BWAY CORP
Form 10-K
December 23, 2003
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 28, 2003

or

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

For the transition period from _________to _________.

Commission File Number 333-104388

BWAY Corporation

(Exact name of registrant as specified in its charter)

DELAWARE	**36-3624491**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

8607 Roberts Drive, Suite 250

Atlanta, Georgia

30350

(Address of principal executive offices)

770-645-4800

(Registrant s telephone number)

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

None.

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

None.

Indicate by check mark whether the 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 x No ¨

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

As of December 18, 2003, all of the voting and non-voting common equity was held by affiliates. Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ¨ No x

As of March 31, 2003 (the registrant s most recently completed second fiscal quarter), all of the voting and non-voting common equity was held by affiliates.

As of December 18, 2003, there were 1,000 shares of BWAY Corporation s Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents

BWAY CORPORATION

TABLE OF CONTENTS

Table of Contents

BWAY CORPORATION AND SUBSIDIARIES

FORM 10-K ANNUAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 28, 2003

PART I

Item 1. **Business**

General

BWAY Corporation, including all of its subsidiaries (hereinafter BWAY, the Company, we, our or us), is the leading North American manufacturer of steel containers for paint and certain other consumer and industrial products. Our product offerings include a wide variety of steel containers such as paint, aerosol and specialty cans which are used by our customers to package a diverse range of end-use products which, in addition to paint, include household and personal care products, automotive after-market products, paint thinners and driveway and deck sealants. We also provide our customers with metal shearing, coating and printing services through our material center services business. As a result of an acquisition on August 25, 2003, as discussed below, we also manufacture rigid plastic containers, which include injection molded plastic pails and blow-molded tight head containers and drums. Our end-use markets have historically exhibited stable demand characteristics and our customer base includes leading participants in these markets. The references in this report to market positions or market share are based on information derived from annual reports, trade publications and management estimates, which we believe are reliable.

We are the successor to a business founded in 1875. In January 1989, we were purchased from Owens-Illinois Corporation in a leveraged transaction led by our then existing management and other industry investors. In June 1995, we completed our initial public offering and, from November 1996 through February 6, 2003, we were listed on the New York Stock Exchange. On February 7, 2003, affiliates of Kelso & Company and certain members of management acquired the Company as further described below under Agreement and Plan of Merger.

Agreement and Plan of Merger

On September 30, 2002, BCO Holding, BCO Acquisition and BWAY entered into a merger agreement, which provided for the merger of BCO Acquisition and BWAY, with BWAY continuing as the surviving corporation. On November 27, 2002, BWAY Finance Corp. (BWAY Finance) issued $200 Million 10% Senior Subordinated Notes due 2010 in a private placement to raise a portion of the financing needed to consummate the merger. The merger was completed on February 7, 2003, at which time BWAY assumed BWAY Finance s obligations under the $200 Million 10% Senior Subordinated Notes due 2010. As a result of the merger and related transactions, the Company is controlled by affiliates of Kelso & Company, L.P. (Kelso). Kelso is a private investment firm founded in 1971.

The following transactions occurred in connection with the merger:

Approximately 8.2 million shares of BWAY s common stock were converted into the right to receive $20.00 per share in cash.

All outstanding unvested options to purchase BWAY s common stock became fully vested, and options to purchase approximately 1.0 million shares of BWAY s common stock were canceled in exchange for lump sum payments in cash of $20.00 per underlying share, less the applicable option exercise price.

Affiliates of Kelso contributed $78.0 million in cash in exchange for 7.8 million shares of common stock of BCO Holding. Another equity investor contributed $2.0 million in cash in exchange for 0.2 million shares of common stock of BCO Holding. Certain stockholders of BWAY, including members of management and the Board of Directors, exchanged a total of approximately 0.6 million and 0.8 million shares and options to purchase shares, respectively, of BWAY s common stock (with an aggregate value of approximately $20.3 million), for a total of approximately 1.2 million and 1.6 million shares and options to purchase shares, respectively, of BCO Holding s common stock. As a

Table of Contents

result of these transactions, on February 7, 2003, Kelso and its affiliates owned approximately 77.7% of BCO Holding s fully diluted common stock, the other equity investor owned approximately 2.0% of BCO Holding s fully diluted common stock and such existing stockholders of BWAY owned the balance of BCO Holding s fully diluted common stock.

BWAY amended and restated its then existing credit facility to allow for the merger and related transactions and to effect certain other changes and additions.

BWAY Finance, a wholly-owned subsidiary of BCO Holding, issued $200 Million 10% Senior Subordinated Notes due 2010 in November 2002, which BWAY assumed and BWAY Manufacturing guaranteed on February 7, 2003.

BWAY Finance merged with and into BWAY, with BWAY continuing as the surviving corporation of the merger.

BWAY used the net proceeds from these equity and debt financings to:

fund the cash consideration paid to the stockholders and option holders under the merger agreement;

repurchase all of its outstanding $100 Million 10¼% Senior Subordinated Notes due 2007 and pay the accrued interest and bond tender and consent solicitation premiums associated with these notes;

pay accrued interest under its credit facility as of the closing of the merger; and

pay related transaction fees and expenses.

BWAY became a private company and its common stock was delisted from the New York Stock Exchange.

The merger of BCO Acquisition and BWAY, the investment by affiliates of Kelso and the other equity investor, the investment by certain stockholders and option holders who exchanged shares and options, the amendment and restatement of the credit facility, the offering of the $200 Million 10% Senior Subordinated Notes due 2010 and the application of the net proceeds therefrom, the repurchase and redemption of BWAY s outstanding $100.0 million 10¼% senior subordinated notes due 2007, the repayment of all outstanding principal and accrued interest at the closing date under BWAY s credit facility and the merger of BWAY Finance with and into BWAY are collectively referred to in this annual report as the Transaction.

Acquisitions and Dispositions

In November 1998, we acquired substantially all of the assets and assumed certain of the liabilities of the United States Can Company s metal services operations (the U.S. Can Acquisition). The purchase price was approximately $27.7 million in cash after adjustments for working capital. The acquisition included three operating plants and one non-operating plant. The acquired facilities operated two different businesses, material center services, which are part of our core business, and tinplate metal services, which are not a part of our business. The purchase method of accounting was used to establish and record a new cost basis for the assets acquired and liabilities assumed, and operating results for this acquisition have been included in our consolidated financial statements since the date of acquisition.

