BPC HOLDING CORP
Form 10-Q
July 24, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 1, 2006

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	35-1814673
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)

BERRY PLASTICS CORPORATION

(*Exact name of registrant as specified in its charter*)

Delaware	35-1813706
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
101 Oakley Street Evansville, Indiana	47710
(Address of principal executive offices)	(Zip code)

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

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 for 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. [X]Yes [ ]No

Indicate by check mark whether the registrants are large accelerated filers, accelerated filers or non-accelerated filers. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (check one): Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

Indicate by check mark whether the registrants are shell companies (as defined by Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of July 17, 2006, there were outstanding 3,375,611 shares of the Common Stock, $.01 par value, of BPC Holding Corporation. As of July 17, 2006, there were outstanding 100 shares of the Common Stock, $.01 par value, of Berry Plastics Corporation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Form 10-Q 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. The forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations". You can identify 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-Q. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include:

- 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;
- catastrophic loss of one of our key manufacturing facilities;
- risks related to our acquisition strategy and integration of acquired businesses;
- risks associated with our substantial indebtedness and debt service;
- performance of our business and future operating results;
- risks of competition, including foreign competition, in our existing and future markets;
- general business and economic conditions, particularly an economic downturn;
- increases in the cost of compliance with laws and regulations, including environmental laws and regulations; and
- the factors discussed in our Form 10-K for the fiscal year ended December 31, 2005 in the section titled "Risk Factors."

Readers should carefully review the factors discussed in our Form 10-K for the fiscal year ended December 31, 2005 in the section titled "Risk Factors" and other risk factors identified from time to time in our periodic filings with the Securities and Exchange Commission 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 Securities and Exchange Commission. 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.

BPC Holding Corporation
Berry Plastics Corporation

Form 10-Q Index

For Quarterly Period Ended July 1, 2006

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Part 1. Financial Information
Item 1. Financial Statements

BPC Holding Corporation
Consolidated Balance Sheets
(In Thousands of Dollars, except share information)

	July 1, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	**$ 35,251**	$ 24,756
Accounts receivable (less allowance for doubtful accounts of $6,376 at July 1, 2006 and $5,766 at December 31, 2005)	**166,924**	140,443
Inventories:		
Finished goods	**113,560**	101,632
Raw materials and supplies	**49,794**	50,716
	163,354	152,348
Deferred income taxes	**8,623**	22,905
Prepaid expenses and other current assets	**29,245**	39,037
Total current assets	**403,397**	379,489
Property and equipment:		
Land	**12,345**	12,292
Buildings and improvements	**95,139**	92,810
Equipment and construction in progress	**551,547**	497,364
	659,031	602,466
Less accumulated depreciation	**222,561**	179,022
	436,470	423,444
Intangible assets:		
Deferred financing fees, net	**16,783**	18,333
Customer relationships, net	**248,662**	255,981
Goodwill	**495,693**	495,258
Trademarks, net	**45,131**	47,065
Other intangibles, net	**27,150**	28,260
	833,419	844,897
Total assets	**$ 1,673,286**	$ 1,647,830

BPC Holding Corporation
Consolidated Balance Sheets (continued)
(In Thousands of Dollars, except share information)

	July 1, 2006 (Unaudited)	December 31, 2005
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	**$ 97,310**	$ 64,970
Accrued interest	**17,046**	20,165
Employee compensation, payroll and other taxes	**44,472**	43,915
Accrued expenses and other current liabilities	**30,332**	34,730
Current portion of long-term debt	**14,419**	13,928
Total current liabilities	**203,579**	177,708
Long-term debt, less current portion	**1,121,401**	1,146,692
Deferred income taxes	**94,466**	94,934
Other long-term liabilities	**26,171**	25,108
Total liabilities	**1,445,617**	1,444,442
Stockholders' equity:		
Preferred Stock; $.01 par value: 500,000 shares authorized; 0 shares issued and outstanding at July 1, 2006 and December 31, 2005	**—**	—
Common Stock; $.01 par value: 5,000,000 shares authorized; 3,398,807 shares issued and 3,374,351 shares outstanding at July 1, 2006; and 3,398,807 shares issued and 3,374,348 shares outstanding at December 31, 2005	**34**	34
Additional paid-in capital	**348,715**	346,943
Adjustment of the carryover basis of continuing stockholders	**(196,603)**	(196,603)
Notes receivable - common stock	**(11,389)**	(14,273)
Treasury stock: 23,196 and 24,459 shares of common stock at July 1, 2006 and December 31, 2005, respectively	**(3,525)**	(3,547)
Retained earnings	**76,881**	58,969
Accumulated other comprehensive income	**13,556**	11,865
Total stockholders’ equity	**227,669**	203,388
Total liabilities and stockholders’ equity	**$ 1,673,286**	$ 1,647,830

