VALERO ENERGY CORP/TX
Form 11-K
June 24, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# FORM 11-K

ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

Commission File Number 1-13175

VALERO ENERGY CORPORATION THRIFT PLAN

VALERO ENERGY CORPORATION
One Valero Way
San Antonio, Texas 78249

VALERO ENERGY CORPORATION THRIFT PLAN

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All other supplemental schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 are omitted because they are not applicable or not required.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Valero Energy Corporation Benefit Plans Administrative Committee:

We have audited the accompanying statements of net assets available for benefits of the Valero Energy Corporation Thrift Plan (the Plan) as of December 31, 2010 and 2009, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2010 and 2009, and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule H, line 4i–schedule of assets (held at end of year) as of December 31, 2010 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

San Antonio, Texas
June 24, 2011

VALERO ENERGY CORPORATION THRIFT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

| | December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Assets | | |
| Investments: | | |
| Valero Energy Corporation common stock | $248,364,581 | $198,925,762 |
| Common/collective trusts | 375,834,812 | 346,976,790 |
| Mutual funds | 394,357,279 | 356,211,233 |
| Self-directed investments | 208,382,101 | 171,383,566 |
| Total investments at fair value | 1,226,938,773 | 1,073,497,351 |
| Receivables: | | |
| Participant loans | 40,108,557 | 39,188,060 |
| Interest and dividends | 501,089 | 500,245 |
| Due from brokers for securities sold | 268,564 | 76,274 |
| Total receivables | 40,878,210 | 39,764,579 |
| Cash | 476,348 | 473,361 |
| Total assets reflecting all investments at fair value | 1,268,293,331 | 1,113,735,291 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | — | 12,632,469 |
| Net assets available for benefits | $1,268,293,331 | $1,126,367,760 |

See Notes to Financial Statements.

VALERO ENERGY CORPORATION THRIFT PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

| | Years Ended December 31, | |
|---|---|---|
| | 2010 | 2009 |
| Investment income: | | |
| Interest income | $2,180,966 | $2,559,899 |
| Dividend income | 16,543,699 | 20,396,006 |
| Net appreciation in fair value of investments | 148,314,721 | 82,338,217 |
| Total investment income | 167,039,386 | 105,294,122 |
| Contributions: | | |
| Participant | 64,971,653 | 71,097,615 |
| Employer, net of forfeitures | 35,329,179 | 36,619,217 |
| Total contributions | 100,300,832 | 107,716,832 |
| Total additions | 267,340,218 | 213,010,954 |
| Deductions: | | |
| Withdrawals by participants | (125,253,072) | (95,746,922) |
| Total deductions | (125,253,072) | (95,746,922) |
| Asset transfers in from Valero Energy Corporation Savings Plan | 841 | 424 |
| Asset transfers out to Valero Energy Corporation Savings Plan | (162,416) | (1,390,703) |
| Net increase in net assets available for benefits | 141,925,571 | 115,873,753 |
| Net assets available for benefits: | | |
| Beginning of year | 1,126,367,760 | 1,010,494,007 |
| End of year | $1,268,293,331 | $1,126,367,760 |

See Notes to Financial Statements.

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF THE PLAN

As used in this report, the term “Valero” may refer, depending upon the context, to Valero Energy Corporation, one or more of its consolidated subsidiaries, or all of them taken as a whole.

Valero is a publicly held independent refining and marketing company with approximately 20,000 employees. As of December 31, 2010, Valero owned 14 refineries in the United States, Canada, and Aruba with a combined total throughput capacity of approximately 2.6 million barrels per day. Valero markets refined products through an extensive bulk and rack marketing network and a network of approximately 5,800 retail and wholesale branded outlets in the United States, Canada, and Aruba under various brand names including Valero®, Diamond Shamrock®, Shamrock®, Ultramar®, and Beacon®. Valero also operated 10 ethanol plants in the Midwest with a combined capacity of approximately 1.1 billion gallons per year.

Valero’s common stock trades on the New York Stock Exchange under the symbol “VLO.”

The following description of the Valero Energy Corporation Thrift Plan (Thrift Plan) provides only general information. Participants should refer to the plan document for a complete description of the Thrift Plan’s provisions.

General
The Thrift Plan is a qualified profit-sharing plan covering eligible employees of Valero. The Thrift Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Effective November 1, 2009, a portion of the Thrift Plan was designated as an employee stock ownership plan (ESOP), as defined in Section 4975(e)(7) of the Internal Revenue Code of 1986, as amended (the Code), and Department of Labor Regulation §2550.407d-6. The Thrift Plan is now comprised of an ESOP portion and a non-ESOP portion. The ESOP portion consists only of investments in Valero common stock. A dividend payout feature allows participants to elect to receive any future dividends from Valero common stock in cash as taxable distributions or to continue to have such dividends reinvested in the Thrift Plan. The designation as an ESOP has no other effect on benefits under the Thrift Plan.

