

BWAY CORP
Form 10-Q
February 10, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT

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

For the quarterly period ended:

January 1, 2006

001-12415

(Commission File Number)

BWAY CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE

(State of incorporation)

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36-3624491

(IRS Employer Identification No.)

8607 Roberts Drive, Suite 250

Atlanta, Georgia

(Address of principal executive offices)

30350-2237

(Zip Code)

(770) 645-4800

(Registrant's telephone number)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of February 9, 2006, there were 1,000 shares of BWAY Corporation's Common Stock outstanding.

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For the quarterly period ended January 1, 2006

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****BWAY Corporation and Subsidiaries****Consolidated Balance Sheets (unaudited)**

| <i>(Dollars in thousands, except share data)</i> | January 1, 2006 | October 2, 2005 |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 13,016 | \$ 51,889 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,528 and \$1,613 | 94,066 | 104,122 |
| Inventories, net | 70,300 | 71,965 |
| Deferred tax assets | 9,174 | 9,174 |
| Other | 8,225 | 3,750 |
| Total current assets | 194,781 | 240,900 |
| Property, plant and equipment, net | 140,686 | 142,476 |
| Other assets | | |
| Goodwill | 219,885 | 219,218 |
| Other intangible assets, net | 153,500 | 156,751 |
| Deferred financing costs, net of accumulated amortization of \$4,617 and \$4,085 | 10,057 | 10,589 |
| Other | 2,005 | 2,060 |
| Total other assets | 385,447 | 388,618 |
| Total Assets | \$ 720,914 | \$ 771,994 |
| Liabilities and Stockholder's Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 98,089 | \$ 97,968 |
| Accrued salaries and wages | 9,183 | 13,786 |
| Accrued interest | 5,571 | 10,803 |
| Accrued rebates | 10,581 | 10,104 |
| Income taxes payable | | 7,993 |
| Current portion of long-term debt | | 30,000 |
| Other | 16,846 | 16,537 |
| Total current liabilities | 140,270 | 187,191 |
| Long-term debt | 365,300 | 365,300 |
| Other long-term liabilities | | |
| Deferred tax liabilities | 76,119 | 76,119 |
| Other | 20,395 | 19,948 |

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| | | |
|--|-------------------|-------------------|
| Total other long-term liabilities | 96,514 | 96,067 |
| Commitments and contingencies (Note 7) | | |
| Stockholder's equity | | |
| Preferred stock, \$.01 par value, 5,000,000 shares authorized; no shares issued | | |
| Common stock, \$.01 par value, 24,000,000 shares authorized; 1,000 shares issued and outstanding | | |
| Additional paid-in capital | 104,082 | 104,082 |
| Retained earnings | 15,095 | 19,701 |
| Accumulated other comprehensive loss | (347) | (347) |
| | <u> </u> | <u> </u> |
| Total stockholder's equity | 118,830 | 123,436 |
| | <u> </u> | <u> </u> |
| Total Liabilities and Stockholder's Equity | \$ 720,914 | \$ 771,994 |
| | <u> </u> | <u> </u> |

The accompanying notes are an integral part of the Consolidated Financial Statements.

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BWAY Corporation and Subsidiaries
Consolidated Statements of Operations (unaudited)

| <i>(Dollars in thousands)</i> | Three Months Ended | |
|---|--------------------------------|--------------------------------|
| | January 1, 2006 | January 2, 2005 |
| Net sales | \$ 201,373 | \$ 174,707 |
| Costs, expenses and other: | | |
| Cost of products sold (excluding depreciation and amortization) | 185,334 | 155,938 |
| Depreciation and amortization | 9,952 | 10,100 |
| Selling and administrative | 4,531 | 4,072 |
| Restructuring charge | 134 | 351 |
| Interest, net | 8,221 | 7,705 |
| Financial advisory fees | 124 | 124 |
| Other expense (income), net | 78 | (567) |
| Total costs, expenses and other | 208,374 | 177,723 |
| Loss before income taxes | (7,001) | (3,016) |
| Benefit from income taxes | (2,395) | (1,127) |
| Net loss | \$ (4,606) | \$ (1,889) |

The accompanying notes are an integral part of the Consolidated Financial Statements.

Table of Contents**BWAY Corporation and Subsidiaries****Consolidated Statements of Cash Flows (unaudited)**

| | Three Months Ended | |
|---|----------------------------|----------------------------|
| | January 1, 2006 | January 2, 2005 |
| <i>(Dollars in thousands)</i> | | |
| Cash flows from operating activities: | | |
| Net loss | \$ (4,606) | \$ (1,889) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation | 6,701 | 7,135 |
| Amortization of other intangible assets | 3,251 | 2,965 |
| Amortization of deferred financing costs | 532 | 531 |
| Provision for doubtful accounts | (85) | (153) |
| (Gain) loss on disposition of property, plant and equipment | 29 | (469) |
| Stock-based compensation | 247 | 314 |
| Changes in assets and liabilities, net of effects of business acquisitions | | |
| Accounts receivable | 10,141 | 6,489 |
| Inventories | 1,665 | (16,217) |
| Other assets | (255) | 167 |
| Accounts payable | 601 | 10,387 |
| Accrued and other liabilities | (9,450) | (5,625) |
| Income taxes, net | (12,159) | (1,181) |
| Net cash (used in) provided by operating activities | (3,388) | 2,454 |
| Cash flows from investing activities: | | |
| Capital expenditures | (5,443) | (4,447) |
| Proceeds from disposition of property, plant and equipment and assets held for sale | 18 | 897 |
| Net cash used in investing activities | (5,425) | (3,550) |
| Cash flows from financing activities: | | |
| Repayments of term loan | (30,000) | (19,700) |
| Increase in unrepresented bank drafts in excess of cash available for offset | | 435 |
| Principal payments under capital leases | (60) | (65) |
| Net cash used in financing activities | (30,060) | (19,330) |
| Net decrease in cash and equivalents | (38,873) | (20,426) |
| Cash and equivalents, beginning of period | 51,889 | 27,325 |
| Cash and equivalents, end of period | \$ 13,016 | \$ 6,899 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$ 12,922 | \$ 12,249 |
| Income taxes | \$ 9,764 | \$ 54 |

Non-cash investing and financing activities:

Amounts owed for capital expenditures

| | | | |
|----|-----|----|-----|
| \$ | 417 | \$ | 237 |
|----|-----|----|-----|

The accompanying notes are an integral part of the Consolidated Financial Statements.

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BWAY Corporation and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

1. GENERAL

Principles of Consolidation and Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of BWAY Corporation (BWAY) and our subsidiaries (collectively the Company, we or our) and have been prepared without audit. Certain information and footnote disclosures, including critical and significant accounting policies, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. The consolidated financial statements include all normal recurring adjustments necessary for a fair presentation of the financial position and results of operations for the periods presented.

Results of operating for the three months ended January 1, 2006 are not necessarily indicative of the results that may be expected for the entire fiscal year, particularly in view of the seasonality of the packaging business. These statements and the accompanying notes should be read in conjunction with our Annual Report on Form 10-K for the year ended October 2, 2005 (the Annual Report).

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

Business and Segment Information

We manufacture and distribute metal and rigid plastic containers primarily in the United States. We operate the company as two divisions. Our BWAY Packaging Division primarily sells and markets our metal packaging products and our NAMPAC Division primarily sells and markets our rigid plastic packaging products

We are a wholly-owned subsidiary of BCO Holding Company (BCO Holding), an affiliate of Kelso & Company, L.P., a private equity firm, as a result of a merger transaction whereby all outstanding shares of the BWAY s common stock, with certain exceptions, were redeemed on February 7, 2003.

