INFORMATION ANALYSIS INC
Form 10-Q
May 15, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2012

OR

o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from ____ to ____

Commission File Number 0-22405

Information Analysis Incorporated
(Exact Name of Registrant as Specified in Its Charter)

Virginia (State or other jurisdiction of incorporation or organization)	54-1167364 (I.R.S. Employer Identification No.)

11240 Waples Mill Road
Suite 201
Fairfax, Virginia 22030

(703) 383-3000
(Registrant’s telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

As of May 8, 2012, 11,201,760 shares of common stock, par value $0.01 per share, of the registrant were outstanding.

INFORMATION ANALYSIS INCORPORATED

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INFORMATION ANALYSIS INCORPORATED
BALANCE SHEETS
(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,414,127	$ 1,280,926
Accounts receivable, net	702,806	2,889,658
Prepaid expenses	573,550	787,290
Note receivable , current	6,726	6,668
Total current assets	3,697,209	4,964,542
Fixed assets, net	33,807	40,440
Note receivable , long-term	2,584	4,287
Other assets	6,281	6,281
Total assets	$ 3,739,881	$ 5,015,550
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 72,074	$ 998,160
Commissions payable	701,664	679,498
Deferred revenue	634,322	939,783
Accrued payroll and related liabilities	235,627	247,885
Other accrued liabilities	76,979	107,235
Income taxes payable	-	2,800
Total current liabilities	1,720,666	2,975,361
Stockholders' equity:		
Common stock, par value $0.01, 30,000,000 shares authorized; 12,839,376 shares issued, 11,196,760 outstanding	128,393	128,393
Additional paid-in capital	14,575,704	14,574,128
Accumulated deficit	(11,754,671)	(11,732,121)
Treasury stock, 1,642,616 shares at cost	(930,211)	(930,211)
Total stockholders' equity	2,019,215	2,040,189
Total liabilities and stockholders' equity	$ 3,739,881	$ 5,015,550

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31, 2012	2011
Sales		
Professional fees	$1,165,249	$1,103,327
Software sales	348,741	320,410
Total sales	1,513,990	1,423,737
Cost of sales		
Cost of professional fees	676,634	593,016
Cost of software sales	304,669	276,283
Total cost of sales	981,303	869,299
Gross profit	532,687	554,438
Selling, general and administrative expenses	408,079	388,729
Commissions on sales	148,649	176,937
Loss from operations	(24,041)	(11,228)
Other income, net	1,491	2,133
Loss before provision for income taxes	(22,550)	(9,095)
Provision for income taxes	-	-
Net loss	$(22,550)	$(9,095)
Earnings per common share:		
Basic:	$0.00	$0.00
Diluted:	$0.00	$0.00
Weighted average common shares outstanding:		
Basic	11,196,760	11,196,760
Diluted	11,196,760	11,196,760

The accompanying notes are an integral part of the financial statements

INFORMATION ANALYSIS INCORPORATED
STATEMENTS OF CASH FLOWS

(Unaudited)

	For the three months ended March 31, 2012	2011
Cash flows from operating activities:		
Net loss	$(22,550)	$(9,095)
Adjustments to reconcile net loss to		
net cash provided by (used in) operating activities:		
Depreciation and amortization	6,633	4,700
Stock option compensation	1,576	3,384
Bad debt expense	1,020	-
Changes in operating assets and liabilities		
Accounts receivable	2,185,832	(226,970)
Other receivables and prepaid expenses	213,740	137,104
Accounts payable and accrued expenses	(971,400)	20,372
Deferred revenue	(305,461)	(102,682)
Commissions payable	22,166	55,510
Net cash provided by (used in)operating activities	1,131,556	(117,677)
Cash flows from investing activities:		
Net cash provided by investing activities	-	-
Cash flows from financing activities:		
Proceeds from note receivable	1,645	1,588
Net cash provided by financing activities	1,645	1,588
Net increase (decrease) in cash and cash equivalents	1,133,201	(116,089)
Cash and cash equivalents, beginning of the period	1,280,926	1,968,077
Cash and cash equivalents, end of the period	$2,414,127	$1,851,988
Supplemental cash flow information		
Interest paid	$-	$-
Income taxes paid	$2,800	$-

The accompanying notes are an integral part of the financial statements

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INFORMATION ANALYSIS INCORPORATED

NOTES TO FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities Exchange Commission. In the opinion of management, the unaudited financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited financial statements should be read in conjunction with our audited financial statements for the year ended December 31, 2011 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission on March 31, 2012. The results of operations for any interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

2. Summary of Significant Accounting Policies

Operations

Information Analysis Incorporated ("IAI", or the "Company") was incorporated under the laws of the Commonwealth of Virginia in 1979 to develop and market computer applications software systems, programming services, and related software products and automation systems. The Company provides services to customers throughout the United States, with a concentration in the Washington, D.C. metropolitan area.

Revenue Recognition

The Company recognizes revenue when a contract has been executed, the contract price is fixed and determinable, delivery of services or products has occurred, and collectability of the contract price is considered probable and can be reasonably estimated. Revenue is earned under time and materials and fixed-price contracts. For sales of third-party software products, revenue is recognized upon delivery.

Revenue on time and materials contracts is recognized based on direct labor hours expended at contract billing rates and adding other billable direct costs.

For fixed-price contracts that are based on unit pricing, the Company recognizes revenue for the number of units delivered in any given reporting period.

For fixed-price contracts in which the Company is paid a specific amount to be available to provide a particular service for a stated period of time, revenue is recognized ratably over the service period. The Company applies this method of revenue recognition to sales of maintenance contracts on third-party software sales, such as Adobe and Micro Focus software, for which the Company is responsible for "first line support" to the customer and for serving as a liaison between the customer and the third-party maintenance provider for issues the Company is unable to resolve.

The Company engages in fixed-price contracts with the U.S. federal government involving the complex delivery of technology products and services. Accordingly, these contracts are within the scope of the American Institute of Certified Public Accountants Audit and Accounting Guide for Audits of Federal Government Contractors. To the extent contracts are incomplete at the end of an accounting period, revenue is recognized on a proportional performance basis, using costs incurred in relation to total estimated costs.

Sales of third-party software products such as Adobe and Micro Focus products are reported on a gross basis with the Company as a principal under authoritative guidance issued by the Financial Accounting Standards Board (the "FASB"). This determination was based on the following: 1) the Company has inventory risk as suppliers are not obligated to accept returns, 2) the Company has reasonable latitude, within economic constraints, in establishing price, 3) the Company, in its marketing efforts, frequently aids the customer in determining product specifications, 4) the Company has physical loss and inventory risk as title transfers at the shipping point, 5) the Company bears full credit risk, and 6) the amount the Company earns in the transaction is neither a fixed dollar amount nor a fixed percentage.

2. Summary of Significant Accounting Policies (continued)

For software and software-related multiple element arrangements, the Company must: (1) determine whether and when each element has been delivered; (2) determine whether undelivered products or services are essential to the functionality of the delivered products and services; (3) determine the fair value of each undelivered element using vendor-specific objective evidence ("VSOE"), and (4) allocate the total price among the various elements. Changes in assumptions or judgments or changes to the elements in a software arrangement could cause a material increase or decrease in the amount of revenue that the Company reports in a particular period.

The Company determines VSOE for each element based on historical stand-alone sales to third parties or from the stated renewal rate for the elements contained in the initial arrangement. The Company has established VSOE for its third-party software maintenance and support services.

FASB’s accounting standards for certain multiple deliverable revenue arrangements require an entity to allocate revenue in an arrangement using best estimated selling price ("BESP") of deliverables if a vendor does not have VSOE of selling price or third-party evidence ("TPE") of selling price, and require an entity to allocate revenue using the relative selling price method.

The Company’s contracts with agencies of the U.S. federal government are subject to periodic funding by the respective contracting agency. Funding for a contract may be provided in full at inception of the contract or ratably throughout the contract as the services are provided. In evaluating the probability of funding for purposes of assessing collectability of the contract price, the Company considers its previous experiences with its customers, communications with its customers regarding funding status, and the Company’s knowledge of available funding for the contract or program. If funding is not assessed as probable, revenue recognition is deferred until realization is deemed probable.

Payments received in advance of services performed are recorded and reported as deferred revenue. Services performed prior to invoicing customers are recorded as unbilled accounts receivable and are presented on the Company’s balance sheets in the aggregate with accounts receivable.

Revenue derived as commission for facilitating a sales transaction in which a customer introduced by the Company makes a purchase directly from the Company’s supplier or another designated reseller is recognized when the commission payment is received. Since the Company is not a direct party in the sales transaction, payment by the supplier is the Company’s confirmation that the sale occurred.

Government Contracts

Company sales to departments or agencies of the U.S. federal government are subject to audit by the Defense Contract Audit Agency (DCAA), which could result in the renegotiation of amounts previously billed. Because the Company has not entered into any cost plus fixed fee contracts since 1997, management believes there is minimal risk of an audit by DCAA resulting in a material misstatement of previously reported financial statements.