See notes to consolidated financial statements.

BPC Holding Corporation
Consolidated Statements of Income
(In Thousands of Dollars)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2006	**July 2, 2005**	**July 1, 2006**	**July 2, 2005**
	(Unaudited)		(Unaudited)	
Net sales	**$ 375,114**	$ 282,871	**$ 731,078**	$ 508,181
Cost of goods sold	**299,320**	233,477	**583,941**	417,493
Gross profit	**75,794**	49,394	**147,137**	90,688
Operating expenses:				
Selling	**9,723**	7,593	**20,143**	14,895
General and administrative	**16,991**	9,546	**31,794**	18,425
Research and development	**1,899**	1,428	**3,875**	2,456
Amortization of intangibles	**5,325**	1,985	**10,689**	3,758
Other expenses	**2,724**	389	**3,781**	693
Operating income	**39,132**	28,453	**76,855**	50,461
Other expenses (income):				
Unrealized loss (gain) on investment in Southern Packaging	**(515)**	937	**(299)**	1,569
Income before interest and taxes	**39,647**	27,516	**77,154**	48,892
Interest:				
Expense	**22,721**	16,513	**45,123**	30,535
Loss on extinguished debt	**—**	7,045	**—**	7,045
Income	**(218)**	(208)	**(612)**	(412)
Income before income taxes	**17,144**	4,166	**32,643**	11,724
Income taxes	**7,412**	2,415	**14,731**	6,174
Net income	**$ 9,732**	$ 1,751	**$ 17,912**	$ 5,550

See notes to consolidated financial statements.

BPC Holding Corporation
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)
(In Thousands of Dollars)

	Common Stock	Additional Paid-In Capital	Adjustment of the carryover basis of continuing stockholders	Notes receivable - common stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Losses)	Total
Balance at December 31, 2005	$ 34	$ 346,943	$ (196,603)	$ (14,273)	$ (3,547)	$ 58,969	$ 11,865	$ 203,388
Collection on notes receivable	—	—	—	3,234	—	—	—	3,234
Purchase of treasury stock	—	(204)	—	—	(827)	—	—	(1,031)
Sale of treasury stock	—	—	—	—	849	—	—	849
Interest on notes receivable	—	—	—	(350)	—	—	—	(350)
Stock-based compensation	—	1,976	—	—	—	—	—	1,976
Translation gains	—	—	—	—	—	—	1,758	1,758
Other comprehensive losses	—	—	—	—	—	—	(67)	(67)
Net income	—	—	—	—	—	17,912	—	17,912
Balance at July 1, 2006	$ 34	$ 348,715	$ (196,603)	$ (11,389)	$ (3,525)	$ 76,881	$ 13,556	$ 227,669

See notes to consolidated financial statements.

BPC Holding Corporation
Consolidated Statements of Cash Flows
(In Thousands of Dollars)