On July 7, 2004, we acquired all of the stock of North America Packaging Corporation (NAMPAC) from MVOC, LLC, a Delaware limited liability company and sole owner of the common shares of NAMPAC (the NAMPAC Acquisition). As a result of the acquisition, NAMPAC became a wholly owned subsidiary of BWAY.

We operate on a 52/53-week fiscal year ending on the Sunday closest to September 30. Our NAMPAC subsidiary reports its operations on a calendar month basis. There were no material transactions between the different period ends that required adjustment in the consolidated

financial statements.

Stock-Based Compensation

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

If we determined stock-based compensation based on the fair-value method, our net loss would be as follows:

| <i>(Dollars in thousands)</i> | Three Months Ended | |
|---|--------------------|--------------------|
| | January 1, 2006 | January 2, 2005 |
| Net loss, as reported | \$ (4,606) | \$ (1,889) |
| Add: Stock-based compensation included in reported net loss, net of related tax effects | 163 | 193 |
| Less: Pro forma stock-based compensation under SFAS 123, net of related tax effects | (678) | (667) |
| Pro forma net loss | \$ (5,121) | \$ (2,363) |

2. INVENTORIES

Inventories consist of the following:

| <i>(Dollars in thousands)</i> | Three Months Ended | |
|-------------------------------|--------------------|--------------------|
| | January 1, 2006 | October 2, 2005 |
| Inventories at FIFO cost | | |
| Raw materials | \$ 29,189 | \$ 28,999 |
| Work-in-process | 31,217 | 29,737 |
| Finished goods | 30,308 | 25,316 |
| | 90,714 | 84,052 |
| LIFO reserve | (20,414) | (12,087) |
| Inventories, net | \$ 70,300 | \$ 71,965 |

During the first quarter of fiscal 2006, the LIFO reserve increased \$8.3 million primarily as a result of rising plastic resin costs.

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The following table sets forth the change in goodwill by reportable segment during the first quarter of fiscal 2006:

| <i>(Dollars in thousands)</i> | Metal Packaging | Plastics Packaging | Total |
|--|----------------------------|-------------------------------|--------------|
| Goodwill, October 2, 2005 | \$ 112,556 | \$ 106,662 | \$ 219,218 |
| Correction related to the NAMPAC Acquisition | | 667 | 667 |
| Goodwill, January 1, 2006 | \$ 112,556 | \$ 107,329 | \$ 219,885 |

During the implementation of an automated time keeping system in the first quarter of fiscal 2006 at facilities acquired in the NAMPAC Acquisition, we determined that the accrued vacation liability recorded as part of the purchase price allocation for the NAMPAC Acquisition was understated by approximately \$0.7 million due to differences between actual pay practices and documentation provided and used to determine the purchase price allocation. We recorded an adjustment of \$0.7 million to the accrued salaries and wages liability related to accrued vacation in the consolidated balance sheet as of January 1, 2006 with an offsetting increase to goodwill. Based on the amount of this adjustment and the impact on previously reported financial statements, management has determined that such previously issued financial statements were not materially misstated.

The following table sets forth the identifiable intangible assets by major asset class:

| <i>(Dollars in thousands)</i> | January 1, 2006 | | | October 2, 2005 | | |
|---|--------------------------------------|-------------------------------------|-------------------|--------------------------------------|-------------------------------------|-------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Amortized intangible assets | | | | | | |
| Customer relationships (1) | \$ 158,060 | \$ (24,725) | 133,335 | \$ 158,060 | \$ (21,924) | \$ 136,136 |
| Tradenames (2) | 22,833 | (3,555) | 19,278 | 22,833 | (3,150) | 19,683 |
| Non-compete agreements (3) | 401 | (127) | 274 | 401 | (82) | 319 |
| Total amortized intangible assets | 181,294 | (28,407) | 152,887 | 181,294 | (25,156) | 156,138 |
| Unamortized intangible assets | | | | | | |
| Technology | 613 | | 613 | 613 | | 613 |
| Total identifiable intangible assets | \$ 181,907 | \$ (28,407) | \$ 153,500 | \$ 181,907 | \$ (25,156) | \$ 156,751 |

(1) Useful lives range between 14 and 18 years.

(2) Useful lives range between 10 and 15 years.

(3) Useful lives range between 3 and 4 years.

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We amortize finite-lived, identifiable intangible assets over their remaining useful lives, which range from 3 to 18 years. These finite-lived intangibles are amortized in proportion to the underlying cash flows that were used in determining their initial valuation. We periodically review the underlying cash flow assumptions to determine if they remain reasonable. The portion of these intangibles associated with the carryover basis from Predecessor (as defined in the Annual Report) continues to be amortized on a straight-line basis.

Expected amortization expense:

(Dollars in thousands)

| Fiscal Year Ending | |
|---------------------------|------------|
| 2006 | \$ 13,003 |
| 2007 | 13,405 |
| 2008 | 12,900 |
| 2009 | 12,510 |
| 2010 | 12,398 |
| Thereafter | 91,922 |
| | <hr/> |
| | \$ 156,138 |
| | <hr/> |

In the first quarter of fiscal 2006, we recorded \$3.3 million of the \$13.0 million of amortization expense expected for fiscal year 2006. In the first quarter of fiscal 2005, we recorded amortization expense of \$3.0 million.

Table of Contents**4. LONG-TERM DEBT**

Long-term debt consists of the following:

| <i>(Dollars in thousands)</i> | January 1, 2006 | October 2, 2005 |
|---|----------------------------|----------------------------|
| 10% Senior subordinated notes, due 2010 | \$ 200,000 | \$ 200,000 |
| Senior credit facility: term loan | 165,300 | 195,300 |
| Total long-term debt | 365,300 | 395,300 |
| Less: current portion | | (30,000) |
| Long-term debt, net of current portion | \$ 365,300 | \$ 365,300 |

The current portion of long-term debt at October 2, 2005 represents a voluntary prepayment on the Term Loan made in the first quarter of fiscal 2006. Prepayments on the Term Loan reduce future scheduled payments. Our next scheduled repayment is due in December 2009.

Scheduled maturities of long-term debt as of January 1, 2006 are as follows:

| <i>(Dollars in thousands)</i> | |
|-------------------------------|-------------------|
| Fiscal Year Ending | |
| 2006 | \$ |
| 2007 | |
| 2008 | |
| 2009 | |
| 2010 | 40,975 |
| Thereafter | 324,325 |
| | \$ 365,300 |

Senior Subordinated Notes*10% Senior Notes Due 2010*

The notes were issued on November 27, 2002 in a private offering of \$200.0 million principal amount of 10% Senior Subordinated Notes due 2010. In December 2003, we exchanged the notes for new notes registered under the Securities Act in an equal principal amount (the Senior Notes). The Senior Notes mature on October 15, 2010. The Senior Notes are governed by an Indenture dated as of November 27, 2002 between

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BWAY Finance Corp. and The Bank of New York, as trustee, as assumed by BWAY Corporation on February 7, 2003 and as amended from time to time (the Indenture).

The Senior Notes are unsecured senior subordinated obligations of the Company and are effectively subordinated to all senior debt obligations (as defined in the Indenture) of the Company. Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 of each year.

Except in certain cases following an equity offering, the Senior Notes cannot be redeemed until October 15, 2006. Thereafter, we may redeem some or all of these notes at the redemption prices specified in the Indenture (105.0% on October 15, 2006 declining annually to 100% on October 15, 2009), plus accrued and unpaid interest to the date of redemption. Upon the occurrence of a Change in Control (as defined in the Indenture) the holders of the Senior Notes could require us to repurchase the notes at 101% of the principal amount plus accrued and unpaid interest to the date of repurchase.