In November 1998, management committed to a plan to exit certain activities of the acquired facilities and integrate acquired assets and businesses with other of our facilities. In connection with the recording of the purchase, we established a reorganization liability of approximately $11 million.

In November 1998, we signed a binding letter of intent to sell the acquired tinplate metal services business. The tinplate metal services business primarily purchased, processed, and sold nonprime steel to third party customers. We finalized the sale of the tinplate services business to Arbon Steel and Service Company in the fourth quarter of fiscal 1999. Anticipating the sale of the tinplate metal services business, we closed the Brookfield, Ohio location in March 1999 and closed the Chicago Metal operations in September 1999. In fiscal 1999, we excluded $4.4 million of losses, including interest expense of $0.7 million, from results of operations related to the tinplate metal services business.

In the fourth quarter of fiscal 2000, we also closed the Chicago, Illinois material center services operation and transferred the work to other of our material center services facilities.

In June 2001, we implemented a restructuring plan. As part of that plan, redundant equipment at our manufacturing facilities in Elizabeth, New Jersey and Garland, Texas were taken out of service and the facilities

Table of Contents

were closed in September 2001. The existing business serviced by those facilities was primarily transferred to our Dallas, Texas and York, Pennsylvania facilities. In August 2002, due to unusually high demand for certain of our products, the previously closed Garland, Texas facility was partially utilized to manufacture goods to meet this demand. In fiscal 2003, management decided to reopen the Garland, Texas facility and committed to a plan to close our Southwest facility in Dallas, Texas in our second fiscal quarter of 2004.

On August 25, 2003, we acquired substantially all of the assets, including working capital, of SST Industries, a manufacturer of rigid plastic containers for industrial packaging markets, for approximately $23.2 million in cash. We believe that this acquisition will allow us to expand our product offerings into a complementary segment of the container market.

In the fourth quarter of fiscal 2003, Folgers notified us that they planned to convert their steel packaging requirements by March 2004 to an alternative packaging that we do not manufacture. As a result of this conversion, we intend to close our manufacturing facility in Picayune, Mississippi. We will relocate or terminate the workforce and dispose of or transfer certain equipment to other manufacturing facilities. We have shortened the estimated remaining useful lives of certain long-lived assets, primarily equipment, associated with the manufacture of the steel packaging, which will be discontinued when the facility is closed. The shortened useful lives resulted in approximately $1.8 million in additional depreciation expense in the fourth quarter of fiscal 2003, and we estimate approximately $4.9 million in additional depreciation expense in fiscal 2004.

Industry Overview

Metal containers are currently utilized for three primary markets: beverage, food and general line. The general line market includes paint cans, aerosol cans, oblong cans, steel pails and a variety of specialty cans. We estimate, based on industry data published by the Can Manufacturers Institute and the United States Bureau of Statistics, that 2002 industry shipments in the United States totaled approximately 100 billion units to the beverage market, 31 billion units to the food market and 4 billion units to the general line market. General line cans generally have higher selling prices than food or beverage cans. Few companies compete in all three product markets, and most of the companies that produce beverage and food cans do not compete in the general line market.

Products and Markets

We operate primarily in North America in the general line container market (77% of our fiscal 2003 net sales). We also provide our customers with metal shearing, coating and printing services through our material center services business (12% of our fiscal 2003 net sales). We have established leading positions in most of our product lines in the United States, other than aerosol cans, in which we rank third in the United States. We also manufacture steel ammunition boxes and, effective with the acquisition of SST Industries in August 2003, we manufacture various rigid plastic containers (less than 1% of fiscal 2003 net sales due to the timing of the acquisition).

The following table sets forth our percentage of net sales for fiscal 2001, 2002 and 2003 for our general line cans (including ammunition boxes), coffee cans and material center services:

	Year Ended September 30,

Product	2001	2002	2003
General line cans	76%	74%	75%
Coffee cans*	11	12	13
Material center services	13	14	12
Total	100%	100%	100%

* *Following the conversion by Folgers to such alternative packaging, we expect that coffee cans will no longer represent a significant portion of our sales.*

Table of Contents

General Line Products

The primary uses for our general line cans are for paint and related products, lubricants, roof and driveway sealants, charcoal lighter fluid, and household and personal care products. Specific products include round cans with rings and plugs (typical paint cans), specialty cans (typical PVC or rubber cement cans, brake fluid and other automotive after-market products cans, oblong or F style cans (typically paint thinner cans), and an assortment of other specialty cans), aerosol cans and steel pails. We produce a full line of these products to serve the specific requirements of a diversified base of nationally recognized customers. Most of our products are manufactured in facilities that are strategically located to allow us to deliver product to customer filling locations for such products within a one-day transit time.

Paint Cans. We produce round paint cans in sizes ranging from one-quarter pint to one gallon, with one-gallon paint cans representing the majority of all paint can sales. Paint cans are manufactured to a variety of performance specifications and may be printed on the outside for customer marketing purposes, although most paint manufacturers use paper labels rather than printed cans. We also produce paint can components including ears, plugs and ends.

Specialty Cans. Specialty cans include screw top cans (Monotop®), cone top cans, oblong or F style cans and ammunition boxes. Screw top cans (Monotop®) typically have an applicator or brush attached to a screw cap and are typically used for PVC pipe cleaner, PVC cement and rubber cement. Cone top cans are typically used for packaging specialty oils and automotive after-market products, including brake fluid, gasoline additives and radiator flushes. Oblong or F style cans are typically used for packaging paint thinners, lacquer thinners, turpentine, deglossers and similar paint-related products, charcoal lighter fluid and waterproofing products. We produce oblong cans in sizes ranging from one pint to one gallon. Oblong cans are generally printed to customer specifications. Ammunition boxes provide a hermetic seal, are coated with a corrosion-resistant finish and are used to package small arms ammunitions and other ordnance products. We sell ammunition boxes to the U.S. Department of Defense as well as to major domestic and foreign producers of ordnance.

Aerosol Cans. Aerosol cans are typically used for packaging various household and industrial products, including paint and related products, personal care products, lubricants and insecticides. We produce a variety of sizes, which may be decorated to customer specifications.