	Twenty-six Weeks Ended	
	July 1, 2006	**July 2, 2005**
	(Unaudited)	(Unaudited)
Operating activities		
Net income	**$ 17,912**	$ 5,550
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**43,307**	30,391
Non-cash interest expense	**954**	982
Write off of deferred financing fees	**—**	7,045
Amortization of intangibles	**10,689**	3,758
Non-cash compensation	**1,976**	—
Unrealized (gain) loss on investment in Southern Packaging	**(299)**	1,569
Deferred income taxes	**13,833**	5,641
Changes in operating assets and liabilities:		
Accounts receivable, net	**(26,077)**	(21,910)
Inventories	**(10,783)**	8,697
Prepaid expenses and other assets	**9,452**	4,007
Accrued interest	**(3,118)**	1,759
Payables and accrued expenses	**29,296**	3,896
Net cash provided by operating activities	**87,142**	51,385
Investing activities		
Additions to property and equipment	**(52,217)**	(32,303)
Proceeds from disposal of property and equipment	**23**	1,710
Acquisitions of businesses	**—**	(468,106)
Net cash used for investing activities	**(52,194)**	(498,699)
Financing activities		
Proceeds from long-term borrowings	**—**	466,457
Payments on long-term borrowings	**(27,624)**	(13,900)
Proceeds from notes receivable	**3,234**	—
Purchase of treasury stock	**(1,031)**	—
Sale of treasury stock	**849**	134
Net cash provided by (used for) financing activities	**(24,572)**	452,691
Effect of exchange rate changes on cash	**119**	12
Net increase in cash and cash equivalents	**10,495**	5,389
Cash and cash equivalents at beginning of period	**24,756**	264
Cash and cash equivalents at end of period	**$ 35,251**	$ 5,653

See notes to consolidated financial statements.

BPC Holding Corporation
Notes to Consolidated Financial Statements
(In thousands of dollars, except as otherwise noted)
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements of BPC Holding Corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full fiscal year. The accompanying financial statements include the results of BPC Holding Corporation ("Holding") and its wholly-owned subsidiary, Berry Plastics Corporation ("Berry"), and Berry's wholly-owned subsidiaries. For further information, refer to the consolidated financial statements and footnotes thereto included in Holding's and Berry's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005. Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

2. Recent Development

On June 28, 2006, Holding and affiliates of the private equity firms of Apollo Management, L.P. ("Apollo") and Graham Partners, Inc. ("Graham Partners," and together with Apollo, the "Sponsors") signed a definitive agreement for the Sponsors to acquire Holding for an enterprise value of $2.25 billion in aggregate consideration (subject to adjustments in accordance with the definitive agreement). The transaction is subject to customary closing conditions. The parties expect to consummate the transaction by the end of the third quarter. Following the transaction, Apollo will own a majority of the Company's common stock.

3. Recent Acquisitions

On April 11, 2005, a subsidiary of Berry, Berry Plastics de México, S. de R.L. de C.V., acquired all of the injection molding closure assets from Euromex Plastics, S.A. de C.V. ("Euromex"), an injection molding manufacturer located in Toluca, Mexico ("the Mexico Acquisition"), for aggregate consideration of approximately $8.2 million. The purchase price was allocated to fixed assets ($4.1 million), inventory ($1.6 million), goodwill ($0.7 million), and other intangibles ($1.8 million). The purchase was financed through borrowings under the Company's revolving line of credit and cash on hand. The operations from the Mexico Acquisition are included in Berry's operations since the acquisition date.

On June 3, 2005, Berry acquired Kerr Group, Inc. ("Kerr") for aggregate consideration of approximately $454.8 million (the "Kerr Acquisition"), including direct costs associated with the acquisition. The operations from the Kerr Acquisition are included in Berry's operations since the acquisition date. The purchase price was financed through additional term loan borrowings under an amendment to Berry's senior secured credit facility and cash on hand. The following table summarizes the allocation of purchase price and the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition.

Current assets	$ 85,417
Property and equipment	145,688
Goodwill	134,003
Customer relationships	182,094
Trademarks	16,140
Other intangibles	22,291
Total assets	585,633
Current liabilities	56,862
Long-term liabilities	73,942
Total liabilities	130,804
Net assets acquired	$ 454,829

In accordance with the criteria stated in Emerging Issues Task Force ("EITF") Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" ("EITF 95-3"), the Company established opening balance sheet reserves related to plant shutdown and severance costs. The opening balances and current year activity is presented in the following table.