The Indenture contains covenants that, among other things, limit our ability (and some or all of our subsidiaries) to: incur additional debt, pay dividends or distributions on our capital stock or to repurchase our capital stock, make certain investments, create liens on our assets to secure debt, engage in transactions with affiliates, merge or consolidate with another company and transfer and sell assets. These covenants are subject to a number of important limitations and exceptions. At January 1, 2006, we were in compliance will all applicable covenants contained in the indenture.

Under the terms of the Indenture and in connection with its guarantee of our Credit Facility, NAMPAC and its subsidiaries have fully and unconditionally guaranteed the Senior Notes. The Indenture requires any current or future subsidiary of the Company that guarantees certain indebtedness of the Company to guarantee the Senior Notes (see Note 9).

We incurred and have deferred approximately \$8.0 million in financing costs related to the underwriting and registration of the Senior Notes. We are amortizing these deferred costs to interest expense over the term of the notes. At January 1, 2006 and October 2, 2005, approximately \$5.0 million and \$5.2 million, respectively, of these deferred costs were unamortized.

Credit Facility

The credit facility consists of (a) a \$225.0 million term loan facility (the Term Loan), which matures June 30, 2011 (or April 15, 2010 under certain conditions) and (b) a \$30.0 million revolving credit facility (the Revolver), which matures June 30, 2009 (the Term Loan and Revolver, collectively, the Credit Facility).

We made a voluntary prepayment on the Term Loan of \$30.0 million in November 2005. As a result of prepayments, our next scheduled quarterly repayment becomes due in December 2009. Repayments permanently reduce the Term Loan.

Interest accrues on the Term Loan and the Revolver at an applicable margin plus either (a) a base rate (which is the higher of prime or 0.5% in excess of the overnight federal funds rate) or (b) a Eurodollar rate. For the Term Loan, the applicable margins are initially fixed at 1.25% for base rate loans and at 2.25% for Eurodollar rate loans, and range down to 1.00% and 2.00%, respectively, based

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upon meeting specified consolidated leverage ratio targets. For the Revolver, the applicable margins are initially fixed at 1.75% for base rate loans and 2.75% for Eurodollar rate loans, and range down to 1.00% and 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. Borrowing at the base rate or the Eurodollar rate is at our discretion. The effective borrowing rate on Term Loan borrowings outstanding at of January 1, 2006 was approximately 6.6%.

The credit agreement contains covenants that, among other things, limit our ability (and the ability of some or all of our subsidiaries) to: incur additional debt, pay dividends or distributions on our capital stock or to repurchase our capital stock, make certain investments, create liens on our assets to secure debt, engage in transactions with affiliates, merge or consolidate with another company and transfer and sell assets. We are also required to maintain a minimum Consolidated Interest Coverage Ratio and to not exceed a Maximum Consolidated Total Leverage Ratio (each as defined in the credit agreement). These covenants are subject to a number of important limitations and exceptions. At January 1, 2006, we were in compliance with all applicable credit agreement covenants related to the Credit Facility.

BCO Holding and each of our direct and indirect subsidiaries have guaranteed our obligations under the Credit Facility. The Credit Facility is secured by substantially all of our assets and the assets of BCO Holding. In addition, we have pledged as collateral all of the issued and outstanding stock of our subsidiaries, which are wholly-owned by BWAY.

At January 1, 2006, we had \$8.8 million in standby letter of credit commitments that reduced our available borrowings under the Revolver to \$21.2 million. At January 1, 2006, we did not have any outstanding Revolver borrowings.

We incurred and have deferred approximately \$6.7 million in financing costs related to the underwriting of the Credit Facility. The costs are being amortized to interest expense over the term of the loan primarily in proportion to the outstanding principal. At January 1, 2006 and October 2, 2005, approximately \$5.1 million and \$5.4 million, respectively, of these deferred costs were unamortized.

5. EMPLOYMENT BENEFIT OBLIGATIONS

The following table summarizes our employee benefit obligation liabilities at January 1, 2006 and October 2, 2005.

| <i>(Dollars in thousands)</i> | January 1, 2006 | October 2, 2005 |
|---|----------------------------|----------------------------|
| Defined benefit pension liability | \$ 3,474 | \$ 3,475 |
| Retiree medical and other postretirement benefits | 5,128 | 5,024 |
| Deferred compensation | 6,279 | 6,200 |
| | \$ 14,881 | \$ 14,699 |

The following table summarizes the components of net periodic benefit cost. The defined benefit pension plan was frozen effective October 31, 2004.

| | Defined Benefit Pension Plan | | Other Postretirement Benefits | |
|--|------------------------------|-----------------|-------------------------------|-----------------|
| | Three Months Ended | | | |
| | January 1, 2006 | January 2, 2005 | January 1, 2006 | January 2, 2005 |
| <i>(Dollars in thousands)</i> | | | | |
| Components of net periodic benefit cost | | | | |
| Service cost | \$ | \$ 71 | \$ 2 | \$ 1 |
| Interest cost | 150 | 147 | 89 | 83 |
| Expected return on plan assets | (151) | (150) | | |
| Recognized net actuarial loss | | | 13 | 11 |
| Net periodic benefit cost | \$ (1) | \$ 68 | \$ 104 | \$ 95 |

6. RESTRUCTURING LIABILITY

The following table sets forth changes in our restructuring liability from October 2, 2005 to January 1, 2006. The nature of the liability has not changed from that previously reported in the Annual Report. The restructuring liability is included in other current liabilities and relates to the Plastic Packaging segment.

| <i>(Dollars in millions)</i> | Balance October 2, 2005 | Additions / (Adjustments) | Expenditures | Balance January 1, 2006 |
|--------------------------------|-------------------------|---------------------------|--------------|-------------------------|
| Restructuring liability | | | | |
| Severance costs | \$ 0.4 | \$ | \$ (0.2) | \$ 0.2 |
| Facility closure costs | 1.5 | 0.1 | (0.2) | 1.4 |
| Total | \$ 1.9 | \$ 0.1 | \$ (0.4) | \$ 1.6 |

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7. CONTINGENCIES

Environmental

We are subject to a broad range of federal, state and local environmental, health and safety laws, including those governing discharges to air, soil and water, the handling and disposal of hazardous substances and the investigation and remediation of contamination resulting from the release of hazardous substances. We believe that we are currently in compliance with all applicable environmental, health and safety laws, though future expenditures may be necessary in order to maintain such compliance, including compliance with air emission control requirements for volatile organic compounds. In addition, in the course of our operations we use, store and dispose of hazardous substances. Some of our current and former facilities are currently involved in environmental investigations and remediation resulting from the release of hazardous substances or the presence of other contaminants. While we do not believe that any investigation or identified remediation obligations will have a material adverse effect on our financial condition, results of operations or cash flows, there are no assurances that such obligations will not arise in the future. Many of our facilities have a history of industrial usage for which investigation and remediation obligations could arise in the future and which could have a material adverse effect on our financial condition, results of operations or cash flows.

We expect to incur approximately \$1.6 million in capital expenditures in the next twelve months to comply with federal Maximum Achievable Control Technology (MACT) regulations related to air emission control requirements for Hazardous Air Pollutants (HAP) and volatile organic compounds. We have until November 2006 to comply with the new regulations.

In the first quarter of fiscal 2004, we received information indicating that the State of Georgia may consider the Company a potentially responsible party (PRP) at a waste disposal site in Georgia. Our possible PRP status is based on documents indicating that waste materials were transported to the site from our Homerville, Georgia facility prior to our acquisition of the facility in 1989. In order to reduce our exposure, we joined a PRP group in the third quarter of fiscal 2005. We estimate our total exposure related to this site will approximate \$0.1 million.