Steel Pails. Pails are typically used for packaging paint and related products, roof and driveway sealants, marine coatings, vegetable oil, and water repellent. Pails may be either closed head for easy pouring products, or open head for more viscous products, with a lid that is crimped on after filling. The pail market is served by producers of both steel and plastic pails, with steel pails representing an estimated 17% of the pails sold. We manufacture steel pails in sizes ranging from two and one-half to seven gallons. Steel pails are manufactured from either blackplate or cold rolled steel, are typically lined with rust inhibitors or other materials depending on the nature of the customers contents and are often printed to customer specifications.

Coffee Cans

We produce coffee cans in sizes commonly referred to as one, two and three pound, and various smaller specialty coffee can sizes and shapes. Coffee cans are generally sold to nationally known coffee processing and marketing companies. We do not sell sanitary food cans in which soups, stews, vegetables, pie fillings and other foods are actually cooked in the can. Following the conversion by Folgers to non-steel packaging, we expect that coffee cans will no longer represent a significant portion of our sales.

Material Center Services

We provide material center services (metal shearing, coating and printing services) for our can assembly facilities and for third party customers.

Table of Contents

Customers

Our customers include many of the world s leading paint, food, consumer and personal care companies. For fiscal 2003, sales to our 10 largest customers accounted for approximately 49% of our net sales and approximately 22% of our net sales were to two customers that individually had sales in excess of 10% of our net sales. Consistent with industry practice, we enter into multi-year supply agreements with many of our largest customers. However, many of our contracts are requirements contracts under which we supply a percentage of a customer s requirements for our products over a period of time, without any specific commitment to unit volume. In addition, many of our customer contracts, including many of our contracts with our largest customers, provide that the customer may receive competitive proposals for all or a portion of the products we furnish to the customer under the contract, including proposals to reformulate the packaging to another material. We generally have the rights to retain the customer s business subject to the terms of the competitive proposal.

Pursuant to these provisions, Folgers has notified us that it plans to convert the balance of its steel packaging requirements to such alternative packaging by March 2004. As a result, we expect that our revenues from this customer will be reduced by approximately $48.0 million in fiscal 2004, depending principally on the exact timing of any such conversion, and by an additional amount of approximately $12.0 million in fiscal 2005.

We believe we have strong relationships with most of our major customers due to: (i) the close proximity of our manufacturing facilities to key customer locations; (ii) our low-cost, flexible manufacturing capabilities; and (iii) our reputation for quality and customer service.

Manufacturing Process

We generally employ the industry s typical manufacturing process in production of our products, although certain technologies differ from competitors. Following is a sequential list of the specific steps in the can manufacturing process. Not all products require coating and printing.

Process	Description
Shearing	A large coil of tinplate, blackplate or cold rolled steel is cut into sheets of a specified size depending on the end use of the product.
Coating	A coating is sometimes applied to the side of the sheets which becomes the outside of the containers as a base coat for printing and to the side that becomes the inside of the containers to protect the contents from contact with the steel or tinplate.
Printing	Sheets are decorated with the customer s design. Also known as lithography.
Slitting	Sheets are cut into individual body blanks, which will be formed into cans.
Body-Forming	Body blanks are fed into a body-making machine where they are formed into cylinders or oblong cans and joined at their side seam. Handles or nozzles may be attached.
End-Forming	Ends are stamped out of sheets or strips.
Flanging and Seaming	The steel on both ends of the can is rolled to form a flange and the end is attached to the body by folding or seaming.
Testing	The cans are tested for potential leakage.
Packaging	Cans are stacked onto pallets and shrink-wrapped or packaged in cartons or bags for delivery to customers.

Raw Materials

Our principal raw materials consist of tinplate, blackplate and cold rolled steel, energy, various coatings, inks and compounds. Steel products represent the largest component of raw material costs. Essentially all of our products are manufactured from tinplate steel, except for pails and ammunition boxes, which are manufactured from either blackplate or cold rolled steel. We purchase all raw materials we require from outside sources.

Various domestic and foreign steel producers supply us with tinplate steel, although we currently purchase most of our tinplate steel from domestic suppliers and countries not currently subject to tariffs imposed by the United States on imports of certain steel products. Procurement from suppliers generally depends on the suppliers product offering, product quality, service and price. As part of our effort to further leverage our purchasing power to obtain favorable raw material prices, we have recently consolidated our steel purchasers among a small group of suppliers, and entered into contractual arrangements with certain suppliers. We have also decreased our purchases of tinplate and cold rolled products from foreign sources, in part due to tariffs, which have subsequently been repealed. Because a significant number of reliable suppliers produce the steel used in our process, we believe that we would be able to obtain adequate replacement supplies in the market should one of our current suppliers discontinue supplying us, although the financial terms of these arrangements may differ from our current arrangements. Historically, we have generally been able to increase the price of our products to reflect increases in the price of steel, but we cannot be sure that we will be able to do so in the future.

In addition to steel products, we purchase energy from various suppliers as well as various coatings, inks and compounds used in the manufacturing process. We do not anticipate any future shortages or supply problems for these items based on historical availability and the current number of suppliers.

Historically, the steel mills announce in the last quarter of the calendar year expected price increases for the coming calendar year. For calendar 2004, the mills have announced a 3-4% increase in the selling price of tinplate steel.

Competition

The steel container industry is highly competitive and some of our competitors have greater financial resources than we do. Competition is based primarily on price, manufacturing capacity, manufacturing flexibility and quality. We believe that (i) the close proximity of our manufacturing facilities to key customer locations; (ii) our low-cost, flexible manufacturing capabilities and (iii) our reputation for quality and customer service enable us to compete effectively.

In addition, we face competitive risks from substitute products, such as plastics, and, to a lesser extent, composites and flexible packaging containers. During recent years, the steel container industry has experienced slight volume declines in certain product categories due to substitute products. Nonetheless, steel containers are the preferred package in the majority of our customers markets. We believe this is primarily due to: (i) their price stability and competitiveness; (ii) the attractive strength and non-permeable characteristics of steel versus other materials, such as plastics; (iii) their lower storage and handling costs; (iv) their capacity for pressure packaging; (v) their ability to hold highly volatile and solvent-based liquids; and (vi) their fire safety characteristics. In addition, we believe steel containers are easier and less costly to recycle and have a higher rate of recycling than alternative materials.

Employees

As of September 28, 2003, we employed approximately 1,644 hourly employees and 349 salaried employees. Of the 1,644 hourly employees, 1,144 are non-union and the remaining 500 are covered by six separate collective bargaining agreements.