	Established at Opening Balance Sheet	**January 1, 2006**	**Payments**	**July 1, 2006**
EITF 95-3 reserves	$ 2,700	$ 2,221	$ (588)	$ 1,633

The pro forma financial results presented below are unaudited and assume that the Kerr Acquisition occurred at the beginning of the respective period. Pro forma results have not been adjusted to reflect the Mexico Acquisition as they do not differ materially from the pro forma results presented below. Pro forma net sales and net income was $352,963 and $5,503, respectively, for the thirteen weeks ended July 2, 2005. Pro forma net sales and net income was $676,496 and $7,227, respectively, for the twenty-six weeks ended July 2, 2005. The financial results for the thirteen and twenty-six weeks ended July 1, 2006 have not been adjusted as the acquired businesses were owned by Berry for the entire period. The information presented is for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the Kerr Acquisition been consummated at the beginning of the respective period, nor are they necessarily indicative of future operating results. Further, the information reflects only pro forma adjustments for additional amortization, additional interest expense, elimination of Berry's write off of deferred financing fees, and elimination of Kerr's closing expenses, net of the applicable income tax effects.

4. Long-Term Debt

Long-term debt consists of the following:

	July 1, 2006	December 31, 2005
Berry 10 ¾% Senior Subordinated Notes	$ **335,000**	$ 335,000
Debt premium on 10 ¾% Notes, net	**7,111**	7,699
Term loans	**767,050**	791,025
Capital leases	**26,659**	26,896
	1,135,820	1,160,620
Less current portion of long-term debt	**14,419**	13,928
	$ **1,121,401**	$ 1,146,692

The current portion of long-term debt consists of $7.9 million of quarterly installments on the term loans and $6.5 million of principal payments related to capital lease obligations.

On July 22, 2002, the Company 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 acquisition of Landis Plastics, Inc., the Credit Facility was amended and restated (the “Amended and Restated Credit Facility”). On August 9, 2004, the Amended and Restated Credit Facility was amended and restated (the “Second Amended and Restated Credit Facility”). On January 1, 2005, a First Amendment to the Second Amended and Restated Credit Facility was entered into to permit Fifth Third Bank to assume the role of administrative agent and for Goldman Sachs Credit Partners, L.P. to resign as administrative agent. On June 3, 2005, the Company entered into a Second Amendment to the Second Amended and Restated Credit Agreement with Deutsche Bank Trust Company Americas assuming the role of administrative agent. As a result of the second amendment to the New Credit Facility, we expensed $7.0 million of unamortized deferred financing costs. On October 26, 2005, the Company entered into a Third Amendment to the Second Amended and Restated Credit Agreement (the “New Credit Facility”) that reduced the applicable margin on the term loan.

The New Credit Facility provides (1) a $795.0 million term loan and (2) a $150.0 million revolving credit facility. The New 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 December 2, 2011, and the maturity date of the revolving credit facility is March 31, 2010. The indebtedness under the New Credit Facility is guaranteed by Holding and all of its domestic subsidiaries. The obligations of Berry under the New Credit Facility and the guarantees thereof are secured by substantially all of the assets of such entities. At July 1, 2006, there were no borrowings outstanding on this revolving credit facility. The revolving credit facility allows up to $35.0 million of letters of credit to be issued instead of borrowings under the revolving credit facility. At July 1, 2006 and December 31, 2005, the Company had $14.7 million in letters of credit outstanding under the revolving credit facility.

The New Credit Facility contains significant financial and operating covenants, including prohibitions on the ability to incur certain additional indebtedness or to pay dividends, and restrictions on the ability to make capital expenditures. The New Credit Facility also contains borrowing conditions and customary events of default, including nonpayment of principal or interest, violation of covenants, inaccuracy of representations and warranties, cross-defaults to other indebtedness, bankruptcy and other insolvency events (other than in the case of certain foreign subsidiaries). The Company was in compliance with all the financial and operating covenants at July 1, 2006. The term loan amortizes quarterly as follows: $1,987,500 each quarter which began on September 30, 2005 and ends September 30, 2010 and $188,315,625 each quarter beginning December 31, 2010 and ending September 30, 2011. In June 2006, the Company made a voluntary prepayment of $20.0 million on the Company's senior term loan.