From time to time, we receive requests for information or are identified as a PRP pursuant to the Federal Comprehensive Environmental Response, Compensation and Liability Act or analogous state laws with respect to off-site waste disposal sites utilized by our current or former facilities or our predecessors in interest. We do not believe that any of these identified matters will have a material adverse effect on our financial condition, results of operations or cash flows.

We record reserves for environmental liabilities when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. We had accrued liabilities of approximately \$0.1 million and \$0.3 million for environmental investigation and remediation obligations as of January 1, 2006 and October 2, 2005, respectively; however, future expenditures may exceed the amounts accrued.

Litigation

We are involved in legal proceedings from time to time in the ordinary course of business. We believe that the outcome of these proceedings will not have a material effect on our financial condition, results of operations, or cash flows. At each of January 1, 2006 and October 2, 2005, we had an accrued liability of approximately \$0.5 million related to litigation matters.

Letters of Credit

At January 1, 2006, a bank had issued standby letters of credit on our behalf in the aggregate amount of \$8.8 million primarily in favor of our workers' compensation insurers and purchasing card vendor.

Commodity Risk

We are subject to various risks and uncertainties related to changing commodity prices for and the availability of the materials used in the manufacture of our products (primarily steel and resin).

8. BUSINESS SEGMENTS

Our operations are organized and reviewed by management along our products lines in two reportable segments - Metal Packaging and Plastics Packaging. We operate these reportable segments as separate divisions and differentiate the segments based on the nature of the products and services they offer. The primary raw material and manufacturing process are unique for each segment. A further description of each business segment and of our Corporate services area follows:

Metal Packaging. Metal Packaging includes our metal packaging products, which include paint cans, aerosol containers, ammunition boxes and other general line containers made from steel. Metal Packaging is a separate division of the Company with management and production facilities and processes distinct from our Plastics Packaging Division.

Plastics Packaging. Plastics Packaging includes the plastics packaging products manufactured and distributed by NAMPAC. Principal products in this segment include open- and tight-head pails and drums and other multi-purpose rigid industrial plastic packaging. Plastics Packaging is a separate division of the Company with management and production facilities and processes distinct from our Metal Packaging Division.

Corporate. Corporate includes accounting and finance, information technology, payroll and human resources and various other overhead charges, each to the extent not allocated to the divisions.

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Segment asset disclosures include, among other things, inventories, property, plant and equipment, goodwill and other intangible assets. The accounting policies of our segments have not changed from those described in the Annual Report. There were no intersegment sales in the periods presented. Management's evaluation of segment performance is principally based on a measure of segment earnings before interest, taxes, depreciation and amortization.

The following sets forth certain financial information attributable to our business segments for three months ended January 1, 2006 and January 2, 2005.

| | Three Months Ended | |
|--|--------------------------------|--------------------------------|
| | January 1, 2006 | January 2, 2005 |
| <i>(Dollars in thousands)</i> | | |
| Net sales | | |
| Metal packaging | \$ 117,407 | \$ 110,039 |
| Plastics packaging | 83,966 | 64,668 |
| Consolidated net sales | <u>\$ 201,373</u> | <u>\$ 174,707</u> |
| Loss before income taxes | | |
| Metal packaging | \$ 12,161 | \$ 12,530 |
| Plastics packaging | 1,458 | 3,417 |
| Segment earnings before interest, taxes, depreciation and amortization | 13,619 | 15,947 |
| Less: | | |
| Corporate undistributed expenses | 2,235 | 1,374 |
| Depreciation and amortization (see below) | 9,952 | 10,100 |
| Restructuring charge | 134 | 351 |
| Interest expense, net | 8,221 | 7,705 |
| Other expense (income), net | 78 | (567) |
| Consolidated loss before income taxes | <u>\$ (7,001)</u> | <u>\$ (3,016)</u> |
| Depreciation and amortization | | |
| Metal packaging | \$ 5,242 | \$ 5,122 |
| Plastics packaging | 4,193 | 4,469 |
| Segment depreciation and amortization | 9,435 | 9,591 |
| Corporate | 517 | 509 |
| Consolidated depreciation and amortization | <u>\$ 9,952</u> | <u>\$ 10,100</u> |

The following table sets forth total assets attributable to our business segments as of January 1, 2006 and October 2, 2005.

(Dollars in thousands)

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| | January 1, 2006 | October 2, 2005 |
|---------------------------|--------------------|--------------------|
| Total assets | | |
| Metal packaging | \$ 302,803 | \$ 303,364 |
| Plastics packaging | 280,899 | 285,434 |
| | 583,702 | 588,798 |
| Segment assets | | |
| Corporate | 137,212 | 183,196 |
| | 720,914 | 771,994 |
| Consolidated total assets | \$ 720,914 | \$ 771,994 |

Table of Contents**9. SUPPLEMENTAL GUARANTOR SUBSIDIARIES INFORMATION**

The Senior Notes and Term Loan are guaranteed on a full, unconditional joint and several basis by our wholly owned subsidiaries. The following condensed, consolidating financial information presents the consolidating financial statements of BWAY and its subsidiaries, all of which have guaranteed the Senior Notes and Term Loan, as of and for the three months ended January 1, 2006. Separate financial statements of the guarantor subsidiaries are not presented because we have determined that they would not be material to investors.

BWAY is the sole borrower under the Credit Facility and each of its subsidiaries is a guarantor. In addition, each of the subsidiaries has guaranteed the Senior Notes.

BWAY Corporation and Subsidiaries**Supplemental Condensed Consolidated Balance Sheet**

January 1, 2006

| <i>(Dollars in thousands)</i> | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|--|-----------------------------|-----------------------------------|---------------------|---------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 11,918 | \$ 1,098 | \$ | \$ 13,016 |
| Accounts receivable, net | 51,222 | 42,844 | | 94,066 |
| Inventories, net | 44,581 | 25,719 | | 70,300 |
| Deferred tax assets | 8,226 | 948 | | 9,174 |
| Other | 10,336 | (2,111) | | 8,225 |
| Total current assets | 126,283 | 68,498 | | 194,781 |
| Property, plant and equipment, net | 88,070 | 52,616 | | 140,686 |
| Other assets | | | | |
| Goodwill | 120,259 | 99,626 | | 219,885 |
| Other intangible assets, net | 56,402 | 97,098 | | 153,500 |
| Deferred financing costs, net | 10,057 | | | 10,057 |
| Other | 1,083 | 922 | | 2,005 |
| Investment in subsidiaries | 217,452 | | (217,452) | |
| Total other assets | 405,253 | 197,646 | (217,452) | 385,447 |
| Total Assets | \$ 619,606 | \$ 318,760 | \$ (217,452) | \$ 720,914 |
| Liabilities and Stockholders Equity | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 48,051 | \$ 50,038 | \$ | \$ 98,089 |
| Accrued salaries and wages | 3,676 | 5,507 | | 9,183 |
| Accrued interest | 5,571 | | | 5,571 |
| Accrued rebates | 9,564 | 1,017 | | 10,581 |

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| | | | | |
|---|-------------------|-------------------|---------------------|-------------------|
| Other | 16,062 | 784 | | 16,846 |
| Total current liabilities | 82,924 | 57,346 | | 140,270 |
| Long-term debt | 365,300 | | | 365,300 |
| Other long-term liabilities | | | | |
| Deferred tax liabilities | 28,388 | 47,731 | | 76,119 |
| Intercompany | 7,592 | (7,592) | | |
| Other | 16,572 | 3,823 | | 20,395 |
| Total other long-term liabilities | 52,552 | 43,962 | | 96,514 |
| Commitments and contingencies (Note 7) | | | | |
| Stockholder's equity | | | | |
| Common stock | | 1 | (1) | |
| Additional paid-in capital | 104,082 | 214,107 | (214,107) | 104,082 |
| Retained earnings | 15,095 | 3,691 | (3,691) | 15,095 |
| Accumulated other comprehensive loss | (347) | (347) | 347 | (347) |
| Total stockholder's equity | 118,830 | 217,452 | (217,452) | 118,830 |
| Total Liabilities and Stockholder's Equity | \$ 619,606 | \$ 318,760 | \$ (217,452) | \$ 720,914 |