Segment Reporting

In accordance with authoritative guidance issued by the FASB, the Company has concluded that it operates in one business segment, providing products and services to modernize client information systems.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid investments with maturities of ninety days or less at the time of purchase to be cash equivalents. Balances at times exceed federally insured limits, but management does not consider this to be a significant concentration of credit risk.

Accounts Receivable

Accounts receivable consist of trade accounts receivable and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts monthly. Accounts with receivable balances past due over 90 days are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers. The Company has recorded an allowance for doubtful accounts of $101,021 at March 31, 2012 and $141,721 at December 31, 2011.

2. Summary of Significant Accounting Policies (continued)

Note Receivable

Note receivable consists of a note to a non-officer employee of the Company. The note bears interest compounded at 3.5%, requires equal semi-monthly payments, and will mature on August 10, 2013.

Fixed Assets

Fixed assets are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Maintenance and minor repairs are charged to operations as incurred. Gains and losses on dispositions are recorded in current operations.

Stock-Based Compensation

At March 31, 2012, the Company had the stock-based compensation plans described in Note 3 below. Total compensation expenses related to these plans were $1,576 and $3,384 for the quarters ended March 31, 2012 and 2011, respectively, of which $550 and $0 related to options awarded to non-employees. The Company estimates the fair value of options granted using a Black-Scholes valuation model to establish the expense. When stock-based compensation is awarded to employees, the expense is recognized ratably over the vesting period. When stock-based compensation is awarded to non-employees, the expense is recognized immediately.

Earnings Per Share

The Company's earnings per share calculations are based upon the weighted average of shares of common stock outstanding. The dilutive effect of stock options, warrants and convertible notes are included for purposes of calculating diluted earnings per share, except for periods when the Company reports a net loss, in which case the inclusion of such equity instruments would be antidilutive.

Recently Adopted Accounting Pronouncements

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." to allow for common fair value measurement and disclosure requirements in GAAP and IFRS. Consequently, the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements has changed. FASB does not intend for the changes to result in a change in the application of the requirements in the fair value standard. ASU 2011-04 clarifies the FASB's intent about the application of existing fair value measurement requirements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011. We applied ASU 2011-04 prospectively, and it did not have a material impact on our financial statements and processes.

Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statement and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws for the taxable years in which those differences are expected to reverse. In addition, a valuation allowance is required to be recognized if it is believed more likely than not that a deferred tax asset will not be fully realized. Authoritative guidance prescribes a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those positions to be recognized in the financial statements. The Company continually reviews tax laws, regulations and related guidance in order to properly record any uncertain tax liabilities.

Fair Value of Financial Instruments

The Company's financial instruments include trade receivables, note receivable, and accounts payable. Management believes the carrying value of financial instruments approximates their fair value, unless disclosed otherwise in the accompanying notes.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

The Company has evaluated the period from March 31, 2012, the date of the financial statements, through the date of the issuance and filing of the financial statements, and has determined that no material subsequent events have occurred that would affect the information presented in these financial statements or require additional disclosure.

3. Stock Options

The Company granted stock options to certain of our employees under two plans. The 1996 Stock Option Plan was adopted in 1996 ("1996 Plan") and had options granted under it through May 29, 2006. In 2006, the Board of Directors approved and the shareholders ratified the 2006 Stock Incentive Plan ("2006 Plan").

As determined by the members of the Compensation Committee, the Company generally grants options under the 2006 Plan at the estimated fair value at the date of grant, based upon all information available to it at the time.

The Company recognizes compensation costs only for those shares expected to vest on a straight-line basis over the requisite service period of the awards, generally, the option vesting term of six months to two years. There were 60,000 option awards granted to employees and 5,000 option awards granted to non-employees in the three months ended March 31, 2012 and there were 10,000 option awards granted to employees and no option awards granted to non-employees in the three months ended March 31, 2011. The fair values of option awards granted in the three months ended March 31, 2012 and 2011, were estimated using a Black-Scholes option pricing model using the following assumptions:

	Three Months ended March 31, 2012	2011		
Risk free interest rate	1.20 – 2.31%	2.30%		
6	$ 7		$10	$23

The table below sets forth the activity with respect to the restructuring accrual at April 1, 2017:

	Severance and termination benefits	Facilities exit costs and other	Non-cash charges	Total
Balance at October 1, 2016	$ 7	$ 6	$ —	$ 13
Charges	7	3	—	10
Non-cash asset impairment	—	—	—	—
Cash payments	(9)	(4)	—	(13)
Balance at April 1, 2017	$ 5	$ 5	$ —	$ 10

6. Accrued Expenses, Other Current Liabilities and Other Long-Term Liabilities

The following table sets forth the totals included in Accrued expenses and other current liabilities on the Consolidated Balance Sheets:

	April 1, 2017	October 1, 2016
Employee compensation, payroll and other	$ 122	$ 152
Interest	36	53
Rebates	50	54
Restructuring	10	13
Accrued taxes	65	40
Tax receivable agreement obligation	103	60
Accrued operating expenses	108	77
	$ 494	$ 449

The following table sets forth the totals included in Other long-term liabilities on the Consolidated Balance Sheets:

	April 1, 2017	October 1, 2016
Lease retirement obligation	$ 36	$ 34
Sale-lease back deferred gain	25	26
Pension liability	85	88
Deferred purchase price	44	41
Tax receivable agreement obligation	20	114
Interest rate swaps	35	45
Other	70	69
	$ 315	$ 417

The Company made $60 million of payments related to the income tax receivable agreement ("TRA") in the December 31, 2016 quarter, of which Apollo Global Management, LLC received $48 million. The TRA provides for an annual payment to TRA holders at 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income tax that are actually realized as a result of the utilization of our net operating losses attributable to periods prior to the initial public offering.

7. Long-Term Debt

Long-term debt consists of the following:

	Maturity Date	April 1, 2017	October 1, 2016
Term loan	February 2020	$1,148	$1,351
Term loan	January 2021	814	814
Term loan	October 2022	1,795	1,895
Term loan	January 2024	500	—
Revolving line of credit	May 2020	100	—
5 $^1/_8$% Second Priority Senior Secured Notes	July 2023	700	700
5 $^1/_2$% Second Priority Senior Secured Notes	May 2022	500	500
6% Second Priority Senior Secured Notes	October 2022	400	400
Debt discounts and deferred fees		(55)	(58)
Capital leases and other	Various	146	153
Total long-term debt		6,048	5,755
Current portion of long-term debt		(36)	(43)
Long-term debt, less current portion		$6,012	$5,712

The Company was in compliance with all covenants as of April 1, 2017.

Debt discounts and deferred financing fees are presented net of Lonterm debt, less the current portion on the Consolidated Balance Sheets and are amortized to Interest expense through maturity.

Term Loans

In January 2017, the Company entered into an incremental assumption agreement to increase the commitments under the existing term loan credit agreement by $500 million in order to finance the AEP acquisition. The incremental assumption agreement provided for the $500 million incremental term loan to bear interest at LIBOR plus 2.50% per annum with no LIBOR floor, to mature in January 2024 and to be subject to customary amortization. During the quarter the Company executed an amendment to lower the interest rates under certain of the term loans. The term loans maturing in October 2022 now bear interest at LIBOR plus 2.50% with no LIBOR floor. The term loans maturing in February 2020 and January 2021 now bear interest at LIBOR plus 2.25% with no LIBOR floor.
During fiscal 2017, the Company has made $317 million of repayments on long-term borrowings using existing liquidity and the revolving line of credit.
As a result of the current year prepayments and modifications, the Company recorded a $2 million loss on debt extinguishment in Other (income) expense, net, reflecting the write-off of deferred financing fees and debt discounts, net of amortization associated with the portion of the debt that was considered extinguished. Additionally, the Company recognized $9 million of debt discounts and deferred financing fees related to the incremental assumption agreements and amendments.

8. Financial Instruments and Fair Value Measurements

In the normal course of business, the Company is exposed to certain risks arising from business operations and economic factors. The Company may use derivative financial instruments to help manage market risk and reduce the exposure to fluctuations in interest rates and foreign currencies. These financial instruments are not used for trading or other speculative purposes.

The Company designates derivative instruments that qualify as hedging instruments, based upon the exposure being hedged, as a fair value hedge, cash flow hedge, or a hedge of a net investment in a foreign operation. To the extent hedging relationships are found to be effective, which is evaluated quarterly, changes in the fair value of the derivatives are offset by changes in the fair value of the related hedged item and recorded to Accumulated other comprehensive loss.

The Company records the changes in the fair value of derivatives that are not designated as hedging instruments to the Consolidated Statements of Income.