Borrowings under the New Credit Facility bear interest, at the Company's option, at either (i) a base rate (equal to the greater of the prime rate and 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, 1.00% per annum and (ii) with respect to Eurodollar Rate Loans, 2.00% per annum. 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 July 1, 2006. 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 July 1, 2006). 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. In October 2002, Berry entered into an interest rate collar arrangement to protect $50.0 million of the outstanding variable rate term loan debt from future interest rate volatility. The collar floor is set at 1.97% LIBOR (London Interbank Offering Rate) and capped at 6.75% LIBOR. The agreement was effective January 15, 2003 and expires on July 15, 2006. In June 2005, Berry entered into three separate interest rate swap transactions to protect $300.0 million of the outstanding variable rate term loan debt from future interest rate volatility. The agreements were effective June 3, 2005 and expire on June 3, 2008. The agreements swap three month variable LIBOR contracts for a fixed rate three year rate of 3.897%. All of the Company's interest rate hedge transactions are accounted for under the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133"). At July 1, 2006, the Company had unused borrowing capacity under the New Credit Facility's revolving line of credit of $135.3 million. Although the $135.3 million was available at July 1, 2006, the covenants under our New Credit Facility may limit our ability to make such borrowings in the future.

5. Stock-Based Compensation

The Company previously applied the intrinsic value method prescribed in Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees." In December 2004, the FASB issued SFAS No. 123R (Revised 2004,) Share-Based Payment ("SFAS 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. The Company adopted SFAS 123R on January 1, 2006 using the modified prospective method and recorded $2.0 million in the twenty-six week period ended July 1, 2006 of non-cash charges for stock compensation related to amortization of the fair value of unvested stock options. Under this method, the Company will recognize compensation cost, on a prospective basis, for the portion of outstanding awards for which the requisite service has not yet been rendered as of January 1, 2006. In addition, the Company will recognize compensation cost on any new grants based upon the grant date fair value of those awards calculated under SFAS 123 for pro forma disclosure purposes. Accordingly, we have not restated prior period amounts. The following table illustrates the pro forma effect on net income for periods prior to adoption of SFAS 123R as if we had applied the fair value recognition provisions of SFAS 123 during such periods.

	Thirteen Weeks Ended July 2, 2005	Twenty-six Weeks Ended July 2, 2005
Reported net income	$ 1,751	$ 5,550
Total stock-based employee compensation expense determined under fair value based method, for all awards, net of tax	(571)	(1,143)
Pro forma net income	$ 1,180	$ 4,407

6. Comprehensive Income

Comprehensive income is comprised of net income, other comprehensive income (losses), and gains or losses resulting from currency translations of foreign investments. Other comprehensive income (losses) includes unrealized gains or losses on derivative financial instruments and minimum pension liability adjustments. The details of comprehensive income (losses) are as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Net income	**$ 9,732**	$ 1,751	**$ 17,912**	$ 5,550
Other comprehensive income (losses)	**675**	(3,468)	**(67)**	(3,488)
Currency translation income (losses)	**1,422**	(1,819)	**1,758**	(2,904)
Comprehensive income (losses)	**$ 11,829**	$ (3,536)	**$ 19,603**	$ (842)

7. Income Taxes

A reconciliation of income tax expense, computed at the federal statutory rate, to income tax expense, as provided for in the financial statements, is as follows:

	Thirteen Weeks Ended	Twenty-six Weeks Ended

	July 1, 2006	July 2, 2005	July 1, 2006	July 2, 2005
Income tax expense computed at statutory rate	**$ 6,000**	$ 1,458	**$ 11,425**	$ 4,103
State income tax expense, net of federal taxes	**815**	258	**1,551**	727
Expenses not deductible for income tax purposes	**189**	120	**359**	241
Change in valuation allowance	**810**	666	**1,618**	1,205
Other	**(402)**	(87)	**(222)**	(102)
Income tax expense	**$ 7,412**	$ 2,415	**$ 14,731**	$ 6,174