Valero is the plan sponsor. The Valero Energy Corporation Benefit Plans Administrative Committee (Administrative Committee), consisting of persons selected by Valero, administers the Thrift Plan. The members of the Administrative Committee serve without compensation for services in that capacity. Following the merger of Merrill Lynch Bank & Trust Co., FSB (Merrill Lynch) into Bank of America, N.A. (BANA) on November 2, 2009, BANA became the successor trustee under the Thrift Plan and has custody of the securities and investments of the Thrift Plan through a trust. Merrill Lynch, Pierce, Fenner & Smith Incorporated, an affiliate of BANA, is the record keeper for the Thrift Plan.

Participation
Participation in the Thrift Plan is voluntary. Employees are immediately eligible to participate in the Thrift Plan and receive employer matching contributions. However, ethanol plant, retail store, and certain other retail employees are not eligible to participate in the Thrift Plan as they are eligible to participate in the Valero Energy Corporation Savings

Plan (the Savings Plan), another plan sponsored by Valero.

VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

In the second quarter of 2009, Valero acquired seven ethanol plants from VeraSun Energy Corporation (VeraSun) and employees of those ethanol plants became employees of Valero (ethanol employees). Beginning April 1, 2009, ethanol employees located at the Valero headquarters became immediately eligible to participate in the Thrift Plan and receive employer matching contributions.

Continuous service begins the first day for which an employee is paid and terminates on the date of the employee's retirement, death, or other termination from service. If an employee's employment is terminated and the employee is subsequently reemployed within 12 months, the period between the severance from service and the date of reemployment is generally included in continuous service for vesting purposes. If the employee is not reemployed within 12 months, the employee is deemed to have incurred a break in service.

Asset Transfers
From time to time, asset transfers occur between the Savings Plan and the Thrift Plan due to the transfer or reemployment of employees to or from retail store or ethanol plant positions.

Contributions
Participants can make basic contributions of not less than 1 percent or more than 8 percent of their annual total salary immediately upon commencement of participation. In addition, participants who make a basic contribution of 8 percent can also make a supplemental contribution of up to 22 percent of their annual total salary. Participants may change their basic or supplemental contributions at any time. Annual total salary represents a participant's annual base salary together with commissions, overtime, job upgrade pay, and shift differential pay and is not reduced for pre-tax contributions for the purchase of benefits and to reimbursement accounts for medical and child care expenses under Valero's FlexPlan benefits program nor for pre-tax contributions under the Thrift Plan itself. Annual total salary also includes compensation paid by the later of (i) 2½ months after an employee's severance from employment or (ii) the end of the plan year that includes the date of the employee's severance from employment, if the compensation would have been paid to the employee during his employment. Unused vacation pay paid to participants following a separation from service is not included in annual total salary. Prior to December 1, 2010, participants had the option to affirmatively elect to include bonus payments as part of their annual total salary. Effective December 1, 2010, participants no longer have the option to make contributions from their bonus award.

Participants elect to make pre-tax and/or after-tax contributions to the Thrift Plan. Participants may also make designated Roth 401(k) contributions to the Thrift Plan, which are included in the participant's gross income at the time of the contribution.

Any employee may make rollover contributions and eligible Roth 401(k) rollover contributions to the Thrift Plan. For the years ended December 31, 2010 and 2009, rollover contributions totaled $2,230,767 and $1,697,958, respectively, and are included in participant contributions.

The Code establishes an annual limitation on the amount of individual pre-tax and/or Roth 401(k) salary deferral contributions. The limit was $16,500 for each of the years ended December 31, 2010 and 2009. Participants who attained or were over age 50 before the end of the year were eligible to make catch-up contributions of up to $5,500 for each of the years ended December 31, 2010 and 2009. All or any portion of an eligible participant's catch-up contribution can be designated as a Roth 401(k) catch-up contribution.

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VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

Through December 31, 2009, Valero made an employer contribution to the Thrift Plan equal to $0.75 for every $1.00 of a participant's contributions up to 8 percent of annual total salary. Effective January 1, 2010, Valero makes an employer contribution equal to $1.00 for every $1.00 of a participant's contributions up to 6 percent of annual total salary.

All employer contributions are made in cash and are invested according to the investment options elected for the participant contributions.

Participant Accounts
Individual accounts are maintained for each participant. Each participant's account is adjusted to reflect participant contributions, employer contributions, withdrawals, income, expenses, gains, and losses attributable to the participant's account.

Vesting
Participants are vested 100 percent in their participant account at all times. Participants vest in their employer account at the rate of 20 percent per year and are 100 percent vested after five years of continuous service.