Foreign Currency Forward Contracts

The primary purpose of the Company's foreign currency hedging activities is to manage the potential changes in value associated with the changes in foreign currencies on future foreign cash movements for certain jurisdictions. The changes in fair value of these derivative contracts are recognized in Other (income) expense, net on the Consolidated Statements of Income and are largely offset by the remeasurement of the underlying intercompany loan. When valuing foreign currency forward contracts the Company utilizes Level 2 (significant observable inputs) fair value measurements. These contracts are typically entered into and settled within the given quarterly reporting period.

Interest Rate Swaps - Cash Flow Hedges

The primary purpose of our interest rate swaps is to manage cash flow variability associated with our outstanding variable rate term loan debt. At inception these contracts are designed as effective cash flow hedges. When valuing interest rate swaps we utilize derivative Level 2 (significant observable inputs) fair value measurements. For interest rate swaps that are designated and qualify as cash flow hedges, the effective portion of the gain or loss is reported as a component of Accumulated other comprehensive loss.

Cash flow hedge accounting is discontinued when it is determined that an interest rate swap no longer qualifies as an effective hedge. When cash flow hedge accounting is de-designated, the swap is subject to the mark-to-market method of accounting prospectively. Changes in the mark-to-market fair value of the de-designated instrument are recorded to the Consolidated Statements of Income. Unrealized gains and losses that were previously deferred in Accumulated other comprehensive loss are amortized to Interest expense over the remaining term of the swap.

Active Interest Rate Swap Arrangements

In February 2013, the Company entered into a $1 billion interest rate swap transaction with an effective date of May 2016 and expiration in May 2019. In June 2013, the Company elected to settle this derivative instrument and received $16 million as a result of this settlement. The offset is included in Accumulated other comprehensive loss and is being amortized to Interest expense from May 2016 through May 2019, the original term of the swap agreement.

In March 2014, the Company entered into a $1 billion interest rate swap transaction with an effective date of February 2016 and expiration in February 2019. In February 2017, in conjunction with the term loan modifications, the Company discontinued hedge accounting. Previously unrealized losses in Accumulated other comprehensive loss are being amortized to Interest expense through February 2019, the original term of the swap. In order to offset the impact of future fair value changes of the March 2014 de-designated swap, the Company entered into a mirrored offsetting swap in February 2017 and has not designated it as a hedge.

In September 2015, the Company entered into a $1 billion interest rate swap transaction with an effective date of December 2015 and expiration in June 2019. In February 2017, in conjunction with the term loan modifications, the Company entered into an agreement to modify the terms of the original swap on a prospective basis. At that time, the Company de-designated the hedge and has re-designated the modified swap as an effective cash flow hedge. The amount included in Accumulated other comprehensive loss at the date of de-designation is being amortized to Interest expense through June 2019, the original term of the swap. The modified agreement swaps a one-month variable LIBOR contract for a fixed annual rate of 1.5190% with an effective date in March 2017 and expiration in June 2019.

In January 2017, the Company entered into a $450 million interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.00%, with an effective date in May 2017 and expiration in May 2022.

In February 2017, the Company entered into a $1 billion interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.3785% with an effective date in February 2017 and expiration in February 2019.

The Company records the fair value positions of all derivative financial instruments on a net basis by counterparty for which a master netting arrangement is utilized. Balances as of the current period are as follows;

Derivatives Instruments	Hedge Designation	Balance Sheet Location	April 1, 2017	October 1, 2016
Foreign currency forward contracts	Not designated	Other assets	$ 4	$ 3

Interest rate swaps	Not designated	Other assets	18	—
Interest rate swaps	Designated	Other long-term liabilities	17	48
Interest rate swaps	Not designated	Other long-term liabilities	18	—

The effect of the Company's derivative instruments on the Consolidated Statements of Income is as follows:

		Quarterly Period Ended		Two Quarterly Periods Ended	
Derivatives instruments	Statements of Income Location	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Interest rate swaps	Interest expense, net	$ 3	$ 4	$ 8	$ 4
Foreign currency forward contracts	Other (income) expense, net	$ 1	$ 7	$ 2	$ 6

The amortization related to unrealized losses in Accumulated other comprehensive loss is expected to be approximately $7 million in the next 12 months.

Non-recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis when impairment indicators are present. The assets are adjusted to fair value only when the carrying values exceed the fair values. The categorization of the framework used to price the assets is considered Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value. These assets include primarily our definite lived and indefinite lived intangible assets, including Goodwill and our property, plant, and equipment. The Company reviews Goodwill and other indefinite lived assets for impairment as of the first day of the fourth fiscal quarter each year, and more frequently if impairment indicators exist. The Company determined Goodwill and other indefinite lived assets were not impaired in our annual fiscal 2016 assessment. No impairment indicators were identified in the current quarter.

Included in the following table are the major categories of assets measured at fair value on a non-recurring basis as of April 1, 2017 and October 1, 2016, along with the impairment loss recognized on the fair value measurement during the period:

	As of April 1, 2017				
	Level 1	Level 2	Level 3	Total	Impairment
Indefinite-lived trademarks	$—	$ —	$248	$248	$ —
Goodwill	—	—	2,706	2,706	—
Definite lived intangible assets	—	—	1,148	1,148	—
Property, plant, and equipment	—	—	2,392	2,392	—
Total	$—	$ —	$6,494	$6,494	$ —

	As of October 1, 2016				
	Level 1	Level 2	Level 3	Total	Impairment
Indefinite-lived trademarks	$—	$ —	$248	$248	$ —
Goodwill	—	—	2,406	2,406	—
Definite lived intangible assets	—	—	952	952	—
Property, plant, and equipment	—	—	2,224	2,224	3
Total	$—	$ —	$5,830	$5,830	$ 3

The Company's financial instruments consist primarily of cash and cash equivalents and long-term debt. The fair value of our marketable long-term indebtedness exceeded book value by $68 million as of April 1, 2017. The Company's long-term debt fair values were determined using Level 2 inputs as other significant observable inputs were not available.

9. Income Taxes

The Company's effective tax rate was 18% and 40% for the quarterly period ended April 1, 2017 and April 2, 2016, respectively. Within the quarter, the effective tax rate was favorably impacted primarily by the discrete items related to share based compensation excess tax benefit of 12% and state valuation allowance release of 10%, partially offset by other discrete items.

10. Operating Segments

The Company's operations are organized into three operating segments: Consumer Packaging, Health, Hygiene & Specialties, and Engineered Materials. The structure is designed to align us with our customers, provide improved service, and drive future growth in a cost efficient manner. In October 2016, the Company realigned portions of our operating segments in order to leverage geographic management teams and commercial activities. The international portion of our Retail & Industrial product line was moved from Engineered Materials to the Specialties product line within Health, Hygiene & Specialties, resulting in a $33 million and $69 million movement in Net sales in the quarterly and two quarterly periods ended April 2, 2016, respectively. Additionally, to align the newly acquired AEP business with our existing Core Films business, $78 million and $156 million of Net sales were moved from Consumer Packaging to Engineered Materials in the quarterly and two quarterly periods ended April 2, 2016, respectively. As result of these organizational realignments, we have recast prior period segment amounts. Selected information by reportable segment is presented in the following tables:

	Quarterly Period Ended		Two Quarterly Periods Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net sales:				
Consumer Packaging	$589	$610	$1,138	$1,214
Health, Hygiene & Specialties	597	601	1,167	1,201
Engineered Materials	620	403	1,003	811
Total net sales	$1,806	$1,614	$3,308	$3,226
Operating income:				
Consumer Packaging	$56	$59	$90	$98
Health, Hygiene & Specialties	52	58	111	71
Engineered Materials	67	48	120	82
Total operating income	$175	$165	$321	$251
Depreciation and amortization:				
Consumer Packaging	$59	$60	$118	$122
Health, Hygiene & Specialties	46	50	90	105
Engineered Materials	26	21	43	43
Total depreciation and amortization	$131	$131	$251	$270

	April 1, 2017	October 1, 2016
Total assets:		
Consumer Packaging	$3,259	$3,315
Health, Hygiene & Specialties	3,448	3,504
Engineered Materials	1,834	834
Total assets	$8,541	$7,653

Selected information by geography is presented in the following tables:

	Quarterly Period Ended		Two Quarterly Periods Ended	
	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Net sales:				
North America	$1,500	$1,303	$2,704	$2,610
South America	81	80	161	159
Europe	162	174	311	339
Asia	63	57	132	118
Total net sales	$1,806	$1,614	$3,308	$3,226

	April 1, 2017	October 1, 2016
Long-lived assets:		
North America	$5,443	$4,724

South America	383	386
Europe	434	462
Asia	285	289
Total Long-lived assets	$6,545	$5,861

Selected information by product line is presented in the following tables:

(in percentages)	Quarterly Period Ended April 1, 2017	Quarterly Period Ended April 2, 2016	Two Quarterly Periods Ended April 1, 2017	Two Quarterly Periods Ended April 2, 2016
Net sales:				
Rigid Open Top	40 %	41 %	41 %	41 %
Rigid Closed Top	60	59	59	59
Consumer Packaging	100 %	100 %	100 %	100 %
Health	22 %	19 %	21 %	19 %
Hygiene	43	45	44	45
Specialties	35	36	35	36
Health, Hygiene & Specialties	100 %	100 %	100 %	100 %
Core Films	46 %	71 %	57 %	71 %
Retail & Industrial	54	29	43	29
Engineered Materials	100 %	100 %	100 %	100 %

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Goodwill

In connection with the change in reporting segments, the Company reallocated goodwill to the segments under the provisions of ASC 350. The changes in the carrying amount of goodwill by reportable segment are as follows:

	Consumer Packaging	Health, Hygiene & Specialties	Engineered Materials	Total
Balance as of October 1, 2016	$ 1,520	$ 801	$ 85	$2,406
Segment reorganization	(110)	7	103	—
Acquisition, net	—	—	307	307
Foreign currency translation adjustment	(1)	(6)	—	(7)
Balance as of April 1, 2017	$ 1,409	$ 802	$ 495	$2,706

11. Contingencies and Commitments

The Company is party to various legal proceedings in addition to the above involving routine claims which are incidental to its business. Although the Company's legal and financial liability with respect to such proceedings cannot be estimated with certainty, management believes that any ultimate liability would not be material to its financial statements.