Table of Contents**BWAY Corporation and Subsidiaries****Supplemental Condensed Consolidated Balance Sheet**

October 2, 2005

| <i>(Dollars in thousands)</i> | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 50,161 | \$ 1,728 | | \$ 51,889 |
| Accounts receivable, net | 61,900 | 42,222 | | 104,122 |
| Inventories, net | 41,776 | 30,189 | | 71,965 |
| Deferred tax assets | 8,226 | 948 | | 9,174 |
| Other | 2,925 | 825 | | 3,750 |
| Total current assets | 164,988 | 75,912 | | 240,900 |
| Property, plant and equipment, net | 90,594 | 51,882 | | 142,476 |
| Other assets | | | | |
| Goodwill | 120,259 | 98,959 | | 219,218 |
| Other intangible assets, net | 58,042 | 98,709 | | 156,751 |
| Deferred financing costs, net | 10,589 | | | 10,589 |
| Other | 1,138 | 922 | | 2,060 |
| Investment in subsidiaries | 219,231 | | (219,231) | |
| Total other assets | 409,259 | 198,590 | (219,231) | 388,618 |
| Total Assets | \$ 664,841 | \$ 326,384 | \$ (219,231) | \$ 771,994 |
| Liabilities and Stockholder's Equity | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 48,311 | \$ 49,657 | | \$ 97,968 |
| Accrued salaries and wages | 12,233 | 1,553 | | 13,786 |
| Accrued interest | 10,803 | | | 10,803 |
| Accrued rebates | 9,458 | 646 | | 10,104 |
| Income taxes payable | 4,117 | 3,876 | | 7,993 |
| Current portion of long-term debt | 30,000 | | | 30,000 |
| Other | 15,292 | 1,245 | | 16,537 |
| Total current liabilities | 130,214 | 56,977 | | 187,191 |
| Long-term debt | 365,300 | | | 365,300 |
| Other long-term liabilities | | | | |
| Deferred tax liabilities | 28,388 | 47,731 | | 76,119 |
| Intercompany | 1,324 | (1,324) | | |
| Other | 16,179 | 3,769 | | 19,948 |
| Total other long-term liabilities | 45,891 | 50,176 | | 96,067 |

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Commitments and contingencies (Note 7)

Stockholder's equity

Preferred stock

Common stock

| | | | | |
|--------------------------------------|---------|---------|-----------|---------|
| | | 1 | (1) | |
| Additional paid-in capital | 104,082 | 214,107 | (214,107) | 104,082 |
| Retained earnings | 19,701 | 5,470 | (5,470) | 19,701 |
| Accumulated other comprehensive loss | (347) | (347) | 347 | (347) |

| | | | | |
|----------------------------|---------|---------|-----------|---------|
| Total stockholder's equity | 123,436 | 219,231 | (219,231) | 123,436 |
|----------------------------|---------|---------|-----------|---------|

| | | | | |
|---|-------------------|-------------------|---------------------|-------------------|
| Total Liabilities and Stockholder's Equity | \$ 664,841 | \$ 326,384 | \$ (219,231) | \$ 771,994 |
|---|-------------------|-------------------|---------------------|-------------------|

Table of Contents**BWAY Corporation and Subsidiaries****Supplemental Condensed Consolidating Statement of Operations****Three Months Ended January 1, 2006**

| <i>(Dollars in thousands)</i> | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 117,407 | \$ 83,966 | \$ | \$ 201,373 |
| Costs, expenses and other | | | | |
| Cost of products sold (excluding depreciation and amortization) | 103,983 | 81,529 | (178) | 185,334 |
| Depreciation and amortization | 5,585 | 4,367 | | 9,952 |
| Selling and administrative | 3,560 | 971 | | 4,531 |
| Restructuring charge | 134 | | | 134 |
| Interest, net | 8,224 | (3) | | 8,221 |
| Financial advisory fees | 124 | | | 124 |
| Other expense (income), net | 79 | (179) | 178 | 78 |
| Total costs, expenses and other | 121,689 | 86,685 | | 208,374 |
| Loss before income taxes and equity in loss | (4,282) | (2,719) | | (7,001) |
| Benefit from income taxes | (1,455) | (940) | | (2,395) |
| Equity in loss of subsidiaries | (1,779) | | 1,779 | |
| Net loss | \$ (4,606) | \$ (1,779) | \$ 1,779 | \$ (4,606) |

BWAY Corporation and Subsidiaries**Supplemental Condensed Consolidating Statement of Operations****Three Months Ended January 2, 2005**

| <i>(Dollars in thousands)</i> | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net sales | \$ 115,381 | \$ 59,326 | \$ | \$ 174,707 |
| Costs, expenses and other | | | | |
| Cost of products sold (excluding depreciation and amortization) | 101,385 | 54,731 | (178) | 155,938 |
| Depreciation and amortization | 6,576 | 3,524 | | 10,100 |
| Selling and administrative | 2,890 | 1,182 | | 4,072 |
| Restructuring and impairment charges | 351 | | | 351 |
| Interest, net | 7,705 | | | 7,705 |
| Financial advisory fees | 124 | | | 124 |
| Other expense (income), net | (399) | (346) | 178 | (567) |

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| | | | | |
|--|------------|--------|----------|------------|
| Total costs, expenses and other | 118,632 | 59,091 | | 177,723 |
| Loss before income taxes and equity earnings | (3,251) | 235 | | (3,016) |
| Benefit from (provision for) income taxes | (1,213) | 86 | | (1,127) |
| Equity in income of subsidiaries | 149 | | (149) | |
| Net loss | \$ (1,889) | \$ 149 | \$ (149) | \$ (1,889) |

Table of Contents**BWAY Corporation and Subsidiaries****Supplemental Condensed Consolidating Statement of Cash Flows****Three Months Ended January 1, 2006**

| <i>(Dollars in thousands)</i> | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net cash (used in) provided by operating activities | \$ (6,228) | \$ 2,840 | \$ | \$ (3,388) |
| Cash flows from investing activities | | | | |
| Capital expenditures | (1,973) | (3,470) | | (5,443) |
| Other | 18 | | | 18 |
| Net cash used in investing activities | (1,955) | (3,470) | | (5,425) |
| Cash flows from financing activities | | | | |
| Repayments of term loan | (30,000) | | | (30,000) |
| Other | (60) | | | (60) |
| Net cash used in financing activities | (30,060) | | | (30,060) |
| Net decrease in cash and cash equivalents | (38,243) | (630) | | (38,873) |
| Cash and cash equivalents, beginning of period | 50,161 | 1,728 | | 51,889 |
| Cash and cash equivalents, end of period | \$ 11,918 | \$ 1,098 | \$ | \$ 13,016 |

BWAY Corporation and Subsidiaries**Supplemental Condensed Consolidating Statement of Cash Flows****Three Months Ended January 2, 2005**

| <i>(Dollars in thousands)</i> | BWAY Corporation | Guarantor Subsidiaries | Eliminations | Consolidated |
|---|-----------------------------|-----------------------------------|---------------------|---------------------|
| Net cash provided by (used in) operating activities | \$ 5,055 | \$ (2,601) | \$ | \$ 2,454 |
| Cash flows from investing activities | | | | |
| Capital expenditures | (2,178) | (2,269) | | (4,447) |
| Other | 897 | | | 897 |
| Net cash used in investing activities | (1,281) | (2,269) | | (3,550) |
| Cash flows from financing activities | | | | |
| Repayments of term loan | (19,700) | | | (19,700) |

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| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Other | (533) | 903 | | 370 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net cash used in (provided by) financing activities | (20,233) | 903 | | (19,330) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Net decrease in cash and cash equivalents | (16,459) | (3,967) | | (20,426) |
| Cash and cash equivalents, beginning of period | 22,800 | 4,525 | | 27,325 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Cash and cash equivalents, end of period | \$ 6,341 | \$ 558 | \$ | \$ 6,899 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, which often require the judgment of management in the selection and application of certain accounting principles and methods. We believe that the quality and reasonableness of our most critical policies enable the fair presentation of our financial position and results of operations. However, investors are cautioned that the sensitivity of financial statements to these methods, assumptions and estimates could create materially different results under different conditions or using different assumptions. The following discussion should be read in conjunction with our consolidated financial statements and related notes included in Item 1 of this report.