On June 1, 2010, Valero sold its refinery in Delaware City, Delaware to wholly owned subsidiaries of PBF Energy Partners LP. On December 17, 2010, Valero sold its refinery in Paulsboro, New Jersey to PBF Holding Company LLC. As a result of these sales, employees at the Delaware City and Paulsboro Refineries were terminated by Valero. Those terminated employees who were participants in the Thrift Plan became fully vested in their employer accounts if they were not yet fully vested.

Effective April 1, 2009, uninterrupted service of each VeraSun employee immediately prior to the closing of the VeraSun agreement was recognized towards vesting rights for participants of the Thrift Plan.

Forfeitures
The Thrift Plan provides that if a participant incurs a break in service prior to becoming vested in any part of his employer account, the participant's prior continuous service will not be disregarded for purposes of the Thrift Plan until the break in service equals or exceeds five successive years. Upon a participant's termination of employment for other than death, total and permanent disability, or retirement, the non-vested portion of the participant's employer account is forfeited upon distribution. In the event the participant is reemployed prior to incurring a break in service of five successive years, any amounts forfeited under this provision may be reinstated.

Valero's employer contributions are reduced by any forfeited non-vested accounts of terminated participants and increased by the value of prior forfeited non-vested accounts for participants who are rehired within five years from date of termination. Employer contributions for the years ended December 31, 2010 and 2009 were reduced by $188,000 and $654,390, respectively, related to forfeited non-vested accounts. As of December 31, 2010 and 2009, forfeited non-vested accounts available to reduce future employer contributions were $20,941 and $54,431, respectively.

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VALERO ENERGY CORPORATION THRIFT PLAN
NOTES TO FINANCIAL STATEMENTS (Continued)

Investment Options
Participants direct the investment of 100 percent of their participant contributions and may transfer existing account balances into any of the investment options offered. These investment options include Valero common stock, common/collective trusts, mutual funds, and other self-directed investments.

Participants may not designate more than 20 percent of their contributions to be invested in Valero common stock. Transfers into Valero common stock will not be permitted to the extent a transfer would result in more than 50 percent of the aggregate value of the participant's account being invested in Valero common stock.

Withdrawals and Distributions
Participants may make the following types of withdrawals of all or part of their respective accounts:

- one withdrawal during any six-month period from a participant's after-tax account and rollover contribution account with no suspension of future contributions;
- upon completion of five years of participation in the Thrift Plan, one withdrawal from a participant's after-tax account and employer account, with a similar withdrawal allowed 36 months after the date of a previous withdrawal under this provision, with no suspension of future contributions;
- upon reaching age 59½, one withdrawal during any six-month period from a participant's account and employer account; or
- upon furnishing proof of financial necessity, one withdrawal during any six-month period from a participant's account and the vested portion of the employer account, but, for withdrawals of pre-tax amounts, not to exceed the aggregate amount of the participant's pre-tax contributions. Individuals who receive a withdrawal for financial necessity will be suspended from making contributions to the Thrift Plan for a period of at least six months.

Upon a participant's death, total and permanent disability, or retirement, the participant or the beneficiary of a deceased participant is entitled to a distribution of the entire value of the participant's account and employer account regardless of whether or not the accounts are fully vested. Upon a participant's termination for any other reason, the participant is entitled to a distribution of only the value of the participant's account and the vested portion of the participant's employer account. Distributions resulting from any of these occurrences may be received in a single sum in whole shares of Valero common stock and cash, or entirely in cash. Alternatively, a participant or beneficiary may elect to receive this distribution in the form of equal monthly installments over a period not exceeding the lesser of (i) five years or (ii) the participant's life expectancy or the joint life expectancy of the participant and the participant's designated beneficiary. In addition, when the value of a distribution to a participant exceeds $1,000, the distribution may be made prior to the participant attaining age 65 only with the participant's consent.

Terminated participants may elect to have the Thrift Plan trustee hold their accounts for distribution to them at a date not later than April 1 of the calendar year after which they attain age 70½. In this event, terminated participants continue to share in the income, expenses, gains, and lo" style="border-bottom: #e2eef6;">
—

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

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| | | |
|---|---|---|
| | | 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.*

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**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 (Unaudited) | July 2, 2005 (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 | |

**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 |

| | BPC Holding Corporation (Parent) | Berry Plastics Corporation (Issuer) | Combined Guarantor Subsidiaries | Combined Non-guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---|---|---|---|---|---|
| **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 | (18,821) | 18,343 | — | 452,691 |
| Effect of exchange rate changes on cash | — | — | — | 12 | — | 12 |
| Net increase (decrease) in cash and cash equivalents | — | (36) | 4,956 | 469 | — | 5,389 |
| | — | 85 | 42 | 137 | — | 264 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Cash and cash equivalents at beginning of period | | | | | | |
| Cash and cash equivalents at end of period | $ — | $ 49 | $ 4,998 | $ 606 | $ ¾ | $ 5,653 |

Item 2.