The Company has various purchase commitments for raw materials, supplies, and property and equipment incidental to the ordinary conduct of business.

12. Basic and Diluted Net Income per Share

Basic net income per share is calculated by dividing the net income attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for common stock equivalents. Diluted net income per share is computed by dividing the net income attributable to common stockholders by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method and the if-converted method. For purposes of this calculation, stock options are considered to be common stock equivalents and are only included in the calculation of diluted net income per share when their effect is dilutive. Shares excluded from the calculation as the effect of their conversion into shares of our common stock would be antidilutive were 1.1 million for the six months ended April 1, 2017.

The following tables and discussion provide a reconciliation of the numerator and denominator of the basic and diluted net income per share computations.

	Quarterly Period Ended		Two Quarterly Periods Ended	
(in millions, except per share amounts)	April 1, 2017	April 2, 2016	April 1, 2017	April 2, 2016
Numerator				
Consolidated net income	$72	$59	$123	$63
Denominator				
Weighted average common shares outstanding - basic	127.7	120.5	124.9	120.3
Dilutive shares	5.5	3.9	5.8	3.7
Weighted average common and common equivalent shares outstanding - diluted	133.2	124.4	130.7	124.0

Per common share income				
Basic	$0.56	$0.49	$0.98	$0.52
Diluted	$0.54	$0.47	$0.94	$0.51

13. Accumulated Other Comprehensive Income (Loss)

The components and activity of Accumulated other comprehensive income (loss) are as follows:

	Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Interest Rate Swaps Designated as Hedges	Interest Rate Swaps Not Designated as Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at October 1, 2016	$ (82)	$ (44)	$ (31)	$ 9	$ (148)
De-designated hedges	—	—	20	(20)	—
Other comprehensive income (loss) before reclassifications	(24)	13	25	—	14
Net amount reclassified from accumulated other comprehensive income (loss)	—	—	7	1	8
Provision for income taxes related to other comprehensive income items	—	—	(12)	(1)	(13)
Balance at April 1, 2017	$ (106)	$ (31)	$ 9	$ (11)	$ (139)

	Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Interest Rate Swaps Designated as Hedges	Interest Rate Swaps Not Designated as Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at September 26, 2015	$ (81)	$ (25)	$ (23)	$ 10	$ (129)
Other comprehensive income (loss) before reclassifications	55	—	(19)	—	36
Net amount reclassified from accumulated other comprehensive income (loss)	—	—	4	—	4
Provision for income taxes related to other comprehensive income items	—	—	6	—	6
Balance at April 2, 2016	$ (26)	$ (25)	$ (32)	$ 10	$ (83)

14. Guarantor and Non-Guarantor Financial Information

Berry Global, Inc. ("Issuer") has notes outstanding which are fully, jointly, severally, and unconditionally guaranteed by its parent, Berry Global Group, Inc. (for purposes of this Note, "Parent") and substantially all of Issuer's domestic subsidiaries. Separate narrative information or financial statements of the guarantor subsidiaries have not been included because they are 100% owned by Parent and the guarantor subsidiaries unconditionally guarantee such debt on a joint and several basis. A guarantee of a guarantor subsidiary of the securities will terminate upon the following customary circumstances: the sale of the capital stock of such guarantor if such sale complies with the indentures, the designation of such guarantor as an unrestricted subsidiary, the defeasance or discharge of the indenture, as a result of the holders of certain other indebtedness foreclosing on a pledge of the shares of a guarantor subsidiary or if such guarantor no longer guarantees certain other indebtedness of the issuer. The guarantees of the guarantor subsidiaries are also limited as necessary to prevent them from constituting a fraudulent conveyance under applicable law and any guarantees guaranteeing subordinated debt are subordinated to certain other of the Company's debts. Parent also guarantees the Issuer's term loans and revolving credit facilities. The guarantor subsidiaries guarantee our term loans and are co-borrowers under our revolving credit facility. Presented below is condensed consolidating financial information for the Parent, Issuer, guarantor subsidiaries and non-guarantor subsidiaries. The Issuer and guarantor financial information includes all of our domestic operating subsidiaries; our non-guarantor subsidiaries include our foreign subsidiaries, certain immaterial domestic subsidiaries and the unrestricted subsidiaries under the Issuer's indentures. The Parent uses the equity method to account for its ownership in the Issuer in the Condensed Consolidating Supplemental Financial Statements. The Issuer uses the equity method to account for its ownership in the guarantor and non-guarantor subsidiaries. All consolidating entries are included in the eliminations column along with the elimination of intercompany balances.

Condensed Supplemental Consolidated Balance Sheet

	April 1, 2017					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Current assets	$—	$77	$ 1,191	$ 728	$ —	$1,996
Intercompany receivable	462	2,730	—	—	(3,192)	—
Property, plant, and equipment, net	—	75	1,611	706	—	2,392
Other assets	770	5,037	4,629	520	(6,803)	4,153
Total assets	$1,232	$7,919	$ 7,431	$ 1,954	$ (9,995)	$8,541
Current liabilities	$106	$143	$ 581	$ 278	$ —	$1,108
Intercompany payable	—	67	2,973	152	(3,192)	—
Other long-term liabilities	424	6,133	107	67	—	6,731
Stockholders' equity (deficit)	702	1,576	3,770	1,457	(6,803)	702
Total liabilities and stockholders' equity (deficit)	$1,232	$7,919	$ 7,431	$ 1,954	$ (9,995)	$8,541

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	October 1, 2016					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Current assets	$—	$161	$ 945	$ 686	$ —	$1,792
Intercompany receivable	364	2,797	—	—	(3,161)	—
Property, plant and equipment, net	—	76	1,434	714	—	2,224
Other assets	302	4,101	4,094	557	(5,417)	3,637
Total assets	$666	$7,135	$ 6,473	$ 1,957	$ (8,578)	$7,653
Current liabilities	$60	$207	$ 480	$ 284	$ —	$1,031
Intercompany payable	—	—	2,992	169	(3,161)	—
Other long-term liabilities	385	5,822	126	68	—	6,401
Stockholders' equity (deficit)	221	1,106	2,875	1,436	(5,417)	221
Total liabilities and stockholders' equity (deficit)	$666	$7,135	$ 6,473	$ 1,957	$ (8,578)	$7,653

Condensed Supplemental Consolidated Statements of Income

	Quarterly Period Ended April 1, 2017					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$ 146	$ 1,252	$ 408	$ —	$1,806
Cost of goods sold	—	117	1,012	324	—	1,453
Selling, general and administrative	—	(11)	87	56	—	132
Amortization of intangibles	—	1	31	8	—	40
Restructuring and impairment charges	—	—	6	—	—	6
Operating income	—	39	116	20	—	175
Other expense (income), net	—	10	2	8	—	20
Interest expense, net	—	6	46	15	—	67
Equity in net income of subsidiaries	(88)	(51)	—	—	139	—
Income (loss) before income taxes	88	74	68	(3)	(139)	88
Income tax expense (benefit)	16	2	—	14	(16)	16
Consolidated net income (loss)	$72	$72	$ 68	$ (17)	$ (123)	$72
Comprehensive net income (loss)	$72	$81	$ 68	$ 17	$ (123)	$115

	Quarterly Period Ended April 2, 2016					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$142	$ 1,070	$ 402	$ —	$1,614
Cost of goods sold	—	110	841	318	—	1,269
Selling, general and administrative	—	27	83	28	—	138
Amortization of intangibles	—	2	24	9	—	35
Restructuring and impairment charges	—	—	6	1	—	7
Operating income	—	3	116	46	—	165
Other expense (income), net	—	12	(3)	(16)	—	(7)
Interest expense, net	—	9	49	16	—	74
Equity in net income of subsidiaries	(98)	(104)	—	—	202	—
Income (loss) before income taxes	98	86	70	46	(202)	98
Income tax expense (benefit)	39	27	1	11	(39)	39