Results of Operations

Our operations are organized and reviewed by management along our products lines in two reportable segments Metal Packaging and Plastics Packaging. We operate these reportable segments as separate divisions and differentiate the segments based on the nature of the products and services they offer. The primary raw material and manufacturing process are unique for each segment. In addition to the business segments, we report certain items as corporate, which relate to corporate services including accounting and finance, information technology, payroll and human resources and various other overhead charges, each to the extent not allocated to the divisions.

Metal Packaging. Metal Packaging includes our metal packaging products, which include paint cans, aerosol containers, ammunition boxes and other general line containers made from steel. Metal Packaging is a separate division of the Company with management and production facilities and processes distinct from our Plastics Packaging Division.

Plastics Packaging. Plastics Packaging includes the plastics packaging products manufactured and distributed by NAMPAC. Principal products in this segment include open- and tight-head pails and drums and other multi-purpose rigid industrial plastic packaging. Plastics Packaging is a separate division of the Company with management and production facilities and processes distinct from our Metal Packaging Division.

The following table set forth changes in our statements of operations and line items as a percentage of net sales for the three months ended January 1, 2006 and January 2, 2005.

| | Three Months Ended | | Change | | As a % of Net Sales | |
|---|--------------------|-----------------|-----------|-------|---------------------|-----------------|
| | | | | | Three Months Ended | |
| | January 1, 2006 | January 2, 2005 | \$ | % | January 1, 2006 | January 2, 2005 |
| <i>(Dollars in thousands)</i> | | | | | | |
| Net sales | \$ 201,373 | \$ 174,707 | \$ 26,666 | 15.3% | 100.0% | 100.0% |
| Cost of products sold (excluding depreciation and amortization) | 185,334 | 155,938 | 29,396 | 18.9% | 92.0% | 89.3% |

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| | | | | | | |
|------------------------------------|------------|------------|------------|----------|--------|--------|
| Gross margin | 16,039 | 18,769 | (2,730) | (14.5)% | 8.0% | 10.7% |
| Depreciation and amortization | 9,952 | 10,100 | (148) | (1.5)% | 4.9% | 5.8% |
| Selling and administrative expense | 4,531 | 4,072 | 459 | 11.3% | 2.3% | 2.3% |
| Restructuring charge | 134 | 351 | (217) | (61.8)% | 0.1% | 0.2% |
| Interest expense, net | 8,221 | 7,705 | 516 | 6.7% | 4.1% | 4.4% |
| Financial advisory fees | 124 | 124 | | % | 0.1% | 0.1% |
| Other expense (income), net | 78 | (567) | 645 | (113.8)% | % | (0.3)% |
| Loss before income taxes | (7,001) | (3,016) | (3,985) | 132.1% | (3.5)% | (1.7)% |
| Benefit from income taxes | (2,395) | (1,127) | (1,268) | 112.5% | (1.2)% | (0.6)% |
| Net loss | \$ (4,606) | \$ (1,889) | \$ (2,717) | 143.8% | (2.3)% | (1.1)% |

Net Sales

Net Sales by Segment

| | Three Months Ended | | Change | | As a % of the Total | |
|------------------------|--------------------|-----------------|-----------|-------|---------------------|-----------------|
| | | | | | Three Months Ended | |
| | January 1, 2006 | January 2, 2005 | \$ | % | January 1, 2006 | January 2, 2005 |
| (Dollars in thousands) | | | | | | |
| Metal packaging | \$ 117,407 | \$ 110,039 | \$ 7,368 | 6.7% | 58.3% | 63.0% |
| Plastics packaging | 83,966 | 64,668 | 19,298 | 29.8% | 41.7% | 37.0% |
| Consolidated net sales | \$ 201,373 | \$ 174,707 | \$ 26,666 | 15.3% | 100.0% | 100.0% |

The increase in metal packaging segment net sales is primarily related higher volumes in ammunition boxes and aerosol cans and, to a lesser extent, higher selling prices associated with the pass through of raw material price increases offset by weaker industry demand for general line metal containers.

The increase in plastics packaging segment net sales results primarily from higher selling prices associated with the pass through of increases in the cost of resin and, to a lesser extent, increases in volume.

Table of Contents*Cost of Products Sold***Cost of Products Sold by Segment****(excluding depreciation and amortization)**

| <i>(Dollars in thousands)</i> | Three Months Ended | | Change | | As a % of the Total | |
|----------------------------------|---------------------------|------------------------|------------------|--------------|----------------------------|------------------------|
| | | | | | Three Months Ended | |
| | January 1, 2006 | January 2, 2005 | \$ | % | January 1, 2006 | January 2, 2005 |
| Metal packaging | \$ 103,758 | \$ 95,978 | \$ 7,780 | 8.1% | 56.0% | 61.6% |
| Plastics packaging | 81,530 | 59,902 | 21,628 | 36.1% | 44.0% | 38.4% |
| Segment CPS | 185,288 | 155,880 | 29,408 | 18.9% | 100.0% | 100.0% |
| Corporate undistributed expenses | 46 | 58 | (12) | (20.7)% | % | % |
| Consolidated CPS | \$ 185,334 | \$ 155,938 | \$ 29,396 | 18.9% | 100.0% | 100.0% |

The increase in cost of products sold, excluding depreciation and amortization, (CPS) for the metal packaging segment is primarily due to the volume increase in segment net sales, as discussed above. Metal packaging segment CPS as a percentage of segment net sales increased to 88.4% in the first quarter of fiscal 2006 from 87.2% in the first quarter of fiscal 2005.

The increase in CPS for the plastics packaging segment is primarily due to higher plastic resin costs. Plastics packaging segment CPS as a percentage of segment net sales increased to 97.1% in the first quarter of fiscal 2006 from 92.6% in the first quarter of fiscal 2005 primarily as a result of higher raw material costs for plastic resin and to an increase in segment CPS in the first quarter of fiscal 2006 from the comparable period of fiscal 2005 of approximately \$6.6 million related to additional cost of products sold from increases in inventory costs as a result of our LIFO method of accounting.