As a result of Folgers conversion to alternative packaging, we intend to close our manufacturing facility in Picayune, Mississippi. During the fourth quarter of fiscal 2003, we issued a WARN notice that we intended to close the Picayune facility and relocate or terminate 80 employees at that facility. The employees to be terminated primarily consist of hourly employees. We expect the terminations to be completed during the first half of fiscal 2004.

During fiscal 2003, we entered into new collective bargaining agreements with two of the six collective bargaining units covering our unionized employees. We reached an agreement with Local 729 of the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers, AFL-CIO, one of the three unions at our Cincinnati, Ohio facility, which affects approximately 236 employees, for the period September 1, 2003 through August 31, 2007 (the agreement is subject to automatic renewals unless we or the union provides notice otherwise). We entered into an agreement with Local 714 of the Teamsters Union, one of the two unions at our Franklin Park, Illinois facility, which affects approximately 55 employees, for the period March 4, 2003 through March 6, 2006.

Table of Contents

Our remaining four collective bargaining agreements are scheduled to expire in fiscal 2004. However, in November 2003, we concluded a new collective bargaining agreement with Chicago Local 458-3M Graphic Communications Workers International Union at our Franklin Park, Illinois facility, which affects approximately 26 employees, for the period November 1, 2003 through October 31, 2006. The remaining three collective bargaining agreements that will expire in fiscal 2004 cover approximately 72 employees represented by Local 14-M of the Graphic Communication Workers International Union at our Trenton, New Jersey facility (expires March 2004), and approximately 13 employees represented by Local 162 of the International Association of Machinists and Aerospace Workers Union District 34 (expires September 2004) and approximately 102 employees represented by Local 4372 of the United Steelworkers of America, AFL-CIO (expires April 2004), respectively, at our Cincinnati, Ohio facility.

Also in November 2003, eight non-union employees at our Franklin Park, Illinois facility voted be represented by the Chicago Local 458-3M Graphic Communications Workers International Union.

While we consider relations with our employees to be good, we may not be able to negotiate the expiring or other collective bargaining agreements on the same or more favorable terms as the current agreements, or at all, and without production interruptions, including labor stoppages. A prolonged labor dispute, which could include a work stoppage, could adversely affect our ability to satisfy our customers requirements and could have a material adverse effect on our business, including our operating costs and results of operations.

Environmental, Health and Safety 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 in material 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 remediations resulting from releases of hazardous substances or the presence of other constituents. While we do not believe that any investigation or remediation obligations that we have identified will have a material adverse effect on our operating results or financial condition, we cannot be sure that no such obligations will 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 operating results or financial condition.

In 1999, we entered into a consent order with Owens-Illinois, Inc. (OI) and the Georgia Department of Natural Resources to investigate and remediate contamination detected at our Homerville, Georgia facility. Pursuant to the terms of the consent order, we have been conducting removal activities related to certain contaminants released at the facility. OI has been addressing other contaminants released at the facility. We and OI have reached an agreement whereby OI will bear one-third of the costs related to the excavation and removal of buried drums and containers that were discovered at the Homerville facility in December 2001.

In addition, a waste disposal area was uncovered at our Cincinnati, Ohio facility. In early 2002, Ball Corporation, the prior owner of the facility, agreed to address the waste disposal area to the satisfaction of state and county authorities, pursuant to its indemnification obligations to us. While there are certain limitations on Ball s indemnification, we do not believe that we will incur material costs for this issue.

From time to time, we receive requests for information or are identified as potentially responsible parties 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 operating results or financial condition.

Reserves for environmental liabilities are recorded when environmental investigation and remediation obligations are probable and related costs are reasonably estimable. We had a reserve of approximately $0.6 million

Table of Contents

for environmental investigation and remediation obligations as of September 28, 2003; however, there can be no guarantee that future expenditures will not exceed the amount reserved.

In December 2003, we were informed that a predecessor company had been named as a participant to a superfund site in the State of Georgia. We are reviewing the documentation to determine the extent of any potential liability.

Item 2. Properties

The following table sets forth certain information with respect to our headquarters and significant manufacturing facilities as of December 1, 2003. We believe our properties are generally in good condition, well maintained and suitable for their intended use.

Location	General Character	Approximate Square Footage	Type of Interest
Atlanta, Georgia (Headquarters)	Office	16,000	Leased
Chicago, Illinois (Kilbourn)	Manufacturing	141,000	Owned
Cincinnati, Ohio	Manufacturing	467,000	Leased
Dallas, Texas (Southwest)	Manufacturing	88,000	Owned
Elizabeth, New Jersey	Warehouse / Vacant	211,000	Leased
Fontana, California	Manufacturing	72,000	Leased
Franklin Park, Illinois	Manufacturing	115,000	Leased
Garland, Texas	Manufacturing	108,000	Leased
Homerville, Georgia	Manufacturing	395,000	Owned
Loveland, Ohio	Manufacturing	285,000	Leased
Memphis, Tennessee	Manufacturing	120,000	Leased
Peachtree City, Georgia	Manufacturing	135,000	Leased
Picayune, Mississippi	Manufacturing	60,000	Leased
Trenton, New Jersey	Manufacturing	105,000	Leased
York, Pennsylvania	Manufacturing	97,000	Owned

In June 2001, we implemented a restructuring plan. As part of that plan, redundant equipment at our manufacturing facilities in Elizabeth, New Jersey was taken out of service and the facility was closed in September 2001. An additional part of the June 2001 restructuring plan was the closure of our Garland, Texas manufacturing facility. Subsequent to the closure, the facility was used to warehouse inventory. Recently, the Garland, Texas facility was reopened as a manufacturing facility. We have committed to a plan to close our Southwest, Texas facility and transfer the business to the Garland facility.

In June 2002, we recorded an additional restructuring charge of $1.2 million related to ongoing lease commitments at our closed Elizabeth, New Jersey manufacturing facility. The charge represents a change in the estimate of net future lease payments included in the original $21.5 million restructuring charge recorded in the third quarter of fiscal 2001. In June 2001, we anticipated sub-leasing the Elizabeth facility within 12 months. However, due to the weakening of both the general economy and the real estate market, we revised our estimate of facility closure costs to allow additional time to locate a subtenant for this facility.