Consolidated net income (loss)	$59	$59	$ 69	$ 35	$ (163)	$59
Comprehensive net income (loss)	$59	$47	$ 69	$ 119	$ (163)	$131

	Two Quarterly Periods Ended April 1, 2017					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$289	$ 2,231	$ 788	$ —	$3,308
Cost of goods sold	—	233	1,801	625	—	2,659
Selling, general and administrative	—	31	162	52	—	245
Amortization of intangibles	—	3	56	14	—	73
Restructuring and impairment charges	—	—	10	—	—	10
Operating income	—	22	202	97	—	321
Other expense (income), net	—	14	2	3	—	19
Interest expense, net	—	12	91	32	—	135
Equity in net income of subsidiaries	(167)	(143)	—	—	310	—
Income (loss) before income taxes	167	139	109	62	(310)	167
Income tax expense (benefit)	44	16	—	28	(44)	44
Consolidated net income (loss)	$123	$123	$ 109	$ 34	$ (266)	$123
Comprehensive net income (loss)	$123	$143	$ 109	$ 23	$ (266)	$132
Consolidating Statement of Cash Flows						
Cash Flow from Operating Activities	$—	$24	$ 212	$ 97	$ —	$333
Cash Flow from Investing Activities						
Additions to property, plant, and equipment	—	(8)	(97)	(30)	—	(135)
Proceeds from sale of assets	—	1	3	—	—	4
(Contributions) distributions to/from subsidiaries	(15)	(443)	—	—	458	—
Intercompany advances (repayments)	—	94	—	—	(94)	—
Acquisition of business, net of cash acquired	—	—	(458)	—	—	(458)
Other investing activities, net	—	(1)	—	—	—	(1)
Net cash from investing activities	(15)	(357)	(552)	(30)	364	(590)
Cash Flow from Financing Activities						
Proceeds from long-term debt	—	595	—	—	—	595
Proceeds from issuance of common stock	15	—	—	—	—	15
Payment of tax receivable agreement	(60)	—	—	—	—	(60)
Repayments on long-term borrowings	—	(314)	(2)	(1)	—	(317)
Contribution from Parent	—	—	458	—	(458)	—
Debt financing costs	—	(4)	—	—	—	(4)
Changes in intercompany balances	60	—	(114)	(40)	94	—
Net cash from financing activities	15	277	342	(41)	(364)	229
Effect of exchange rate changes on cash	—	—	—	(2)	—	(2)
Net change in cash	—	(56)	2	24	—	(30)
Cash and cash equivalents at beginning of period	—	102	5	216	—	323
Cash and cash equivalents at end of period	$—	$46	$ 7	$ 240	$ —	$293

	Two Quarterly Periods Ended April 2, 2016					
	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net sales	$—	$292	$ 2,062	$ 872	$ —	$3,226
Cost of goods sold	—	233	1,656	700	—	2,589
Selling, general and administrative	—	83	158	51	—	292
Amortization of intangibles	—	4	50	17	—	71
Restructuring and impairment charges	—	—	22	1	—	23
Operating income (loss)	—	(28)	176	103	—	251
Other expense (income), net	—	11	(7)	(7)	—	(3)
Interest expense, net	—	18	95	36	—	149
Equity in net income of subsidiaries	(105)	(139)	—	—	244	—
Income (loss) before income taxes	105	82	88	74	(244)	105
Income tax expense (benefit)	42	19	1	22	(42)	42
Consolidated net income (loss)	$63	$63	$ 87	$ 52	$ (202)	$63
Comprehensive net income (loss)	$63	$54	$ 87	$ 107	$ (202)	$109
Consolidating Statement of Cash Flows						
Cash Flow from Operating Activities	$—	$15	$ 249	$ 97	$ —	$361
Cash Flow from Investing Activities						
Additions to property, plant, and equipment	—	(5)	(143)	(25)	—	(173)
Proceeds from sale of assets	—	—	4	—	—	4
(Contributions) distributions to/from subsidiaries	(11)	(2,249)	—	—	2,260	—
Intercompany advances (repayments)	—	(110)	—	—	110	—
Acquisition of business, net of cash acquired	—	—	(291)	(1,992)	—	(2,283)
Net cash from investing activities	(11)	(2,364)	(430)	(2,017)	2,370	(2,452)
Cash Flow from Financing Activities						
Proceeds from long-term debt	—	2,490	—	—	—	2,490
Repayments on long-term borrowings	—	(243)	—	(24)	—	(267)
Proceeds from issuance of common stock	11	—	—	—	—	11
Payment of tax receivable agreement	(57)	—	—	—	—	(57)
Contribution from parent	—	—	291	1,969	(2,260)	—
Debt financing costs	—	(37)	—	—	—	(37)
Purchase of non-controlling interest	—	—	(66)	—	—	(66)
Changes in intercompany balances	57	—	(34)	87	(110)	—
Net cash from financing activities	11	2,210	191	2,032	(2,370)	2,074
Effect of exchange rate changes on cash	—	—	—	1	—	1
Net change in cash	—	(139)	10	113	—	(16)
Cash and cash equivalents at beginning of period	—	163	—	65	—	228
Cash and cash equivalents at end of period	$—	$24	$ 10	$ 178	$ —	$212

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

This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in our most recent Form 10-K in the section titled "Risk Factors" and other risk factors identified from time to time in our periodic filings with the SEC. As a result, our actual results may differ materially from those contained in any forward-looking statements. The forward-looking statements referenced within this report should be read with the explanation of the qualifications and limitations included herein.

The Company's fiscal year is based on fifty-two or fifty-three week periods. Fiscal 2017 is a fifty-two week period and fiscal 2016 was a fifty-three week period.

Executive Summary

Business. The Company's operations are organized into three operating segments: Engineered Materials, Health, Hygiene & Specialties, and Consumer Packaging. The structure is designed to align us with our customers, provide improved service, and drive future growth in a cost efficient manner. The Engineered Materials segment primarily consists of tapes and adhesives, polyethylene based film products, can liners, printed films, and specialty coated, and laminated products. The Health, Hygiene & Specialties segment primarily consists of nonwoven specialty materials used in hygiene, infection prevention, personal care, industrial, construction, filtration applications, and personal care films, as well as pipeline corrosion protection solutions. The Consumer Packaging segment primarily consists of containers, foodservice items, closures, overcaps, bottles, prescription containers, and tubes.

In October 2016, the Company realigned portions of our operating segments in order to leverage geographic management teams and commercial activities. The international portion of our Retail & Industrial product line was moved from Engineered Materials to the Specialties product line within Health, Hygiene & Specialties, resulting in a $33 million and $69 million movement in Net sales in the quarterly and two quarterly periods ended April 2, 2016, respectively. Additionally, to align the newly acquired AEP business with our existing Core Films business, $78 million and $156 million of Core Films Net sales were moved from Consumer Packaging to Engineered Materials in the quarterly and two quarterly periods ended April 2, 2016, respectively. As result of these organizational realignments, we have recast prior period segment amounts.

Acquisitions. Our acquisition strategy is focused on improving our long-term financial performance, enhancing our market positions, and expanding our existing and complementary product offerings. We seek to obtain businesses for attractive post-synergy multiples, creating value for our stockholders from synergy realization, leveraging the acquired products across our customer base, creating new platforms for future growth, and assuming best practices from the businesses we acquire. The Company has included the expected benefits of acquisition integrations and restructuring plans within our unrealized synergies, which are in turn recognized in earnings after an acquisition has been fully integrated or the restructuring plan is completed. While the expected benefits on earnings is estimated at the commencement of each transaction, once the execution of the plan and integration occur, we are generally unable to accurately estimate or track what the ultimate effects have been due to system integrations and movements of activities to multiple facilities. As historical business combinations and restructuring plans have not allowed us to accurately separate realized synergies compared to what was initially identified, we measure the synergy realization based on the overall segment profitability post integration.

Avintiv Inc.

In October 2015, the Company acquired 100% of the capital stock of AVINTIV Inc. ("Avintiv") for a purchase price of $2.26 billion, net of cash acquired. Avintiv was one of the world's leading developers, producers, and marketers of nonwoven specialty materials used in hygiene, infection prevention, personal care, industrial, construction, and filtration applications. To finance the purchase, the Company issued $400 million aggregate principal amount of 6.0% second priority senior secured notes due 2022 and entered into an incremental assumption agreement to increase the commitments under the Company's existing term loan credit agreement by $2.1 billion due 2022. The Company expects to realize annual cost synergies of approximately $80 million related to the Avintiv acquisition with full realization expected in fiscal 2017.

AEP Industries Inc.