*Depreciation and Amortization***Depreciation and Amortization by Segment**

| | Three Months Ended | Change | As a % of the Total |
|--|---------------------------|---------------|----------------------------|
| | | | Three Months Ended |

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| <i>(Dollars in thousands)</i> | January 1, January 2, | | \$ | % | January 1, January 2, | |
|--|-----------------------|-----------|--------|--------|-----------------------|--------|
| | 2006 | 2005 | | | 2006 | 2005 |
| Metal packaging | \$ 5,242 | \$ 5,122 | \$ 120 | 2.3% | 52.7% | 50.7% |
| Plastics packaging | 4,193 | 4,469 | (276) | (6.2)% | 42.1% | 44.3% |
| Segment depreciation and amortization | 9,435 | 9,591 | (156) | (1.6)% | 94.8% | 95.0% |
| Corporate | 517 | 509 | 8 | 1.6% | 5.2% | 5.0% |
| Consolidated depreciation and amortization | \$ 9,952 | \$ 10,100 | (148) | (1.5)% | 100.0% | 100.0% |

The increase in metal packaging segment depreciation and amortization expense (D&A) relates primarily to higher depreciation associated with capital expenditures. The decrease in plastics packaging segment D&A relates to additional depreciation of approximately \$1.0 million in the first quarter of fiscal 2005 associated with the shortened useful lives on certain assets, primarily equipment, subsequently disposed of in connection with the closure of certain of our plastics manufacturing facilities. This decrease was partially offset by higher depreciation associated with capital expenditures.

Selling and Administrative Expenses

Selling and Administrative Expense by Segment

| <i>(Dollars in thousands)</i> | Three Months | | Change | | As a % of the Total | |
|---|-----------------|-----------------|---------|---------|---------------------|-----------------|
| | Ended | | | | Three Months Ended | |
| | January 1, 2006 | January 2, 2005 | \$ | % | January 1, 2006 | January 2, 2005 |
| Metal packaging | \$ 1,488 | \$ 1,531 | \$ (43) | (2.8)% | 32.8% | 37.6% |
| Plastics packaging | 978 | 1,349 | (371) | (27.5)% | 21.6% | 33.1% |
| Segment selling and administrative expense | 2,466 | 2,880 | (414) | (14.4)% | 54.4% | 70.7% |
| Corporate undistributed administrative expenses | 2,065 | 1,192 | 873 | 73.2% | 45.6% | 29.3% |
| Consolidated selling and administrative expense | \$ 4,531 | \$ 4,072 | \$ 459 | 11.3% | 100.0% | 100.0% |

The decrease in metal packaging segment selling and administrative expense (S&A) relates primarily to lower spending in the first quarter of fiscal 2006 from the comparable period of fiscal 2005. The decrease in plastics packaging segment S&A is primarily related to the closure of an administrative office during fiscal 2005 and to an overall decrease in spending. The increase in corporate undistributed administrative expenses relates primarily to the recovery of approximately \$0.6 million in the first quarter of fiscal 2005 of a previously written-off note receivable.

Interest, Taxes and Other

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Interest Expense, Net. Interest expense, net, increased \$0.5 million to \$8.2 million in the first quarter of fiscal 2006 from \$7.7 million in the first quarter of fiscal 2005. The increase is primarily attributable to higher interest rates on the variable rate Credit Facility partially offset by a decrease in average Credit Facility borrowings outstanding.

Income Tax Benefit. The income tax benefit increased \$1.3 million to a benefit of \$2.4 million in the first quarter of fiscal 2006 from a benefit of \$1.1 million in the first quarter of fiscal 2005. The effective tax rate decreased in the first quarter of fiscal 2006 from the first quarter of 2005 primarily as a result of benefits from the federal tax credit for possession corporations, which is related to higher sales from our operations in Puerto Rico, and to benefits from special tax deductions related to qualified production activities enacted as part of the American Jobs Creation Act of 2004.

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Other Expense (Income), Net. Other expense (income), net, in the first quarter of fiscal 2005 relates primarily to gains on the sale of idled equipment and a vacant manufacturing facility in Dallas, Texas. There were no significant transactions in the first quarter of fiscal 2006.

Liquidity and Capital Resources

Our cash requirements for operations and capital expenditures during the first quarter of fiscal 2006 and the first quarter of fiscal 2005 were primarily financed through internally generated cash flows. During the first quarter of fiscal 2006, cash and cash equivalents decreased \$38.9 million to \$13.0 million primarily due to a \$30.0 million repayment on the Term Loan and to approximately \$9.8 million in income tax payments during the quarter. During the first quarter of fiscal 2005, cash and cash equivalents decreased \$20.4 million to \$6.9 million primarily due to \$19.7 million repaid on the Term Loan. Long-term debt outstanding at January 1, 2006 and January 2, 2005 was \$365.3 million and \$395.3 million, respectively. There were no Revolver borrowings outstanding at January 1, 2006 or January 2, 2005.

At January 1, 2006, we had \$21.2 million in revolving credit available after taking into consideration \$8.8 million in standby letters of credit, which reduce available borrowings under the \$30.0 million Revolver.

Interest accrues on the Term Loan and the Revolver at an applicable margin plus either (a) a base rate (which is the higher of prime or 0.5% in excess of the overnight federal funds rate) or (b) a Eurodollar rate. For the Term Loan, the applicable margins were initially fixed at 1.25% for base rate loans and at 2.25% for Eurodollar rate loans and can range down to 1.00% and 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. For the Revolver, the applicable margins are initially fixed at 1.75% for base rate loans and 2.75% for Eurodollar rate loans and can range down to 1.00% and 2.00%, respectively, based upon meeting specified consolidated leverage ratio targets. Borrowing at the base rate or the Eurodollar rate is at our discretion. The rate margins are subject to quarterly change based on our ratio of Consolidated Indebtedness to Consolidated EBITDA (earnings before interest, taxes, depreciation and amortization), each as defined in the underlying credit agreement. The weighted-average interest rate on outstanding Term Loan borrowings at January 1, 2006 was approximately 6.6%.

The following table presents financial information on our cash flows and changes in cash and cash equivalents for each of the three months ended January 1, 2006 and January 2, 2005.

| | Three Months Ended | | |
|---|----------------------------|----------------------------|---------------|
| | January 1, 2006 | January 2, 2005 | Change |
| <i>(Dollars in thousands)</i> | | | |
| Net cash (used in) provided by operating activities | \$ (3,388) | \$ 2,454 | \$ (5,842) |
| Net cash used in investing activities | (5,425) | (3,550) | (1,875) |
| Net cash used in financing activities | (30,060) | (19,330) | (10,730) |
| Net decrease in cash and cash equivalents | \$ (38,873) | \$ (20,426) | \$ (18,447) |
| Cash and cash equivalents, end of period | \$ 13,016 | \$ 6,899 | |

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Net loss, adjusted for depreciation, amortization of other intangibles and deferred financing costs, loss/gain on disposition of property, plant and equipment and stock-based compensation expense, provided cash from operating activities of \$6.2 million and \$8.6 million in the first quarters of fiscal 2006 and 2005, respectively. The net change in accounts receivable, inventories and accounts payable provided operating cash of \$12.4 million and \$0.7 million in the first quarters of fiscal 2006 and 2005, respectively. Income taxes, net of the income tax benefit, resulted in a use of operating cash of \$9.8 million in the first quarter of fiscal 2006. Decreases in accrued liabilities used cash from operating activities of \$9.5 million and \$6.0 million in first quarters of fiscal 2006 and fiscal 2005, respectively.

Net cash used in investing activities for capital expenditures was \$5.4 million and \$4.4 million in the first quarters of fiscal 2006 and 2005, respectively. Net cash used in investing activities was partially offset in the first quarter of fiscal 2005 by proceeds of \$0.9 million from the sale of property, plant and equipment and assets held for sale. We expect capital expenditures in fiscal 2006 to exceed fiscal 2005 capital expenditures by approximately \$3.0 to \$6.0 million due to certain manufacturing improvement initiatives and for improvements required to meet certain environmental standards.

Net cash used in financing activities related to repayments on the Term Loan were \$30.0 million and \$19.7 million in the first quarters of fiscal 2006 and fiscal 2005, respectively.