During the second quarter of fiscal 2003, we recognized approximately $0.5 million of restructuring recovery primarily to reflect expectations of future lease payments for closed facilities. In April 2003, we sublet approximately 55,000 square feet of the Elizabeth facility through September 2004. The Elizabeth prime and sub-leases expire in September 2004.

We intend to close our manufacturing facility in Picayune, Mississippi in fiscal 2004.

In December 2003, we executed a lease for approximately 85,000 square feet in Sturtevant, Wisconsin for a new aerosol manufacturing facility to begin production in mid-fiscal 2004.

Table of Contents

Item 3. **Legal Proceedings**

We are involved in legal proceedings from time to time in the ordinary course of our business. No such currently pending proceedings are expected to have a material adverse effect on us. We are also involved in certain proceedings relating to environmental matters as described under Item 1.   Business   Environmental, Health and Safety Matters.

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

No matters were submitted during the fourth quarter of fiscal 2003 to a vote of our security holders through the solicitation of proxies or otherwise.

PART II

Item 5. **Market for the Registrant s Common Equity and Related Stockholder Matters**

There is no established public market for BWAY s common equity. BCO Holding owns all of BWAY s outstanding common equity.

The Credit Facility agreement and the Indenture relating to our 10% Senior subordinated notes prohibit us from paying dividends.

Item 6. **Selected Financial Data**

The following table sets forth our selected historical consolidated financial and operating data, which you should read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations included in Item 7 of this report and with our consolidated financial statements and related notes included in Item 8 of this report. The selected consolidated financial and other data as of and for each of the periods in the three-year period ended September 28, 2003 have been derived from our audited financial statements and related notes included in Item 8 of this report. The selected consolidated financial and other data as of and for each of the fiscal years in the two-year period ended October 1, 2000 have been derived from our audited financial statements and related notes which are not included in this report. All amounts are presented in thousands, except ratios and per share data.

Table of Contents

	Predecessor					Successor
	Fiscal Year Ended(1)				For the Period from September 30, 2002 to February 6,	For the Period from February 7, 2003 to September 28,
	1999	2000	2001	2002	2003	2003
	(Dollars in thousands)					
Income Statement Data:						
Net sales	$ 487,549	$ 479,775	$ 475,039	$ 527,601	$ 186,726	$ 364,384
Cost of products sold (excluding depreciation and amortization)	424,942	422,834	425,084	456,788	166,383	311,447
Gross profit (excluding depreciation and amortization)	62,607	56,941	49,955	70,813	20,343	52,937
Depreciation and amortization(2) (3)	17,246	22,412	20,713	19,582	6,091	16,835
Selling and administrative expense	19,678	17,057	15,610	14,179	14,875	8,675
Merger related transaction costs(4) (5)				1,478	2,488	
Restructuring and impairment charge(6)(7)(8)(9) (10)		5,900	21,500	1,250	(460)	260
Gain on curtailment of postretirement benefits		(1,171)				
Equity investor fees(11)						349
Other, net	33	(662)	(970)	(597)	17	556
Income from operations	25,650	13,405	(6,898)	34,921	(2,668)	26,262
Interest expense, net	14,733	16,657	15,747	13,109	11,190	16,935
Income (loss) before income taxes	10,917	(3,252)	(22,645)	21,812	(13,858)	9,327
Provision (benefit) for income taxes	5,290	(334)	(6,157)	9,556	(4,791)	3,462
Net income (loss)	$ 5,627	$ (2,918)	$ (16,488)	$ 12,256	$ (9,067)	$ 5,865

	Predecessor					Successor
	Fiscal Year Ended(1)				For the Period from September 30, 2002 to February 6,	For the Period from February 7, 2003 to September 28,
	1999	2000	2001	2002	2003	2003
	(Dollars in thousands)					
Other Financial Data:						
EBITDA (13)	$ 42,896	$ 35,817	$ 13,815	$ 54,503	$ 3,423	$ 43,097
EBITDA margin % (14)	8.8%	7.5%	2.9%	10.3%	1.8%	11.8%
Capital expenditures (15)	$ 33,230	$ 10,907	$ 9,421	$ 10,586	$ 4,607	$ 8,879
Cash interest expense, net	14,961	16,206	14,345	11,720	5,374	18,611
Net cash provided by (used in) operating activities	24,452	25,297	22,116	46,063	(2,135)	30,415
Net cash used in investing activities(16)	(46,495)	(8,475)	(4,040)	(9,528)	(4,582)	(52,006)
Net cash provided by (used in) financing activities(17)	20,436	(16,557)	(18,752)	(17,330)	(12,663)	21,729
Ratio of earnings to fixed charges(18)	1.67x			2.46x		1.51x

	Predecessor				Successor
	Fiscal Period Ended(1)				
	1999	2000	2001	2002	2003
	(Dollars in thousands)				
Balance Sheet Data:					
Total working capital	$ 14,146	$ 14,583	$ 8,369	$ 20,467	$ 17,451
Total assets	362,023	332,723	300,895	306,686	443,325
Total debt	146,500	126,200	112,808	100,000	217,170
Stockholders equity	82,053	78,961	60,435	72,648	79,487

(1) We operate on a 52/53-week fiscal year ending on the Sunday closest to September 30 of the applicable year. Our financial statements for the periods presented include the operating results of the steel services operations we acquired from the United States Can Company on November 9, 1998 from the date of that acquisition, but exclude the tin plate services business acquired at the same time from the United States Can Company, which was held for sale from the time of its acquisition and was sold in the fourth quarter of fiscal 1999.

(2) Depreciation for fiscal 2000 and for fiscal 2002 includes an additional $2.5 million and $0.7 million, respectively, of depreciation related to shortened useful lives of certain computer systems.

(3) Deprecation for the period from February 7, 2003 to September 28, 2003 includes an additional $1.8 million of depreciation related to shortened useful lives of certain long-lined assets, primarily equipment.

(4) The fourth quarter of fiscal 2002 includes a $1.5 million charge for certain professional fees and other transaction costs relating to the Transaction.

(5) The first quarter of fiscal 2003 includes a $1.4 million charge for certain professional fees and other transaction costs relating to the Transaction.

(6) The second quarter of fiscal 2000 includes a $5.9 million restructuring and impairment charge related to the closing of two administrative offices, the termination of 89 employees, and the write-down of equipment held for disposal.