8. Employee Retirement Plans

In connection with the Kerr Acquisition, the Company acquired two defined benefit pension plans which cover substantially all former employees and former union employees at Kerr's former Lancaster facility. The Company also acquired a retiree health plan from Kerr, which covers certain healthcare and life insurance benefits for certain retired employees and their spouses. The Company also maintains a defined benefit pension plan covering the Poly-Seal employees under a collective bargaining agreement. The Company's defined benefit and retiree health benefit plans have a minimum pension liability of $19.9 million at July 1, 2006 and December 31, 2005, which are recorded as other liabilities in the consolidated balance sheets. Net pension and retiree health benefit expense included the following components:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2006	**July 2, 2005**	**July 1, 2006**	**July 2, 2005**
Components of net period benefit cost:				
Defined Benefit Pension Plans				
Service cost	**$ 64**	$ 70	**$ 128**	$ 140
Interest cost	**562**	317	**1,124**	417
Expected return on plan assets	**(634)**	(284)	**(1,268)**	(394)
Amortization of prior service cost	**23**	28	**46**	56
Recognized actuarial loss	**4**	2	**8**	4
Net periodic benefit cost	**$ 19**	$ 133	**$ 38**	$ 223
Retiree Health Benefit Plan				
Service cost	**$ 4**	$ 2	**$ 8**	$ 2
Interest cost	**97**	50	**194**	50
Recognized actuarial loss	**(23)**	—	**(46)**	—
Net periodic benefit cost	**$ 78**	$ 52	**$ 156**	$ 52

The Company expects to contribute approximately $2.2 million during fiscal 2006, of which $0.1 million and $0.2 million was made in the thirteen weeks and twenty-six weeks ended July 1, 2006, respectively, to the defined benefit pension plans and the retiree health benefit plan.

9. Contingencies

The Company is party to various legal proceedings involving routine claims which are incidental to the business. Although the legal and financial liability with respect to such proceedings cannot be estimated with certainty, the Company believes that any ultimate liability would not be material to the Company's financial condition or results of operations.

10. Operating Segments

In connection with the Kerr Acquisition, Berry reorganized its operations into two reportable segments: rigid open top and rigid closed top. The realignment occurred in an effort to integrate the operations of Kerr, better service the Company's customers, and provide a more efficient organization. Prior periods have been restated to be aligned with the new reporting structure in order to provide comparable results. The Company evaluates performance and allocates resources to segments based on operating income before depreciation and amortization of intangibles adjusted to exclude (1) uncompleted acquisition expense, (2) acquisition integration expense, (3) plant shutdown expense, and (4) non-cash compensation (collectively, "Adjusted EBITDA"). The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	July 1, 2006	**July 2, 2005**	**July 1, 2006**	**July 2, 2005**
Net sales:				
Rigid Open Top	**$ 222,835**	$ 204,470	**$ 429,066**	$ 388,378
Rigid Closed Top	**152,279**	78,401	**302,012**	119,803
Total net sales	**375,114**	282,871	**731,078**	508,181
Adjusted EBITDA:				
Rigid Open Top	**40,951**	34,156	**79,999**	64,986
Rigid Closed Top	**29,446**	13,769	**56,617**	21,020
Total Adjusted EBITDA	**70,397**	47,925	**136,616**	86,006
Total assets:				
Rigid Open Top	**885,252**	800,096	**885,252**	800,096
Rigid Closed Top	**788,034**	753,545	**788,034**	753,545
Total assets	**1,673,286**	1,553,641	**1,673,286**	1,553,641
Reconciliation of Adjusted EBITDA to net income:				
Adjusted EBITDA for reportable segments	**$ 70,397**	$ 47,925	**$ 136,616**	$ 86,006
Net interest expense	**(22,503)**	(23,350)	**(44,511)**	(37,168)
Depreciation	**(22,222)**	(16,395)	**(43,307)**	(30,391)
Amortization	**(5,325)**	(1,985)	**(10,689)**	(3,758)
Income taxes	**(7,412)**	(2,415)	**(14,731)**	(6,174)
Unrealized gain (loss) on investment in Southern Packaging	**515**	(937)	**299**	(1,569)
Acquisition integration expense	**(2,730)**	(1,092)	**(3,789)**	(1,396)
Non-cash compensation	**(988)**	—	**(1,976)**	—
Net income	**$ 9,732**	$ 1,751	**$ 17,912**	$ 5,550

11. Condensed Consolidating Financial Information

Holding conducts its business through its wholly owned subsidiary, Berry. Holding and all of Berry's domestic subsidiaries fully, jointly, severally, and unconditionally guarantee on a senior subordinated basis the $335.0 million aggregate principal amount of 10 ¾% Berry Plastics Corporation Senior Subordinated Notes due 2012. Each of Berry's subsidiaries is 100% owned, directly or indirectly, by Berry. Separate narrative information or financial statements of guarantor subsidiaries have not been included as management believes they would not be material to investors. Presented below is condensed consolidating financial information for Holding, Berry, and its subsidiaries at July 1, 2006 and December 31, 2005 and for the thirteen and twenty-six week periods ended July 1, 2006 and July 2, 2005. The equity method has been used with respect to investments in subsidiaries.