In January 2017, the Company acquired AEP Industries Inc. ("AEP") for a purchase price of $786 million, net of cash acquired. A portion of the purchase price consisted of issuing 6.5 million of Berry common shares which were valued at $328 million at the time of closing. AEP manufactures and markets an extensive and diverse line of polyethylene and polyvinyl chloride flexible plastic packaging products with consumer, industrial, and agricultural applications. The acquired business is operated in Berry's Engineered Materials segment. To finance the purchase, the Company entered into an incremental assumption agreement to increase the commitments under the Company's existing term loan credit agreement by $500 million due 2024. The Company expects to realize annual cost synergies of approximately $70 million from the AEP transaction with full realization expected in fiscal 2018.

Raw Material Trends. Our primary raw material is plastic resin consisting primarily of polypropylene and polyethylene. Plastic resins are subject to price fluctuations, including those arising from supply shortages and changes in the prices of natural gas, crude oil and other petrochemical intermediates from which resins are produced. The three month simple average price per pound, as published by U.S. market indexes, were as follows:

	Polyethylene Butene Film			Polypropylene		
	2017	2016	2015	2017	2016	2015
1st quarter	$.75	$.69	$.86	$.69	$.70	$.92
2nd quarter	.77	.66	.75	.80	.75	.73
3rd quarter	—	.73	.76	—	.71	.68
4th quarter	—	.75	.73	—	.71	.66

Due to differences in the timing of passing through resin cost changes to our customers on escalator/de-escalator programs, segments are negatively impacted in the short term when plastic resin costs increase and are positively impacted when plastic resin costs decrease. This timing lag in passing through raw material cost changes could affect our results as plastic resin costs fluctuate.

Outlook. The Company is impacted by general economic and industrial growth, plastic resin availability and affordability, and general industrial production. Our business has both geographic and end-market diversity, which reduces the effect of any one of these factors on our overall performance. Our results are affected by our ability to pass through raw material cost changes to our customers, improve manufacturing productivity and adapt to volume changes of our customers. Historically, there has been a very tight correlation between oil prices and the cost of our key raw materials, polyethylene and polypropylene. Overall, we continue to believe that these current trends in global oil and resin markets will be positive for the Company. We continue to believe the fiscal 2017 volume environment in the markets we serve will remain consistent with fiscal 2016 and will be impacted by one less week of operations in fiscal 2017 compared to fiscal 2016. In the near term, inflation and market pressure in South America could temporarily create a headwind for the Company, which we believe will ultimately be offset within the fiscal year by maximizing the synergies from the AEP acquisition. For fiscal 2017, we project cash flow from operations and Adjusted Free Cash Flow of $925 million and $550 million, respectively. These estimates assume $80 million of tax payments, $60 million of business integration costs, and no impact to working capital. The $550 million of Adjusted Free Cash Flow includes $315 million of additions to property, plant and equipment and $60 million of payments under our tax receivable agreement. For the definition of Adjusted Free Cash Flow and further information related to Adjusted Free Cash Flow as a non-GAAP financial measure, see "Liquidity and Capital Resources."

Results of Operations
Comparison of the Quarterly Period Ended April 1, 2017 (the "Quarter") and the Quarterly Period Ended April 2, 2016 (the "Prior Quarter")

Consistent with historical presentation, acquisition (businesses acquired in the last twelve months) net sales and operating income disclosed within this section represent the historical results from acquisitions for the comparable prior year period. The remaining change disclosed represents the changes from the prior period on a combined basis. Business integration expenses consist of restructuring and impairment charges, acquisition related charges, and other business optimization costs.

Consolidated Overview

	Quarter	Prior Quarter	$ Change	% Change
Net sales	$1,806	$1,614	$ 192	12 %
Operating income	$175	$165	$ 10	6 %

Operating income percentage of net sales	10	%	10	%

Net sales increased by $192 million from the Prior Quarter primarily attributed to acquisition net sales of $205 million and selling price increases of $9 million, partially offset by a negative $15 million impact from a 1% volume decline and a $7 million negative impact from foreign currency changes.

The operating income increase of $10 million from the Prior Quarter was primarily attributed to acquisition operating income of $19 million, a $10 million decrease in selling, general and administrative expense, and a $6 million decrease in depreciation and amortization. These improvements were partially offset by a $9 million decline in our product mix and price/cost spread, a $10 million increase in business integration expenses, a negative $4 million impact from base volume declines, and an unfavorable impact from foreign currency changes. The business integration expenses primarily consisted of a $5 million AEP purchase accounting inventory step-up and deal costs associated with the AEP transaction.

Consumer Packaging

	Quarter	Prior Quarter	$ Change	% Change
Net sales	$ 589	$ 610	$ (21)	(3 %)
Operating income	$ 56	$ 59	$ (3)	(5 %)
Percentage of net sales	10 %	10 %		

Net sales in the Consumer Packaging segment decreased by $21 million from Prior Quarter primarily attributed to a negative $20 million impact from a 3% base volume decline, primarily attributed to soft consumer demand in portions of our Rigid Open Top product line.

The operating income decrease of $3 million from Prior Quarter was primarily attributed to a $5 million impact from base volume declines, a $3 million decrease in price/cost spread, and a negative impact from productivity in manufacturing, partially offset by a $4 million decrease in selling, general and administrative expense and a decrease in business integration expenses.

Health, Hygiene & Specialties

	Quarter	Prior Quarter	$ Change	% Change
Net sales	$ 597	$ 601	$ (4)	(1 %)
Operating income	$ 52	$ 58	$ (6)	(10 %)
Percentage of net sales	9 %	10 %		

Net sales in the Health, Hygiene & Specialties segment decreased by $4 million from Prior Quarter primarily attributed to selling price decreases of $9 million and a $6 million unfavorable impact from currency translation, partially offset by a positive $10 million impact from a 2% base volume improvement.

The operating income decrease of $6 million from Prior Quarter was primarily attributed to a $16 million decrease in price/cost spread and an unfavorable impact from foreign currency changes, partially offset by a $4 million improvement in productivity in manufacturing, a $4 million decrease in depreciation expense, and a $2 million impact from the base volume improvement.

Engineered Materials

	Quarter	Prior Quarter	$ Change	% Change
Net sales	$ 620	$ 403	$ 217	54 %
Operating income	$ 67	$ 48	$ 19	40 %
Percentage of net sales	11 %	12 %		

Net sales in the Engineered Materials segment increased by $217 million from Prior Quarter primarily attributed to acquisition net sales of $205 million and selling price increases of $18 million, partially offset by slightly lower base volumes.

The operating income increase of $19 million from Prior Quarter was primarily attributed to acquisition operating income of $19 million, a $10 million improvement in our product mix and price/cost spread, and a $4 million reduction in selling, general and administrative expenses, partially offset by a $13 million increase in business integration. The business integration expenses primarily consisted of a $5 million AEP purchase accounting inventory step-up and deal costs associated with the AEP transaction.

Other (income) expense, net

	Quarter	Prior Quarter	$ Change	% Change

Other (income) expense, net	$ 20	$ (7)	$ 27	386 %

Other (income) expense, net primarily consisted of a $10 million non-cash defined benefit pension plan settlement and a $9 million Tax Receivable Agreement valuation adjustment in the Quarter. The Prior Quarter primarily consisted of the favorable impact of transactional foreign currency related to the remeasurement of non-operating intercompany balances.

Interest expense, net

	Quarter	Prior Quarter	$ Change	% Change
Interest expense, net	$ 67	$ 74	$ (7)	(9 %)

The interest expense decrease of $7 million from Prior Quarter was primarily attributed to reduced interest rates resulting from the fiscal 2017 term loan modifications.

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Income tax expense

	Quarter	Prior Quarter	$ Change	% Change
Income tax expense	$ 16	$ 39	$ (23)	(59 %)

The income tax expense decrease of $23 million from the Prior Quarter was primarily attributed to a decrease in the effective tax rate for the Quarter. Within the Quarter, the 18% effective tax rate was favorably impacted by the share based compensation excess tax benefit of 12% and state valuation allowance release of 10%.

Changes in Comprehensive Income

The $16 million decline in comprehensive income from Prior Quarter is primarily attributed to a $63 million decrease in currency translation, partially offset by a $13 million improvement in net income, a $21 million increase in interest rate hedges, net of tax, and a $13 million increase due to a non-cash defined benefit pension plan settlement. Currency translation gains and losses are primarily related to non-U.S. subsidiaries with a functional currency other than U.S. dollars whereby assets and liabilities are translated from the respective functional currency into U.S. dollars using period-end exchange rates. The change in currency translation in the Quarter was primarily attributed to locations utilizing the euro, British pound sterling, and Brazilian real as the functional currency. As part of the overall risk management, the Company uses derivative instruments to reduce exposure to changes in interest rates attributed to the Company's floating-rate borrowings and records changes to the fair value of these instruments in Accumulated other comprehensive income (loss). The favorable change in fair value of these instruments in the Quarter versus Prior Quarter is primarily attributed to an increase in the forward interest curve between measurement dates.