*Management's Discussion and Analysis of Financial Condition and Results of Operations*

Unless the context requires otherwise, references in this Management's Discussion and Analysis of Financial Condition and Results of Operations to "BPC Holding" or "Holding" refer to BPC Holding Corporation, references to "we," "our" or "us" refer to BPC Holding Corporation together with its consolidated subsidiaries, and references to "Berry Plastics" or the "Company" refer to Berry Plastics Corporation, a wholly owned subsidiary of BPC Holding Corporation. You should read the following discussion in conjunction with the consolidated financial statements of Holding and its subsidiaries and the accompanying notes thereto, which information is included elsewhere herein. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in our Form 10-K for the fiscal year ended December 31, 2005 (the "2005 10-K") in the section titled "Risk Factors" and other risk factors identified from time to time in our periodic filings with the Securities and Exchange Commission. Our actual results may differ materially from those contained in any forward-looking statements. You should read the explanation of the qualifications and limitations on these forward-looking statements on page 2 of this report.

**Critical Accounting Policies**

We disclose those accounting policies that we consider to be significant in determining the amounts to be utilized for communicating our consolidated financial position, results of operations and cash flows in the second note to our consolidated financial statements in our 2005 10-K. Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results are likely to differ from these estimates, but management does not believe such differences will materially affect our financial position or results of operations, although no assurance can be given as to such affect. We believe that the following accounting policies are the most critical because they have the greatest impact on the presentation of our financial condition and results of operations.

*Allowance for doubtful accounts*. We evaluate our allowance for doubtful accounts on a quarterly basis and review any significant customers with delinquent balances to determine future collectibility. We base our determinations on legal issues (such as bankruptcy status), past history, current financial and credit agency reports, and the experience of our credit representatives. We reserve accounts that we deem to be uncollectible in the quarter in which we make the determination. We maintain additional reserves based on our historical bad debt experience. We believe that, based on past history and our credit policies, the net accounts receivable are of good quality. A ten percent increase or decrease in our bad debt experience would not have a material impact on our results of operations. Our allowance for doubtful accounts was $6.4 million and $5.8 million as of July 1, 2006 and December 31, 2005, respectively.

*Inventory obsolescence*. We evaluate our reserve for inventory obsolescence on a quarterly basis and review inventory on-hand to determine future salability. We base our determinations on the age of the inventory and the experience of our personnel. We reserve inventory that we deem to be not salable in the quarter in which we make the determination. We believe, based on past history and our policies and procedures, that our net inventory is salable. A ten percent increase or decrease in our inventory obsolescence experience would not have a material impact on our results of operations. Our reserve for inventory obsolescence was $8.4 million and $8.5 million as of July 1, 2006 and December 31, 2005, respectively.

*Medical insurance*. We offer our employees medical insurance that is primarily self-insured by us. As a result, we accrue a liability for known claims as well as the estimated amount of expected claims incurred but not reported. We evaluate our medical claims liability on a quarterly basis and obtain an independent actuarial analysis on an annual basis. Based on our analysis, we believe that our recorded medical claims liability should be sufficient. A ten percent increase or decrease in our medical claims experience would not have a material impact on our results of operations. Our accrued liability for medical claims was $5.1 million, including reserves for expected medical claims incurred but not reported, as of July 1, 2006 and December 31, 2005.

*Workers' compensation insurance.* Starting in fiscal 2000, we converted the majority of our facilities to a large deductible program for workers' compensation insurance. On a quarterly basis, we evaluate our liability based on third-party adjusters' independent analyses by claim. Based on our analysis, we believe that our recorded workers' compensation liability should be sufficient. A ten percent increase or decrease in our workers' compensations claims experience would not have a material impact on our results of operations. Our accrued liability for workers' compensation claims was $4.3 million and $4.7 million as of July 1, 2006 and December 31, 2005, respectively.

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

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

*Goodwill and Other Indefinite Lived Intangible Assets*. In accordance with the methodology described in SFAS No. 142, "Goodwill and Other Intangible Assets," we review our goodwill and other indefinite lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Impairment losses are recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. In addition, we annually review our goodwill and other indefinite lived intangible assets for impairment. No impairments were recorded in the financial statements included in this Form 10-Q.