	July 1, 2006					
	BPC Holding Corporation (Parent)	Berry Plastics Corporation (Issuer)	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Consolidating Balance Sheet						
Current assets	$ —	$ 134,178	$ 244,146	$ 25,073	$ —	$ 403,397
Net property and equipment	—	92,996	322,238	21,236	—	436,470
Other noncurrent assets	227,669	1,308,083	693,392	13,669	(1,409,394)	833,419
Total assets	$ 227,669	$ 1,535,257	$ 1,259,776	$ 59,978	$ (1,409,394)	$ 1,673,286
Current liabilities	$ —	$ 97,241	$ 96,614	$ 9,724	$ —	$ 203,579
Noncurrent liabilities	—	1,210,347	1,349,490	46,806	(1,364,605)	1,242,038
Equity (deficit)	227,669	227,669	(186,328)	3,448	(44,789)	227,669
Total liabilities and equity (deficit)	$ 227,669	$ 1,535,257	$ 1,259,776	$ 59,978	$ (1,409,394)	$ 1,673,286

	December 31, 2005					
	BPC Holding Corporation (Parent)	Berry Plastics Corporation (Issuer)	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Consolidating Balance Sheet						
Current assets	$ —	$ 132,192	$ 224,471	$ 22,826	$ —	$ 379,489
Net property and equipment	—	91,831	311,649	19,964	—	423,444
Other noncurrent assets	203,388	1,292,315	703,500	13,214	(1,367,520)	844,897
Total assets	$ 203,388	$ 1,516,338	$ 1,239,620	$ 56,004	$ (1,367,520)	$ 1,647,830
Current liabilities	$ —	$ 81,349	$ 87,269	$ 9,090	$ —	$ 177,708
Noncurrent liabilities	—	1,231,601	1,333,925	40,783	(1,339,575)	1,266,734
Equity (deficit)	203,388	203,388	(181,574)	6,131	(27,945)	203,388

Total liabilities and equity (deficit)	$	203,388	$	1,516,338	$	1,239,620	$	56,004	$	(1,367,520)	$	1,647,830

	Thirteen Weeks Ended July1, 2006					
	BPC Holding Corporation (Parent)	Berry Plastics Corporation (Issuer)	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Consolidating Statement of Operations						
Net sales	$ —	$ 86,928	$ 279,706	$ 8,480	$ —	$ 375,114
Cost of goods sold	—	64,320	226,213	8,787	—	299,320
Gross profit	—	22,608	53,493	(307)	—	75,794
Operating expenses	988	10,387	24,339	948	—	36,662
Operating income (loss)	(988)	12,221	29,154	(1,255)	—	39,132
Other income	—	—	—	(515)	—	(515)
Interest expense (income) , net	(159)	(10,214)	31,983	893	—	22,503
Income taxes	14	7,206	66	126	—	7,412
Equity in net (income) loss from subsidiary	(10,575)	4,654	1,759	—	4,162	—
Net income (loss)	$ 9,732	$ 10,575	$ (4,654)	$ (1,759)	$ (4,162)	$ 9,732

	Thirteen Weeks Ended July 2, 2005					
	BPC Holding Corporation (Parent)	Berry Plastics Corporation (Issuer)	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Consolidating Statement of Operations						
Net sales	$ —	$ 79,937	$ 195,520	$ 7,414	$ —	$ 282,871
Cost of goods sold	—	59,815	166,359	7,303	—	233,477
Gross profit	—	20,122	29,161	111	—	49,394
Operating expenses	—	7,773	12,230	938	—	20,941
Operating income (loss)	—	12,349	16,931	(827)	—	28,453
Other expenses	—	—	—	937	—	937
Interest expense (income), net	(197)	1,517	21,723	307	—	23,350
Income taxes	14	2,278	50	73	—	2,415
Equity in net (income) loss from subsidiary	(1,568)	6,986	2,144	—	(7,562)	—
Net income (loss)	$ 1,751	$ 1,568	$ (6,986)	$ (2,144)	$ 7,562	$ 1,751