(7) The third quarter of fiscal 2001 includes a $21.5 million restructuring and impairment charge related to the closing of two manufacturing facilities and the write-down of intangible assets and equipment held for disposal as a result of the closings.

(8) The third quarter of fiscal 2002 includes an additional $1.2 million restructuring charge related to the closing of one of our manufacturing facilities in the third quarter of fiscal 2001. See footnote (7) above.

(9) The period from September 30, 2002 to February 6, 2003 includes a $(0.5) million adjustment related revised expectations of future lease payments for closed facilities.

(10) The period from February 7 to September 28, 2003 includes a $0.3 million charge, primarily for severance and benefits related to the intended closing of our Picayune, Mississippi manufacturing facility.

(11) Represents annual advisory fee paid to Kelso.

(12) On November 20, 1997, the EITF issued a consensus on the accounting treatment of certain information systems and process reengineering costs. We were involved in a business information systems and process reengineering project that was subject to this pronouncement. Based on the EITF consensus, $2.0 million of the previously capitalized costs associated with this project were expensed in the first fiscal quarter of 1998 as a change in accounting. A one-time charge of $1.2 million, net of related tax benefit of $0.8 million, for the cumulative effect of this new accounting interpretation for business information systems and process reengineering activities reduced fiscal 1998 net earnings.

(13) EBITDA represents net income (loss) before depreciation and amortization, interest expense, net and provision for (benefit from) income taxes, as shown in the table below. Restructuring and impairment charges (adjustments), equity investor fees, gain on curtailment of postretirement benefits, other, net and merger-related transaction costs, collectively representing $33,000, $4.1 million, $20.5 million, $2.1 million, $2.0 million and $1.2 million, in fiscal 1999, 2000, 2001 and 2002, for the period from September 30, 2002 to February 6, 2003 and for the period from February 7 to September 28, 2003, respectively, have not been added back to net income (loss) for purposes of calculating EBITDA. In addition, $13.1 million and $3.4 million for the period from September 30, 2002 to February 6, 2003, and for the period from February 7 to September 28, 2003, respectively, have not been added back to net income (loss) for purposes of calculating EBITDA. The $13.1 million for the period from September 30, 2002 to February 6, 2003 consists of $3.4 million included in cost of products sold (excluding depreciation and amortization) and $9.7 million in selling and administrative expense, which, in total, represent $12.6 million of compensation expense related to stock option payouts associated with the Transaction and $0.5 million of other expense associated with the Transaction. The $3.4 million for the period from February 7 to September 28, 2003 consists of $2.5 million included in cost of products sold (excluding depreciation and amortization) and $0.9 million in selling and administrative expense, which, in total, represent $1.2 million in stock-based compensation and $2.3 million in manufacturer s profit recorded in inventory primarily as a result of the Transaction.

We present EBITDA because it is one of the measures upon which management assesses our financial performance. Management also believes that EBITDA, which is commonly used as a measure of performance of companies in our industry, is frequently used by securities analysts, investors and other interested parties to measure our ability to service our debt and to determine our financial performance. While providing useful information, EBITDA should not be considered in isolation or as a substitute for consolidated statement of operations and cash flows data prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and should not be construed as an indication of a company s operating performance or as a measure of liquidity. Our definition of EBITDA is not calculated in the same way EBITDA will be calculated under either the indenture governing the Senior Subordinated Notes or our Credit Facility. Also, non-GAAP information presented by other companies may not be comparable to that presented herein, since each company may define non-GAAP measures differently.

Table of Contents

	Predecessor					Successor
	Fiscal Year Ended(a)				For the Period from September 30, 2002 to February 6, 2003	For the Period from February 7, 2003 to September 28, 2003
	1999	2000	2001	2002		
	(Dollars in thousands)					
Net income (loss) before cumulative effect of change in accounting	$ 5,627	$ (2,918)	$ (16,488)	$ 12,256	$ (9,067)	$ 5,865
Depreciation and amortization (b) (c)	17,246	22,412	20,713	19,582	6,091	16,835
Interest expense, net	14,733	16,657	15,747	13,109	11,190	16,935
Provision for (benefit from) income taxes	5,290	(334)	(6,157)	9,556	(4,791)	3,462
EBITDA	$ 42,896	$ 35,817	$ 13,815	$ 54,503	$ 3,423	$ 43,097

(a) We operate on a 52/53-week fiscal year ending on the Sunday closest to September 30 of the applicable year.

(b) Depreciation for fiscal 2000 and for fiscal 2002 includes an additional $2.5 million and $0.7 million, respectively, of depreciation related to shortened useful lives of certain computer systems.

(c) Depreciation for the period from February 7, 2003 to September 28, 2003 includes an additional $1.8 million of depreciation related to shortened useful lives of certain long-lined assets, primarily equipment.

(14) EBITDA margin is defined as the ratio of EBITDA relative to net sales.
(15) Our capital expenditures in fiscal 1999 included $18.9 million in expenditures related to the installation of new information technology systems.
(16) Investing activities for the period from February 7 to September 28, 2003 include $19.9 million in transaction costs related to the Transaction.
(17) Financing costs for the period from September 30, 2002 to February 6, 2003 include $0.4 million in financing costs incurred related to the Transaction. Financing activities for the period from February 7 to September 28, 2003 include $5.6 million in net cash provided from the Transaction and $10.5 million in financing costs incurred related to the Transaction.
(18) For purposes of determining the ratio of fixed charges, earnings are defined as earnings (loss) before income taxes, plus fixed charges. Fixed charges include interest on all indebtedness and one-third of rental expense on operating leases, which is representative of the interest factor. For fiscal 2000 and 2001, our fixed charges exceeded our earnings by $3.3 million and $22.2 million, respectively. For the period from September 30, 2002 to February 6, 2003, our fixed charges exceeded our earnings by $13.9 million.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with our consolidated financial statements and related notes included in this Form 10-K. We operate on a 52/53- week fiscal year ending on the Sunday closest to September 30 of the applicable year.

General

We are the leading North American manufacturer of steel containers for paint and certain other consumer and industrial products. Over 85% of our fiscal 2003 net sales were generated from product lines where we estimate that we had the leading market share in the United States. Our product offerings include a wide variety of steel containers such as paint, coffee, aerosol and specialty cans which are used by our customers to package a diverse range of end-use products which, in addition to paint and coffee, include household and personal care products, automotive after-market products, paint thinners and driveway and deck sealants. We also provide our customers with metal shearing, coating and printing services through our material center services business. We now manufacture rigid plastic containers, which include injection molded plastic pails and blow-molded tight head containers and drums. Our end-use markets have historically exhibited stable demand characteristics and our customer base includes leading participants in these markets. For fiscal 2003, paint cans, specialty cans, material center services, aerosol cans, coffee cans and steel pails represented 35%, 17%, 12%, 15%, 13% and 8% of our net sales, respectively.

Table of Contents

The SST Acquisition occurred in the last month of fiscal 2003. This acquisition and the related business were immaterial to fiscal 2003 results of operations and, accordingly, are discussed below only to the extent necessary.

Approximately 75% of our fiscal 2003 net sales were made to customers with whom we have contractual relationships. As is common in our industry, our contracts are generally requirements based, granting us all or a percentage of a customer s requirements for a period of time instead of specific commitments to unit volume, subject, in some cases, to the customer s right to receive competitive proposals for the products we are to furnish it under the contract, including proposals to reformulate the packaging to another material.

Pursuant to these provisions, one of our largest customers, Folgers, has notified us that commencing in October 2003 it plans to convert a significant portion of its steel packaging requirements to an alternative packaging that we do not manufacture, thereby reducing its purchases from us. Folgers has also notified us that it plans to convert the balance of its steel packaging requirements to such alternative packaging in March of fiscal 2004. Folgers actions did not have a material impact on our financial results for fiscal 2003. As a result of the decision by Folgers to convert all of its steel packaging requirements to such alternative packaging, we expect a reduction in revenue from this customer of approximately $48.0 million in fiscal 2004, depending principally on the exact timing of any such conversion, and by an additional amount of approximately $12.0 million in fiscal 2005.

As a result of this conversion, we intend to close our manufacturing facility in Picayune, Mississippi. We will relocate or terminate the workforce and dispose of or transfer certain equipment to other manufacturing facilities. We recorded a restructuring charge of approximately $0.3 million in the fourth quarter of fiscal 2003 (primarily related to severance and benefits) and expect to record an aggregated restructuring charge of approximately $0.4 to $0.6 million in fiscal 2004. The total restructuring charge will consist of severance and benefits, equipment disposition and other related costs associated with closing the Picayune facility. We expect to terminate approximately 80 employees related to the closing.

In addition to the restructuring charge, we have shortened the estimated remaining useful lives of certain long-lived assets, primarily equipment, associated with the manufacture of the steel packaging we supply to Folgers. The shortened useful lives resulted in approximately $1.8 million in additional depreciation expense in the fourth quarter of fiscal 2003 and we estimate approximately $4.9 million in fiscal 2004.

Our business is subject to moderate seasonality with demand for certain of our products generally higher in the second half of our fiscal year due primarily to higher demand for paint and related products during warmer periods. Our cost of products sold as a percentage of net sales generally decrease in the second half of our fiscal year due primarily to higher sales volumes which serve to absorb fixed costs and increase overall margins.

Raw materials used in our metal products include steel, energy, various coatings and inks and represent approximately 60% of our cost of products sold. Raw materials used in our plastic products include resin, energy and colorant. We purchase all raw materials we require from outside sources. Steel is the largest component of our cost of products sold. Historically, we have generally been able to increase the price of our products to reflect increases in the price of steel, but we cannot be sure that we will be able to do so in the future.

The following are the principal initiatives relating to exit liability and restructuring and impairment charges taken in the past three fiscal years:

Fiscal 2003. As a result of Folgers planned conversion to alternative packaging that we do not manufacture, we intend to close our Picayune, Mississippi manufacturing facility. The closing will result in the relocation or termination of the workforce and disposition or transfer of certain equipment to other manufacturing facilities. We recorded a restructuring charge of approximately $0.3 million in the fourth quarter of fiscal 2003 (primarily related to severance and benefits), and we expect to record an aggregated restructuring charge of approximately $0.4 to $0.6 million in fiscal 2004. The total restructuring charge will consist of severance and benefits, equipment disposition and other related costs associated with closing the Picayune facility. We expect to terminate approximately 80 employees related to this closing.

In addition to this restructuring charge, we shortened the estimated remaining useful lives of certain long-lived assets, primarily equipment, associated with the manufacture of the steel packaging supplied to the customer discussed above. The shortened useful lives resulted in approximately $1.8

Table of Contents

million in additional depreciation expense in the fourth quarter of fiscal 2003, and we estimate additional depreciation expense of approximately $4.9 million in fiscal 2004 related to these shortened useful lives.

Prior to the Transaction, we recognized a reduction in restructuring expense of approximately $0.5 million primarily to reflect revised expectations of future lease payments for closed facilities. At February 7, 2003, our senior management committed to a plan to exit our Southwest manufacturing facility in Dallas, Texas. In conjunction with this decision, we established an exit liability of $1.1 million for closing the facility. This reserve includes severance and benefit costs of approximately $0.5 million and estimated facility closure costs of approximately $0.6 million.

Fiscal 2002. During the third quarter of fiscal 2002, an additional $1.2 million restructuring charge was recorded due to a change in our previous estimate of the costs related to the closure of our Elizabeth, New Jersey manufacturing facility, which is described immediately below. Due to the weakening of both the general economy and the real estate market in the northeastern United States, we revised our estimate for future leasehold commitments to allow additional time to locate a subtenant for this facility.

Fiscal 2001. During the third quarter of fiscal 2001, we recorded a $21.5 million restructuring and impairment charge related primarily to the closing of two manufacturing facilities and the write-down of intangible assets and equipment held for disposal as a result of that closing. The $21.5 million charge included a $16.2 million charge for asset impairments and a $5.3 million restructuring charge. The $16.2 million asset impairment charge included the write-off of $0.5 million in goodwill, $3.7 million in other intangibles and $12.0 million in redundant equipment at the manufacturing facilities that were closed. The redundant equipment was taken out of service in the third quarter. Facility closure costs, consisting primarily of future lease obligations, related to the closing of our manufacturing facilities in Elizabeth, New Jersey and Garland, Texas. All 208 of the planned employee terminations were completed and the manufacturing facilities closed by September 30, 2001.

Recent Acquisition

On August 25, 2003, we acquired substantially all of the assets, including working capital, of SST Industries for approximately $23.2 million in cash. The acquisition was financed with borrowings under our $90 million credit facility.

SST Industries, which is based in Loveland, Ohio, manufactures rigid plastic containers for industrial packaging markets, including injection-molded plastic pails and blow-molded tight head containers and drums. The acquisition of SST Industries allows us to extend our product offerings into a complementary section of the container market.

Results of Operations

Year ended September 28, 2003 (fiscal 2003) compared to year ended September 29, 2002 (fiscal 2002).

In the following discussion, comparisons are made between fiscal 2003 and fiscal 2002, notwithstanding the presentation in our consolidated statements of income for fiscal 2003 of the periods from September 30, 2002 to February 6, 2003 (Predecessor), and February 7, 2003 to

September 28, 2003 (Successor). The beginning of the partial period ended September 28, 2003 coincides with the merger transaction dated February 7, 2003. We do not believe a discussion of the various periods presented for fiscal 2003 in the consolidated statements of income would be meaningful and, accordingly, we have prepared the discussion of our results of operations by comparing fiscal 2003 with fiscal 2002 without regard to the differentiation between Predecessor and Successor results of operations for the periods ended February 6, 2003 and September 28, 2003.

Table of Contents

The following table reconciles the fiscal 2003 statements of operations with the discussion of the results of operations that follows.

($ in thousands)	For the Periods From February 7, 2003 to September 28, 2003 (Successor)	September 30, 2002 to February 6, 2003 (Predecessor)	Fiscal 2003 (Combined)
Net sales	$ 364,384	$ 186,726	$ 551,110
Cost of products sold (excluding depreciation and amortization	311,447	166,383	477,830
Depreciation and amortization	16,835	6,091	22,926
Selling and administrative expense	8,675	14,875	23,550
Merger-related transaction costs		2,488	2,488
Restructuring and impairment charge (adjustment)	260	(460)	(200)
Interest expense, net	16,935	11,190	28,125
Equity investor fees	349		349
Other, net	556	17	573
Total costs, expenses and other	355,057	200,584	555,641
Income (loss) before income taxes	9,327	(13,858)	(4,531)
Provision for (benefit from) income taxes	3,462	(4,791)	(1,329)
Net income (loss)	$ 5,865	$ (9,067)	$ (3,202)

Net Sales. Net sales increased 4.5% in fiscal 2003 to $551.1 million from $527.6 million in fiscal 2002. The increase in net sales results primarily from new business and higher market shares gained by the Company during the fiscal year, particularly in paint and aerosol cans, and, to a lesser extent, from the SST Acquisition on August 25, 2003.

Cost of Products Sold. Cost of products sold, excluding depreciation and amortization, increased 4.6% to $477.8 million during fiscal 2003 from $456.8 million in fiscal 2002. Excluding $5.6 million in Transaction costs, which include the settlement of outstanding options, the recognition of manufacturer s profit in beginning inventory, and $0.2 million in stock-based compensation, cost of products sold, excluding depreciation and amortization, as a percentage of net sales for fiscal 2003 decreased to 85.6% from 86.7% for fiscal 2002. This decrease in cost of products sold, excluding depreciation and amortization, Transaction costs and stock-based compensation reflects continued improvements in overall productivity and cost.

Depreciation and Amortization. Depreciation and amortization expense for fiscal 2003 was $22.9 million compared to $19.6 million for fiscal 2002. Fiscal 2002 included $2.3 million of goodwill amortization that was not recorded in fiscal 2003 due to Company s adoption of Statement of Financial Accounting Standards (SFAS) 142 *Goodwill and Other Intangible Assets* at the beginning of fiscal 2003. During fiscal 2003, depreciation and amortization expense increased by $4.7 million due to increased asset values as a result of the Transaction. Fiscal 2003 also includes $1.8 million of additional depreciation for shortened useful lives on assets to be disposed of in connection with the planned fiscal 2004 closure of our Picayune, Mississippi manufacturing facility.

Selling and Administrative Expenses. Selling and administrative expenses were $23.6 million for fiscal 2003 compared to $14.2 million for fiscal 2002. Included in fiscal 2003 selling and administrative expenses was $9.7 million of stock option payout expense related directly to the Transaction and $0.9 million of compensation expense related to stock options issued during fiscal 2003. Excluding the effect of the stock option related expenses, selling and administrative expenses for fiscal 2003 decreased $1.2 million to $12.0 million generally as a result of ongoing cost reduction initiatives.

Merger-Related Transaction Costs. During fiscal 2003 and fiscal 2002, we expensed $2.5 million and $1.5 million, respectively, of merger-related transaction costs, which consisted primarily of professional fees related to the Transaction.

Table of Contents

Restructuring and Impairment Charge (Adjustment). During fiscal 2002, we recorded a $1.2 million restructuring charge related to ongoing lease payments for a plant in Elizabeth, New Jersey. Included in fiscal 2003 was a $(0.5) million restructuring adjustment representing a change in estimated future lease payments on this facility. During the fourth quarter of fiscal 2003, we recorded a $0.3 million restructuring charge in association with the planned closure of our Picayune, Mississippi manufacturing facility as described above.

Interest Expense, Net. As a result of the transaction, comparisons of interest expense, net between fiscal 2003 and fiscal 2002 are not meaningful as indicated in the following discussion. Interest expense, net, increased $15.0 million to $28.1 million in fiscal 2003 from $13.1 million in fiscal 2002. Interest expense, net, in fiscal 2003 includes $8.7 million of Transaction related expenses as follows: $5.1 million related to the tender, consent and redemption premiums and $1.7 million related to the write-off of deferred financing fees, each associated with redemption of our $100.0 million 101/4% Senior Subordinated Notes due 2007, and $1.9 million related to the write-off of a bridge loan commitment fee, which was expensed when the bridge loan commitment expired, undrawn, at the closing of the Transaction. Excluding the $8.7 million in Transaction related interest, interest expense, net, increased $6.3 million in fiscal 2003 over fiscal 2002, primarily related to higher debt associated with financing the Transaction.

As a result of the increase in senior subordinated debt from $100.0 million to $200.0 million in fiscal 2003 to finance the Transaction, annual interest expense will increase approximately $9.8 million annually. In fiscal 2003, interest expense on the $200 million Senior Subordinated Noted due 2010 was included in interest expense from February 7, 2003.