Comparison of the Two Quarterly Periods Ended April 1, 2017 (the "YTD") and the Two Quarterly Periods Ended April 2, 2016 (the "Prior YTD")

As a reminder, fiscal 2016 was a fifty-three week period compared to a fifty-two week period in fiscal 2017. The negative impact from the extra days in the Prior YTD period disclosed within this section has been presented on a net basis. Consistent with historical presentation, acquisition (businesses acquired in the last twelve months) net sales and operating income disclosed within this section represent the historical results from acquisitions for the comparable prior year period. The remaining change disclosed represents the changes from the prior period on a combined basis. Business integration expenses consist of restructuring and impairment charges, acquisition related charges, and other business optimization costs.

Consolidated Overview

	YTD	Prior YTD	$ Change	% Change
Net sales	$3,308	$3,226	$ 82	3 %
Operating income	$321	$251	$ 70	28 %
Operating income percentage of net sales	10 %	8 %		

The net sales increase of $82 million from the Prior YTD was primarily attributed to acquisition net sales of $205 million and selling price increases of $3 million, partially offset by a $98 million negative impact from extra days in the Prior YTD, a $16 million negative impact from a 1% volume decline, and a $12 million negative impact from foreign currency changes.

The operating income increase of $70 million from the Prior YTD was primarily attributed to a $30 million decrease in business integration and restructuring expenses, acquisition operating income of $19 million, a $19 million decrease in selling, general and administrative expense, and an $18 million decrease in depreciation and amortization. The decrease in depreciation and amortization was a result of Avintiv purchase accounting adjustments recorded in fiscal 2016. These improvements were partially offset by a $10 million negative impact from extra days in the Prior YTD, and a $5 million decline in our product mix and price/cost spread.

Consumer Packaging

	YTD	Prior YTD	$ Change	% Change
Net sales	$1,138	$1,214	$ (76)	(6 %)
Operating income	$90	$98	$ (8)	(8 %)
Operating income percentage of net sales	8 %	8 %		

Net sales in the Consumer Packaging segment decreased by $76 million from Prior YTD primarily attributed to a negative $43 million impact from extra days in the Prior YTD and a $38 million negative impact from a 3% base volume decline, partially offset by selling price increases of $6 million. The volume decline was primarily attributed to soft consumer demand in portions of our Rigid Open Top product line.

The operating income decrease of $8 million from Prior YTD was primarily attributed to a negative $8 million impact from base volume decline, a negative $6 million impact from productivity in manufacturing, a negative $5 million impact from extra days in the Prior YTD, and a $3 million decrease in our product mix and price/cost spread, partially offset by an $8 million decrease in selling, general and administrative expense, and a $5 million decrease in business integration and restructuring expenses.

Health, Hygiene & Specialties

	YTD	Prior YTD	$ Change	% Change
Net sales	$1,167	$1,201	$ (34)	(3 %)
Operating income	$111	$71	$ 40	56 %
Operating income percentage of net sales	10 %	6 %		

Net sales in the Health, Hygiene & Specialties segment decreased by $34 million from Prior YTD primarily attributed to selling price decreases of $28 million, a negative $26 million impact from extra days in the Prior YTD, and a $12 million unfavorable impact from currency translation, partially offset by a $31 million impact from a 3% volume improvement.

The operating income increase of $40 million from Prior YTD was primarily attributed to a $28 million decrease in business integration and restructuring expenses, a $12 million decrease in depreciation, an $8 million improvement in productivity in manufacturing, a $5 million improvement in base volumes, and a $5 million decrease in selling, general and administrative expense. These improvements were partially offset by an $18 million decrease in our product mix and price/cost spread.

Engineered Materials

	YTD	Prior YTD	$ Change	% Change
Net sales	$1,003	$811	$ 192	24 %
Operating income	$120	$82	$ 38	46 %
Operating income percentage of net sales	12 %	10 %		

Net sales in the Engineered Materials segment increased by $192 million from Prior YTD primarily attributed to acquisition net sales of $205 million, and selling price increases of $24 million, partially offset by a $29 million unfavorable impact from extra days in the Prior YTD.

The operating income increase of $38 million in the Engineered Materials segment from the Prior YTD was primarily attributed to acquisition operating income of $19 million, a $16 million improvement in our product mix and price/cost spread, a $6 million decrease in selling, general and administrative expense, and a $5 million decrease in depreciation. These improvements were partially offset by a $4 million negative impact from extra days in the Prior YTD.

Other (income) expense, net

	YTD	Prior YTD	$ Change	% Change
Other (income) expense, net	$ 19	$ (3)	$ 22	733 %

Other (income) expense increased by $22 million from Prior YTD primarily attributed to a $10 million non-cash defined benefit pension plan settlement and a $9 million Tax Receivable Agreement valuation adjustment, partially offset by an increase from transactional foreign currency changes related to the remeasurement of non-operating intercompany balances.

Interest expense, net

	YTD	Prior YTD	$ Change	% Change
Interest expense, net	$ 135	$ 149	$ (14)	(9 %)

The interest expense decrease of $14 million from Prior YTD was primarily attributed to reduced interest rates resulting from the fiscal 2017 term loan modifications.

Income tax expense

	YTD	Prior YTD	$ Change	% Change
Income tax expense	$ 44	$ 42	$ 2	5 %

The income tax expense increase of $2 million from the Prior YTD was primarily attributed to an increase in Income before income taxes, offset by favorable year-to-date effective tax rate items. Our year-to-date effective tax rate was lower than our statutory rate primarily due to the share based compensation excess tax benefit of 8% and state valuation allowance release of 5%, partially offset by state taxes of 2% and foreign valuation allowance of 3%.

Changes in Comprehensive Income

The $23 million improvement in comprehensive income from the Prior YTD was primarily attributed to a $29 million increase in the fair value of interest rate hedges, net of tax, a $60 million improvement in net income, and a $13 million increase due to a non-cash defined benefit pension plan settlement, partially offset by a $79 million decrease in currency translation. Currency translation gains and losses are primarily related to non-U.S. subsidiaries with a functional currency other than U.S. dollars whereby assets and liabilities are translated from the respective functional currency into U.S. dollars using period-end exchange rates. The change in currency translation in the YTD was primarily attributed to locations utilizing the euro, British pound sterling, and Brazilian real as the functional currency. As part of the overall risk management, the Company uses derivative instruments to reduce exposure to changes in interest rates attributed to the Company's floating-rate borrowings and records changes to the fair value of these instruments in Accumulated other comprehensive income (loss). The favorable change in fair value of these instruments in the YTD versus Prior YTD is primarily attributed to an increase in the forward interest curve between measurement dates.

Liquidity and Capital Resources

As of the end of the quarter, we had cash and cash equivalents of $293 million, of which approximately 84% was located outside of the U.S. Our primary sources of cash are the collection of trade receivables generated from the sales of our products and services to our customers and amounts available under our existing lines of credit. Our primary uses of cash are payments for operating expenses, investments in working capital, capital expenditures, interest, taxes, debt obligations, restructuring expenses and other long-term liabilities. Based on our current level of operations, we believe that cash flow from operations and available cash, together with available borrowings under our senior secured credit facilities, will be adequate to meet our short-term liquidity needs over the next twelve months. We base such belief on historical experience and the funds available under the revolving 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 most recent Form 10-K filed with the SEC. 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.

Senior Secured Credit Facility

We manage our global cash requirements considering (i) available funds among the many subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. In March 2017, we entered into an agreement to increase our asset-based revolving line of credit that matures in May 2020 by $100 million to $750 million. At the end of the Quarter, the Company had $100 million outstanding on the revolving credit facility. The Company was in compliance with all covenants at the end of the Quarter.

A key financial metric utilized in the calculation of our debt covenants is adjusted EBITDA (defined as "EBITDA" in the Company's debt agreements, but referred herein as Adjusted EBITDA). The following table reconciles (i) our net income to Adjusted EBITDA and (ii) our cash flow from operating activities to Adjusted Free Cash Flow for the four quarters ended April 1, 2017:

	April 1, 2017 Four Quarters Ended
Net income	$ 296
Income tax expense	74
Interest expense, net	277

Other income (expense), net	4
Other non-cash charges [(a)]	34
Restructuring and impairment	19
Business optimization and other expense [(b)]	20
Depreciation and amortization	506
Acquisition Adjusted EBITDA	91
Unrealized cost savings [(c)]	66
Adjusted EBITDA	$ 1,387
Cash flow from operating activities	$ 829
Net additions to property, plant and equipment	(245)
Payments of tax receivable agreement	(60)
Adjusted Free Cash Flow	$ 524
Cash flow from investing activities	(717)
Cash flow from financing activities	(28)

(a) Includes stock compensation expense of $17 million and other non-cash charges
(b) Includes business optimization and integration expenses
(c) Primarily consists of unrealized synergies related to the AEP acquisition

Adjusted EBITDA and Adjusted Free Cash Flow, as presented in this document, are supplemental financial measures that are not required by, or presented in accordance with, generally accepted accounting principles in the United States ("GAAP"). Adjusted EBITDA and Adjusted Free Cash Flow are not GAAP financial measures and should not be considered as an alternative to operating income or net income or cash flows from operating activities, in each case determined in accordance with GAAP. Adjusted EBITDA is used by our lenders for debt covenant compliance.