	Twenty-six Weeks Ended July 1, 2006					
	BPC Holding Corporation (Parent)	Berry Plastics Corporation (Issuer)	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Consolidating Statement of Operations						
Net sales	$ —	$ 157,488	$ 557,036	$ 16,554	$ —	$ 731,078
Cost of goods sold	—	115,458	451,175	17,308	—	583,941
Gross profit	—	42,030	105,861	(754)	—	147,137
Operating expenses	1,976	19,258	46,755	2,293	—	70,282
Operating income (loss)	(1,976)	22,772	59,106	(3,047)	—	76,855
Other income	—	—	—	(299)	—	(299)
Interest expense (income), net	(349)	(20,268)	63,576	1,552	—	44,511
Income taxes	21	14,276	293	141	—	14,731
Equity in net (income) loss from subsidiary	(19,560)	9,204	4,441	—	5,915	—
Net income (loss)	$ 17,912	$ 19,560	$ (9,204)	$ (4,441)	$ (5,915)	$ 17,912
Consolidating Statement of Cash Flows						
Net income (loss)	$ 17,912	$ 19,560	$ (9,204)	$ (4,441)	(5,915)	$ 17,912
Non-cash expenses	1,976	22,642	43,496	2,346	—	70,460
Equity in net (income) loss from subsidiary	(19,560)	9,204	4,441	—	5,915	—
Changes in working capital	(350)	8,203	(9,806)	723	—	(1,230)
Net cash provided by (used for) operating activities	(22)	59,609	28,927	(1,372)	—	87,142
Net cash used for investing activities	—	(5,115)	(44,234)	(2,845)	—	(52,194)
Net cash provided by (used for) financing activities	22	(45,048)	15,288	5,166	—	(24,572)
Effect of exchange rate changes on cash	—	—	—	119	—	119
Net increase (decrease) in cash and cash equivalents	—	9,446	(19)	1,068	—	10,495
Cash and cash equivalents at beginning of period	—	22,814	313	1,629	—	24,756
	$ —	$ 32,260	$ 294	$ 2,697	$ ¾	$ 35,251

Cash and cash equivalents at end of period	

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	Twenty-six Weeks Ended July 2, 2005					
	BPC Holding Corporation (Parent)	Berry Plastics Corporation (Issuer)	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Consolidating Statement of Operations						
Net sales	$ —	$ 140,959	$ 353,523	$ 13,699	$ —	$ 508,181
Cost of goods sold	—	104,532	299,193	13,768	—	417,493
Gross profit	—	36,427	54,330	(69)	—	90,688
Operating expenses	—	15,113	23,392	1,722	—	40,227
Operating income (loss)	—	21,314	30,938	(1,791)	—	50,461
Other expenses	—	—	—	1,569	—	1,569
Interest expense (income), net	(397)	(3,157)	40,229	493	—	37,168
Income taxes	21	6,001	56	96	—	6,174
Equity in net (income) loss from subsidiary	(5,174)	13,296	3,949	—	(12,071)	—
Net income (loss)	$ 5,550	$ 5,174	$ (13,296)	$ (3,949)	$ 12,071	$ 5,550

Consolidating Statement of Cash Flows						
Net income (loss)	$ 5,550	$ 5,174	$ (13,296)	$ (3,949)	$ 12,071	$ 5,550
Non-cash expenses	—	21,375	24,487	3,524	—	49,386
Equity in net (income) loss from subsidiary	(5,174)	13,296	3,949	—	(12,071)	—
Changes in working capital	(396)	(19,736)	20,315	(3,734)	—	(3,551)
Net cash provided by (used for) operating activities	(20)	20,109	35,455	(4,159)	—	51,385
Net cash used for investing activities	—	(473,294)	(11,678)	(13,727)	—	(498,699)
Net cash provided by (used for) financing activities	20	453,149				