*Deferred Taxes and Effective Tax Rates.* We estimate the effective tax rates and associated liabilities or assets for each legal entity in accordance with FAS 109. We use tax-planning to minimize or defer tax liabilities to future periods. In recording effective tax rates and related liabilities and assets, we rely upon estimates, which are based upon our interpretation of United

States and local tax laws as they apply to our legal entities and our overall tax structure. Audits by local tax jurisdictions, including the United States Government, could yield different interpretations from our own and cause the Company to owe more taxes than originally recorded. For interim periods, we accrue our tax provision at the effective tax rate that we expect for the full year. As the actual results from our various businesses vary from our estimates earlier in the year, we adjust the succeeding interim periods' effective tax rates to reflect our best estimate for the year-to-date results and for the full year. As part of the effective tax rate, if we determine that a deferred tax asset arising from temporary differences is not likely to be utilized, we will establish a valuation allowance against that asset to record it at its expected realizable value.

*Pension.* Pension benefit costs include assumptions for the discount rate, retirement age, and expected return on plan assets. Retiree medical plan costs include assumptions for the discount rate, retirement age, and health-care-cost trend rates. These assumptions have a significant effect on the amounts reported. In addition to the analysis below, see our 2005 10-K for additional information regarding our retirement benefits. Periodically, we evaluate the discount rate and the expected return on plan assets in our defined benefit pension and retiree health benefit plans. In evaluating these assumptions, we consider many factors, including an evaluation of the discount rates, expected return on plan assets and the health-care-cost trend rates of other companies; our historical assumptions compared with actual results; an analysis of current market conditions and asset allocations; and the views of advisers. In evaluating our expected retirement age assumption, we consider the retirement ages of our past employees eligible for pension and medical benefits together with our expectations of future retirement ages. We believe our pension and retiree medical plan assumptions are appropriate based upon the above factors. A one percent increase or decrease in our health-care-cost trend rates would not have a material impact on the results of operations of the Company. Also, a one quarter percentage point change in our discount rate or expected return on plan assets would not have a material impact on the results of operations of the Company.

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

**Acquisitions and Recent Development**

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

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 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.

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.

***Results of Operations***

**Comparison of the 13 Weeks Ended July 1, 2006 (the "Quarter") and the 13 Weeks Ended July 2, 2005 (the "Prior Quarter")**

*Net Sales*. Net sales increased 33% to $375.1 million for the Quarter from $282.9 million for the Prior Quarter. This $92.2 million increase included approximately $14.6 million or 5% due to the pass through of higher resin costs to our customers, increased base business volume of approximately $2.3 million or 1%, and acquisition volume of $75.3 million or 27%. Our resin pounds sold, excluding acquired businesses, increased by 1% in the Quarter over the Prior Quarter. The following discussion in this section provides a comparison of net sales by business segment. Rigid open top net sales increased $18.3 million from the Prior Quarter to $222.8 million for the Quarter. The increase in rigid open top net sales was primarily a result of increased selling prices and base business volume growth in several of the division's product lines with significant volume growth in the thermoformed polypropylene drink cup line of 26%. Rigid closed top net sales increased $73.9 million from the Prior Quarter to $152.3 million for the Quarter. The increase in rigid closed top net sales can be primarily attributed to net sales in the Quarter from the Kerr Acquisition of $75.3 million and increased selling prices on base business partially offset by softness in the overcaps and base closure businesses.

*Gross Profit*. Gross profit increased by $26.4 million to $75.8 million (20% of net sales) for the Quarter from $49.4 million (17% of net sales) for the Prior Quarter. This 53% dollar increase includes the combined impact of the additional sales volume noted above, productivity improvement initiatives, our financial and mechanical resin hedging programs, and the timing effect of the 5% increase in net selling prices due to higher resin costs passed through to our customers. The increase in gross profit percentage from 17% in the Prior Quarter to 20% in the Quarter can be primarily attributed to the 5% increase in net selling prices due to higher resin costs passed through to our customers partially offset by increased raw material costs as well as improvements in the margins of acquired businesses. In addition, in the Prior Quarter, an expense of $0.7 million was charged to cost of goods sold related to the write-up and subsequent sale of Kerr's finished goods inventory to fair market value in accordance with purchase accounting. Significant productivity improvements were made since the Prior Quarter, including the installation of state-of-the-art equipment at several of our facilities. These productivity improvements were more than offset by increased costs from inflation such as higher energy prices.

*Operating Expenses*. Selling expenses increased by $2.1 million to $9.7 million for the Quarter from $7.6 million for the Prior Quarter principally as a result of increased selling expenses associated with higher sales, including the Kerr Acquisition, partially offset by cost reduction efforts. General and administrative expenses increased by $7.5 million from $9.5 million for the Prior Quarter to $17.0 million for the Quarter primarily as a result of general and administrative expenses from the Kerr Acquisition, increased accrued employee bonus expense, and $1.0 million of stock option expense recorded in the Quarter. Research and development expenses increased by $0.5 million over the Prior Quarter primarily due to the Kerr Acquisition and increased development efforts. Amortization of intangibles increased $3.3 million from the Prior Quarter to $5.3 million in the Quarter primarily due to the amortization of intangible assets from the Kerr Acquisition. Transition expenses related to integrating acquired businesses were $2.7 million and $0.4 million in the Quarter and Prior Quarter, respectively. This increase of $2.3 million is primarily due to costs associated with the Kerr Acquisition in the Quarter.