The Indenture contains covenants that, among other things, limit our ability (and the ability of some or all of our subsidiaries) to incur additional debt, pay dividends or distributions on our capital stock or to repurchase our capital stock, make certain investments, create liens on our assets to secure debt, engage in transactions with affiliates, merge or consolidate with another company and transfer and sell assets. These covenants are subject to a number of important limitations and exceptions.

At January 1, 2006, we were in compliance with all applicable covenants contained in each of the Indenture and the credit agreement related to the Senior Notes and the Credit Facility, respectively.

We expect that cash provided from operations and available borrowings under the Revolver will provide sufficient working capital to operate our business, to make expected capital expenditures and to meet foreseeable liquidity requirements, including debt service on the Senior Notes in the next 12 months. However, we cannot provide assurance that our business will generate sufficient cash flows or that future borrowings will be available in an amount sufficient to enable us to service our debt, including the Senior Notes, or to fund our other liquidity needs in the long term.

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Market Risk

Our cash flows and earnings are exposed to the market risk of interest rate changes resulting from variable rate borrowings under our Credit Facility. Borrowings under the Credit Facility bear interest on the outstanding Term Loan and the Revolver borrowings at an applicable margin (based on certain ratios contained in the credit agreement) plus a market rate of interest. At January 1, 2006, we had Term Loan borrowings of \$165.0 million that were subject to interest rate risk. Each 100 basis point increase in interest rates relative to these borrowings would impact quarterly pretax earnings by approximately \$0.4 million based on the January 1, 2006 debt level. There were no outstanding borrowings at January 1, 2006 under the Revolver.

The fair value of the Senior Notes is exposed to the market risk of interest rate changes.

Commodity Risk

We are subject to various risks and uncertainties related to changing commodity prices for and the availability of the materials used in the manufacture of our products (primarily steel and resin).

Critical Accounting Policies

For a summary of our critical accounting policies, see management's discussion and analysis in Item 7 of the Annual Report. Our critical accounting policies have not changed since October 2, 2005.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

For a summary of our significant contractual obligations, see the Contractual Obligations and Commercial Commitments section of Item 7 in the Annual Report. The nature of the obligations has not materially changed since October 2, 2005.

At January 1, 2006, a bank had issued standby letters of credit on our behalf in the aggregate amount of \$8.8 million primarily in favor of our workers' compensation insurers and purchasing card vendor.

Environmental Matters

We are subject to a broad range of federal, state and local environmental, health and safety laws, including those governing discharges to air, soil and water, the handling and disposal of hazardous substances and the investigation and remediation of contamination resulting from the release of hazardous substances. We believe that we are currently in compliance with all applicable environmental, health and safety laws, though future expenditures may be necessary in order to maintain such compliance, including compliance with air emission control requirements for volatile organic compounds. In addition, in the course of our operations we use, store and dispose of hazardous substances. Some of our current and former facilities are currently involved in environmental investigations and remediation resulting from the release of hazardous substances or the presence of other contaminants. While we do not believe that any investigation or identified remediation obligations will have a material adverse effect on our financial condition, results of operations or cash flows, there are no assurances that such obligations will not arise in the future. Many of our facilities have a history of industrial usage for which investigation and remediation obligations could arise in the future and which could have a material adverse effect on our financial condition, results of operations or cash flows.

We expect to incur approximately \$1.6 million in capital expenditures in the next twelve months to comply with federal Maximum Achievable Control Technology (MACT) regulations related to air emission control requirements for Hazardous Air Pollutants (HAP) and volatile organic compounds. We have until November 2006 to comply with the new regulations.

In the first quarter of fiscal 2004, we received information indicating that the State of Georgia may consider the Company a potentially responsible party (PRP) at a waste disposal site in Georgia. Our possible PRP status is based on documents indicating that waste materials were transported to the site from our Homerville, Georgia facility prior to our acquisition of the facility in 1989. In order to reduce our exposure, we joined a PRP group in the third quarter of fiscal 2005. We estimate our total exposure related to this site will approximate \$0.1 million.

From time to time, we receive requests for information or are identified as a PRP pursuant to the Federal Comprehensive Environmental Response, Compensation and Liability Act or analogous state laws with respect to off-site waste disposal sites utilized by our current or former facilities or our predecessors in interest. We do not believe that any of these identified matters will have a material adverse effect on our financial condition, results of operations or cash flows.

We record reserves for environmental liabilities when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. We had accrued liabilities of approximately \$0.1 million and \$0.3 million for environmental investigation and remediation obligations as of January 1, 2006 and October 2, 2005, respectively; however, future expenditures may exceed the amounts accrued.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We do not purchase, sell or hold derivatives or other market risk-sensitive instruments to hedge commodity price risk, interest rate risk or exchange rate risk or for trading purposes.

For a discussion of interest rate risk and its relation to our indebtedness, see [Liquidity and Capital Resources](#) in Item 2, which is incorporated herein by reference.

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Our purchases from foreign suppliers in transactions denominated in foreign currencies are not significant and we do not believe we are exposed to a significant market risk of exchange rate changes related to fluctuations in the value of these foreign currencies in related to the U.S. Dollar.

Item 4. Controls and Procedures

We periodically review the design and effectiveness of our disclosure controls and internal control over financial reporting, including compliance with various laws and regulations that apply to our operations. We make modifications to improve the design and effectiveness of our disclosure controls and internal control structure, and may take other corrective action, if our reviews identify a need for such modifications or actions. In designing and evaluating the disclosure controls and procedures and internal control for financial reporting, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

An evaluation was carried out under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, the CEO and CFO have concluded that as of January 1, 2006, our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and timely reported as provided in the Securities and Exchange Commission rules and forms. No changes occurred during the quarter ended January 1, 2006 in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

There are no events to report under this item for the quarter ended January 1, 2006.

Item 1A. Risk Factors.

There are no material changes to report under this item for the quarter ended January 1, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There are no events to report under this item for the quarter ended January 1, 2006.

Item 3. Defaults Upon Senior Securities.

There are no events to report under this item for the quarter ended January 1, 2006.

Item 4. Submission of Matters to a Vote of Security Holders.

There are no events to report under this item for the quarter ended January 1, 2006.

Item 5. Other Information.

There is no information to report under this item for the quarter ended January 1, 2006.

Item 6. Exhibits.

See Index to Exhibits.

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FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements as encouraged by the Private Securities Litigation Reform Act of 1995. All statements contained in this document, other than historical information, are forward-looking statements. These statements represent management's current judgment on what the future holds. A variety of factors could cause business conditions and the Company's actual results to differ materially from those expected by the Company or expressed in the Company's forward-looking statements. These factors include, without limitation, competitive risks from substitute products and other container manufacturers, termination of the Company's customer contracts, loss or reduction of business from key customers, dependence on key personnel, changes in steel, resin and other raw material costs or availability, labor unrest, catastrophic loss of one of the Company's manufacturing facilities, environmental exposures, management's inability to identify or execute selective acquisitions, failures in the Company's computer systems, unanticipated expenses, delays in implementing cost reduction initiatives, potential equipment malfunctions and the other factors discussed in the Company's filings with the Securities and Exchange Commission. The Company takes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrences of unanticipated events or changes to future results of operations.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BWAY Corporation
(Registrant)

Date: February 10, 2006

By: /s/ Jean-Pierre M. Ergas

Jean-Pierre M. Ergas
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: February 10, 2006

By: /s/ Kevin C. Kern

Kevin C. Kern
Vice President, Administration and Chief Financial Officer
*(Principal Financial Officer and
Chief Accounting Officer)*

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INDEX TO EXHIBITS

| Exhibit Number | Description of Document |
|---------------------------|--|
| 31.1 | Certification of Chief Executive Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)). |
| 31.2 | Certification of Chief Financial Officer required by Rule 13a-14(a) (17 C.F.R. 240.13a-14(a)). |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |