per quarter for the quarters ending June 2006 through December 2006 and 2.50:1.00 per quarter thereafter, (2) a maximum amount of capital expenditures (subject to the rollover of certain unexpended amounts from the prior year and increases due to acquisitions) of \$50 million for the year ending 2004, \$60 million for the years ending 2005, 2006 and 2007, and \$65 million for each year thereafter, and (3) a maximum total leverage ratio as of

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

the last day of any quarter of 5.50:1.00 per quarter for the quarters ending December 2004 through June 2005, 5.25:1.00 per quarter for the quarters ending September 2005 and December 2005, 5.00:1.00 per quarter for the quarters ending March 2006 and June 2006, 4.75:1.00 per quarter for the quarters ending September 2006 through March 2007, 4.50:1.00 per quarter for the quarters ending June 2007 through December 2007, 4.25:1.00 per quarter for the quarters ending March 2008 through December 2008, and 4.00:1.00 per quarter thereafter. The occurrence of a default, an event of default or a material adverse effect on Berry Plastics would result in our inability to obtain further borrowings under our revolving credit facility and could also result in the acceleration of our obligations under any or all of our debt agreements, each of which could materially and adversely affect our business. We were in compliance with all of the financial and operating covenants at January 1, 2005.

In 2004, we made two voluntary principal prepayments totaling \$45.0 million on our senior term debt resulting in a revision of the loan amortization schedule. Accordingly, the term loan amortizes quarterly as follows: \$831,312 each quarter beginning March 31, 2005 and ending June 30, 2009; and \$78,974,687 each quarter beginning September 30, 2009 and ending June 30, 2010. Borrowings under the Second Amended and Restated Credit Facility are subject to mandatory prepayment under specified circumstances, including if we meet specified cash flow thresholds, collect insurance proceeds in excess of certain thresholds, issue equity securities or debt or sell assets not in the ordinary course of business, or upon a sale or change of control of the Company. There is no required amortization of the revolving credit facility.

-20-

Outstanding borrowings under the revolving credit facility may be repaid at any time, and may be reborrowed at any time prior to the maturity date which is on July 22, 2008. The revolving credit facility allows up to \$25.0 million of letters of credit to be issued instead of borrowings and up to \$10.0 million of swingline loans. At January 1, 2005 and December 27, 2003, we had \$8.5 million and \$7.4 million, respectively, in letters of credit outstanding under our revolving credit facility.

On July 22, 2002, we completed an offering of \$250.0 million aggregate principal amount of 10 3/4% Senior Subordinated Notes due 2012 (the "2002 Notes"). The net proceeds to us from the sale of the 2002 Notes, after expenses, were \$239.4 million. The proceeds from the 2002 Notes were used in the financing of the Merger. The 2002 Notes mature on July 15, 2012, and interest is payable semi-annually on January 15 and July 15 of each year beginning January 15, 2003. Holding and all of our domestic subsidiaries fully, jointly, severally, and unconditionally guarantee the 2002 Notes.

On November 20, 2003, we completed an offering of \$85.0 million aggregate principal amount of additional 2002 Notes (the "Add-on Notes" and together with the 2002 Notes, the "Notes"). The net proceeds to us from the sale of the Add-on Notes, after expenses, were \$91.8 million as the Add-on Notes were sold at a premium of 12% over the face amount. The proceeds from the Add-on Notes were used in the financing of the Landis Acquisition. The Add-on Notes constitute a single class with the 2002 Notes. Holding and all of our domestic subsidiaries fully, jointly, severally, and unconditionally guarantee the Add-on Notes.

We are not required to make mandatory redemption or sinking fund payments with respect to the Notes. On or subsequent to July 15, 2007, the Notes may be redeemed at our option, in whole or in part, at redemption prices ranging from 105.375% in 2007 to 100% in 2010 and thereafter. Prior to July 15, 2005, up to 35% of the Notes may be redeemed at 110.75% of the principal amount at our

Edgar Filing: BERRY PLASTICS CORP - Form 10-K

option from the proceeds of an equity offering. Upon a change in control, as defined in the indenture under which the Notes were issued (the "Indenture"), each holder of Notes will have the right to require us to repurchase all or any part of such holder's Notes at a repurchase price in cash equal to 101% of the aggregate principal amount thereof plus accrued interest. The Indenture restricts our ability to incur additional debt and contains other provisions which could limit our liquidity.

Our contractual cash obligations as of January 1, 2005 are summarized in the following table.

PAYMENTS DUE BY PERIOD AT JANUARY 1, 2005

TOTAL