*Interest Expense, Net*. Net interest expense decreased $0.9 million to $22.7 million for the Quarter compared to $23.6 million for the Prior Quarter primarily due to a write off of unamortized deferred financing fees of $7.0 million as a result of an amendment to our senior credit facility in the Prior Quarter partially offset by interest expense on additional indebtedness utilized to finance the Kerr Acquisition.

*Income Taxes.* For the Quarter, we recorded income tax expense of $7.4 million or an effective tax rate of 43%. The effective tax rate is greater than the statutory rate due to the impact of state taxes and foreign location losses for which no benefit was currently provided. The increase of $5.0 million from $2.4 million in the Prior Quarter, or an effective tax rate of 57%, was primarily attributed to the increase in income before income taxes.

*Net Income*. Net income was $9.7 million for the Quarter compared to $1.8 million for the Prior Quarter for the reasons discussed above.

**26 Weeks Ended July 1, 2006 ("YTD")**
**Compared to 26 Weeks Ended July 2, 2005 ("Prior YTD")**

*Net Sales*. Net sales increased $222.9 million, or 43%, to $731.1 million for the YTD from $508.2 million for the Prior YTD with an approximate 7% increase in net selling price due to higher resin costs passed through to our customers. Our base business volume, excluding selling price changes and acquired business, increased by approximately $3.6 million or 1% in the YTD over the Prior

YTD. Our resin pounds sold, excluding acquired businesses, increased by 1% in the YTD over the Prior YTD. The following discussion in this section provides a comparison by business segment. Rigid open top net sales increased $40.7 million from the Prior YTD to $429.1 million for the YTD. The increase in rigid open top net sales was primarily a result of increased selling prices and base business volume growth in several of the division's product lines with significant volume growth in the thermoformed polypropylene drink cup line of 24%. Rigid closed top net sales increased $182.2 million from the Prior YTD to $302.0 million for the YTD. The increase in rigid closed top net sales can be primarily attributed to net sales in the YTD from the Kerr Acquisition and Mexico Acquisition of $181.9 million and $1.8 million, respectively, and increased selling prices partially offset by softness in the overcaps and base closure businesses.

G*ross Profit*. Gross profit increased by $56.4 million to $147.1 million (20% of net sales) for the YTD from $90.7 million (18% of net sales) for the Prior YTD. This 62% dollar increase was primarily attributed to the increased sales volume noted above. The increase in gross profit percentage from 18% in the Prior YTD to 20% in the YTD can be primarily attributed to the 7% increase in net selling prices due to higher resin costs passed through to our customers partially offset by increased raw material costs as well as improvements in the margins of acquired businesses. In addition, in the Prior YTD, an expense of $0.7 million was charged to cost of goods sold related to the write-up and subsequent sale of Kerr's finished goods inventory to fair market value in accordance with purchase accounting. Significant productivity improvements were made since the Prior YTD, including the addition of state-of-the-art injection molding, thermoforming and post molding equipment at several of our facilities.

*Operating Expenses*. Selling expenses increased by $5.2 million to $20.1 million for the YTD from $14.9 million for the Prior YTD principally as a result of increased selling expenses associated with higher sales partially offset by cost reduction efforts. General and administrative expenses increased $13.4 million from $18.4 million for the Prior YTD to $31.8 million for the YTD primarily as a result of general and administrative expenses from the Kerr Acquisition, increased accrued employee bonus expense, and $2.0 million of stock option expense recorded YTD. Research and development expenses increased by $1.4 million over the Prior YTD primarily due to the Kerr Acquisition and increased development efforts. Amortization of intangibles increase of $6.9 million for the YTD from the Prior YTD is primarily due to the amortization of intangible assets from the Kerr Acquisition. Transition expenses related to integrating acquired businesses were $3.8 million and $0.7 million in the YTD and Prior YTD, respectively. This increase of $3.1 million is primarily due to costs associated with the Kerr Acquisition.

*Interest Expense, Net*. Net interest expense increased $7.3 million to $44.5 million for the YTD compared to $37.2 million for the Prior YTD primarily due to increased rates of interest on borrowings and increased borrowings to finance the Kerr Acquisition partially offset by a write off of unamortized deferred financing fees of $7.0 million as a result of an amendment to our senior credit facility in the Prior YTD.

*Income Taxes.* For the YTD, we recorded income tax expense of $14.7 million or an effective tax rate of 45%. The effective tax rate was greater than the statutory rate due to the impact of state taxes and foreign location losses for which no benefit was currently provided. The increase of $8.5 million from $6.2 million in the Prior YTD, or an effective tax rate of 53%, was attributed to the increase in income before income taxes.

*Net Income*. Net income was $17.9 million for the YTD compared to $5.6 million for the Prior YTD for the reasons discussed above.

***Liquidity and Capital Resources***

On July 22, 2002, we entered into a credit and guaranty agreement and a related pledge security agreement with a syndicate of lenders led by Goldman Sachs Credit Partners L.P., as administrative agent (the “Credit Facility”). On November 10, 2003, in connection with the 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, we 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 Plastics 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 September 30, 2005 and ends September 30, 2010 and $188,315,625 each quarter beginning December 31, 2010 and ending September 30, 2011. A key financial metric utilized in the calculation of the interest coverage and leverage ratios is bank compliance EBITDA. The following table reconciles our bank compliance EBITDA of $263.2 million for the twelve month period ended July 1, 2006 to net income.

| | 12 months ended July 1, 2006 |
|---|---|
| Bank compliance EBITDA | $ 263,196 |
| Net interest expense | (87,662) |
| Depreciation | (86,062) |
| Amortization | (22,505) |
| Income taxes | (22,882) |
| Gain on investment in Southern Packaging | 514 |
| Acquisition integration expense | (8,318) |
| Non-cash compensation | (4,128) |
| Net income | $ 32,153 |

While the determination of appropriate adjustments in the calculation of bank compliance EBITDA is subject to interpretation under the terms of the New Credit Facility, management believes the adjustments described above are in accordance with the covenants in the New Credit Facility, as discussed above. Bank compliance EBITDA should not be considered in isolation or construed as an alternative to our net income or other measures as determined in accordance with GAAP. In addition, other companies in our industry or across different industries may calculate bank covenants and related definitions differently than we do, limiting the usefulness of our calculation of bank compliance EBITDA as a comparative measure.

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 our 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%. At July 1, 2006, the Company had unused borrowing capacity under the New Credit Facility's revolving line of credit of $135.3 million.

On July 22, 2002, we completed an offering of $250.0 million aggregate principal amount of 10 ¾% Senior Subordinated Notes due 2012 (the "2002 Notes"). The net proceeds to us from the sale of the 2002 Notes, after expenses, were $239.4 million. The proceeds from the 2002 Notes were used in our refinancing. The 2002 Notes mature on July 15, 2012, and interest is payable semi-annually

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on January 15 and July 15 of each year. Holding and all of our domestic subsidiaries fully, jointly, severally, and unconditionally guarantee the 2002 Notes.

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

We are not required to make mandatory redemption or sinking fund payments with respect to the Notes. On or subsequent to July 15, 2007, the Notes may be redeemed at our option, in whole or in part, at redemption prices ranging from 105.375% in 2007 to 100% in 2010 and thereafter. Upon a change in control, as defined in the indenture under which the Notes were issued (the “Indenture”), each holder of Notes will have the right to require us to repurchase all or any part of such holder's Notes at a repurchase price in cash equal to 101% of the aggregate principal amount thereof plus accrued interest. The Indenture restricts our ability to incur additional debt and contains other provisions which could limit our liquidity.

Net cash provided by operating activities was $87.1 million for the YTD compared to $51.4 million for the Prior YTD. The increase of $35.7 million is primarily the result of improved operations as operating income before depreciation and amortization increased $46.2 million over the Prior YTD.

Net cash used for investing activities decreased from $498.7 million for the Prior YTD to $52.2 million for the YTD primarily as a result of the Kerr Acquisition in the Prior YTD. Capital spending of $52.2 million in the YTD included $6.1 million for buildings and systems, $14.2 million for molds, $22.4 million for molding and decorating machines, and $9.5 million for accessory equipment and systems. Capital expenditures for 2006 are expected to be approximately $90.0 million.

Net cash used for financing activities was $24.6 million for the YTD compared to $452.7 million provided by financing activities in the Prior YTD. This change of $477.3 million can be primarily attributed to the financing obtained in connection with the Kerr Acquisition in the Prior YTD. In addition, in June 2006, the Company made a voluntary prepayment of $20.0 million on the Company’s senior term loan facility.

Increased working capital needs occur whenever we experience strong incremental demand or a significant rise in the cost of raw material, particularly plastic resin. However, we anticipate that our cash interest, working capital and capital expenditure requirements for 2006 will be satisfied through a combination of funds generated from operating activities and cash on hand, together with funds available under the New Credit Facility. We base such belief on historical experience and the funds available under the New Credit Facility. However, we cannot predict our future results of operations and our ability to meet our obligations involves numerous risks and uncertainties, including, but not limited to, those described in the “Risk Factors” section of our 2005 10-K. In particular, increases in the cost of resin which we are unable to pass through to our customers on a timely basis or significant acquisitions could severely impact our liquidity. At July 1, 2006, our cash balance was $35.3 million, and we had unused borrowing capacity under the New Credit Facility’s borrowing base 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.

*Item 3. Quantitative and Qualitative Disclosures about Market Risk*

*Interest Rate Risk*

We are exposed to market risk from changes in interest rates primarily through our New Credit Facility. The New Credit Facility is comprised of (1) a $795.0 million term loan and (2) a $150.0 million revolving credit facility. At July 1, 2006, there were no borrowings outstanding on the revolving credit facility. The net outstanding balance of the term loan at July 1, 2006 was $767.1 million. The term loan bears interest at the Eurodollar rate plus the applicable margin. Future borrowings under the New Credit Facility bear interest, at our option, at either (1) the base rate, which is a rate per annum equal to the greater of the prime rate and the federal funds effective rate in effect on the date of determination plus 0.5% plus the applicable margin or (2) an adjusted Eurodollar Rate which is equal to the rate for Eurodollar deposits plus the applicable margin. We utilize interest rate instruments to reduce the impact of either increases or decreases in interest rates on its floating rate debt. Pursuant to a requirement in the Credit Facility, we entered into an interest rate collar arrangement in October 2002 to protect $50.0 million of the outstanding variable rate term loan debt from future interest rate volatility. Under the interest rate collar agreement, the Eurodollar rate with respect to the $50.0 million of outstanding variable rate term loan debt will not exceed 6.75% or drop below 1.97%. 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%. At July 1, 2006, the Eurodollar rate applicable to the term loan was 4.88%. If the Eurodollar rate increases 0.25% and 0.5%, we estimate an annual increase in our interest expense of approximately $1.2 million and $2.3 million, respectively.

*Plastic Resin Cost Risk*

We are exposed to market risk from changes in plastic resin prices that could impact our results of operations and financial condition. We manage our exposure to these market risks through our normal operations with purchasing negotiation, mechanical hedging, switching between certain resin products and, when deemed appropriate, by using derivative financial instruments in accordance with established policies and procedures. The derivative financial instruments generally used are forward contracts. The derivative financial instruments utilized by the Company in its hedging activities are considered risk management tools and are not used for trading purposes.

As part of our risk management strategy, in the fourth quarter of 2004, we entered into resin forward hedging transactions constituting approximately 15% of our estimated 2005 resin needs and 10% of our 2006 estimated resin needs based on 2004 volumes prior to the Kerr Acquisition. These contracts obligate the Company to make or receive a monthly payment equal to the difference in the unit cost of resin per the contract and an industry index times the contracted pounds of plastic resin. Such contracts are designated as hedges of a portion of the Company's forecasted purchases through 2006 and are effective in hedging the Company's exposure to changes in resin prices during this period.

The contracts qualify as cash flow hedges under SFAS No. 133 and accordingly are marked to market with unrealized gains and losses deferred through other comprehensive income and recognized in earnings when the underlying inventory is sold as an adjustment to cost of goods sold. The fair value of these contracts at July 1, 2006 was an unrealized gain, after income taxes, of $1.7 million.

*Item 4. Controls and Procedures*

(a) Disclosure controls and procedures.

As required by new Rule 13a-15 under the Exchange Act, the Company’s management carried out an evaluation with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures, as of the end of the last fiscal quarter. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. In connection with the new rules, we currently are in process of further reviewing and documenting our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting identified in connection with our evaluation of our disclosure controls and procedures that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## Part II. Other Information

### Item 1. Legal Proceedings

There have been no material changes in legal proceedings from the items disclosed in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

### Item 1A. Risk Factors

You should carefully consider the risks described in our Annual Report on Form 10-K for the year ended December 31, 2005, including those under the heading "Risk Factors" appearing in Item 1A of Part I of the Form 10-K and other information contained in this Quarterly Report before investing in our securities. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations. There were no material changes in the Company's risk factors in the first two quarters of 2006.

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

Not Applicable

### Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

### Item 5. Other Information

Not Applicable

### Item 6. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer

32.1 Section 1350 Certification of the Chief Executive Officer

32.2 Section 1350 Certification of the Chief Financial Officer

**SIGNATURE**

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

BPC Holding Corporation
Berry Plastics Corporation

July 24, 2006

By: /s/ James M. Kratochvil
James M. Kratochvil
Executive Vice President, Chief Financial Officer, Treasurer and Secretary of the entities listed above (Principal Financial and Accounting Officer)