We define "Adjusted Free Cash Flow" as cash flow from operating activities less additions to property, plant and equipment and payments of the tax receivable agreement. We believe Adjusted Free Cash Flow is useful to an investor in evaluating our liquidity because Adjusted Free Cash Flow and similar measures are widely used by investors, securities analysts and other interested parties in our industry to measure a company's liquidity.

These non-GAAP financial measures may be calculated differently by other companies, including other companies in our industry, limiting their usefulness as comparative measures.

Tax Receivable Agreement

The Company made $60 million of payments related to the income tax receivable agreement ("TRA") in the first fiscal quarter of 2017. The $60 million payment represents the only TRA payment required in fiscal 2017.

Cash Flows

Net cash from operating activities decreased $28 million from the Prior YTD primarily attributed to higher working capital due to timing, partially offset by improved net income before depreciation and amortization.

Net cash from investing activities decreased $1,862 million from the Prior YTD primarily attributed to the Avintiv acquisition in the Prior YTD and decreased capital expenditures compared to the Prior YTD, partially offset by the acquisition of AEP in the YTD.

Net cash from financing activities decreased $1,845 million from the Prior YTD primarily attributed to the incremental financing and related costs incurred related to the Avintiv acquisition and the Providência tender offer in the Prior YTD, compared to the incremental financing and related costs incurred for the AEP acquisition in the YTD period.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity

We are exposed to market risk from changes in interest rates primarily through our senior secured credit facilities. At April 1, 2017, our senior secured credit facilities are comprised of (i) $4.3 billion term loans and (ii) a $750 million revolving credit facility with $100 million of borrowings outstanding. Borrowings under our senior secured credit facilities bear interest, at our option, at either (1) an alternate base rate or (2) an adjusted LIBOR rate for a one-, two-, three- or six month interest period, or a nine- or twelve-month period, if available to all relevant lenders, in each case, plus an applicable margin. The alternate base rate is the greater of (i) in the case of our term loans, Credit Suisse's prime rate or, in the case of our revolving credit facility, Bank of America's prime rate and (ii) one-half of 1.0% over the weighted average of rates on overnight Federal Funds as published by the Federal Reserve Bank of New York. At April 1, 2017, the LIBOR rate of approximately 1.00% was applicable to the term loans. A 0.25% change in LIBOR would increase our annual interest expense by $5 million on variable rate term loans.

In February 2013, the Company entered into a $1 billion interest rate swap transaction with an effective date of May 2016 and expiration in May 2019. In June 2013, the Company elected to settle this derivative instrument and received $16 million as a result of this settlement. The offset is included in Accumulated other comprehensive loss and is being amortized to Interest expense from May 2016 through May 2019, the original term of the swap agreement.

In March 2014, the Company entered into a $1 billion interest rate swap transaction with an effective date of February 2016 and expiration in February 2019. In February 2017, in conjunction with the term loan modifications, the Company discontinued hedge accounting. Previously unrealized losses in Accumulated other comprehensive loss are being amortized to Interest expense through February 2019, the original term of the swap. In order to offset the impact of future fair value changes of the March 2014 de-designated swap, the Company entered into a mirrored offsetting swap in February 2017 and has not designated it as a hedge.

In September 2015, the Company entered into a $1 billion interest rate swap transaction with an effective date of December 2015 and expiration in June 2019. In February 2017, in conjunction with the term loan modifications, the Company entered into an agreement to modify the terms of the original swap on a prospective basis. At this time, the Company de-designated the hedge and has re-designated the modified swap as an effective cash flow hedge. The amount included in Accumulated other comprehensive loss at the date of de-designation is being amortized to Interest expense through June 2019, the original term of the swap. The modified agreement swaps a one-month variable LIBOR contract for a fixed annual rate of 1.5190% with an effective date in March 2017 and expiration in June 2019.

In January 2017, the Company entered into a $450 million interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.00%, with an effective date in May 2017 and expiration in May 2022.

In February 2017, the Company entered into a $1 billion interest rate swap transaction that swaps a one-month variable LIBOR contract for a fixed annual rate of 2.3785% with an effective date in February 2017 and expiration in February 2019.

Foreign Currency Exchange Rates

As a global company, we face foreign currency risk exposure from fluctuating currency exchange rates, primarily the U.S. dollar against the euro, Brazilian real, British pound sterling, Argentine peso, Chinese yuan, Canadian dollar and Mexican peso. Significant fluctuations in currency rates can have a substantial impact, either positive or negative, on our revenue, cost of sales, and operating expenses. As there is uncertainty in the future movements in foreign exchange rates, significant fluctuations could negatively impact our future consolidated results of operations. Currency translation gains and losses are primarily related to non-U.S. subsidiaries with a functional currency other than U.S. dollars whereby assets and liabilities are translated from the respective functional currency into U.S. dollars using period-end exchange rates and impact our Comprehensive income. While future consolidated results of operations could be materially impacted by fluctuations in currency rates, we attempt to manage our foreign currency risk on our anticipated cash movements by entering into foreign currency forward contracts to offset potential foreign exchange gains or losses. A 10% change in our foreign currency forward contracts would not result in a material change to our financial statements.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Under applicable SEC regulations, management of a reporting company, with the participation of the principal executive officer and principal financial officer, must periodically evaluate the company's "disclosure controls and procedures," which are defined generally as controls and other procedures of a reporting company designed to ensure that information required to be disclosed by the reporting company in its periodic reports filed with the commission (such as this Form 10-Q) is recorded, processed, summarized, and reported on a timely basis.

As reported in our 2016 Annual Report on Form 10-K, Berry's management concluded that its internal control over financial reporting and its disclosure controls and procedures were not effective as of October 1, 2016. This conclusion was specifically impacted by deficiencies in the design and operating effectiveness related to the timeliness of Berry's annual income tax provision process and the adequacy of written documentation around aspects of its foreign tax provisions resulting primarily from the increased complexity in the legal entity structure following the acquisition of Avintiv. As there were no errors in the accounting or adjustments to the consolidated financial statements as a result of these identified deficiencies, management concluded that there was no impact on Berry's prior or current period consolidated financial statements and that Berry's financial statements were presented fairly in all material respects. Since October 1, 2016, Berry's management has taken remedial actions, and in that regard, has allocated resources internally that we believe will allow us to accelerate the timing of the completion of foreign tax provisions and increase the level of written documentation related to all aspects of the income tax provision.

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, carried out an evaluation of the effectiveness of the design and operation of the disclosure controls and procedures as of April 1, 2017. Because many of the controls in the income tax provision process operate on an annual basis, the assessment of the remediation of the above referenced material weakness will not be fully completed until the Company's fiscal year-end. As a result, management has concluded that our disclosure controls and procedures were not effective as of the last day of the period covered by this report.

(b) Changes in internal controls.

Except as set forth above, there were no changes in our internal control over financial reporting that occurred during the quarter ended April 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

There have been no material changes in legal proceedings from the items disclosed in our Form 10-K filed with the Securities and Exchange Commission.

Item 1A. Risk Factors

Before investing in our securities, it is recommended to carefully consider the risks described in our most recent Form 10-K filed with the SEC, including those under the heading "Risk Factors" and other information contained in this Quarterly Report. 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 since described in our most recent Form 10-K filed with the SEC.

All forward-looking information and subsequent written and oral forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Some of the factors that we believe could affect our results include:

risks associated with our substantial indebtedness and debt service;
changes in prices and availability of resin and other raw materials and our ability to pass on changes in raw material prices on a timely basis;
performance of our business and future operating results;
risks related to our acquisition strategy and integration of acquired businesses;
reliance on unpatented know-how and trade secrets;
increases in the cost of compliance with laws and regulations, including environmental, safety, and production and product laws and regulations;
risks related to disruptions in the overall economy and the financial markets that may adversely impact our business;
catastrophic loss of one of our key manufacturing facilities, natural disasters, and other unplanned business interruptions;
risks of competition, including foreign competition, in our existing and future markets;
risks related to the market acceptance of our developing technologies and products;
general business and economic conditions, particularly an economic downturn;
risks that our restructuring program may entail greater implementation costs or result in lower cost savings than anticipated;
the ability of our insurance to cover fully our potential exposures; and
the other factors discussed in our most recent Form 10-K in the section titled "Risk Factors."

We caution readers that the foregoing list of important factors may not contain all of the material factors that are important to you. In addition, in light of these risks and uncertainties, the matters referred to in the forward-looking statements contained in this Form 10-Q may not in fact occur. Accordingly, investors should not place undue reliance on those statements. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Item 6. Exhibits

3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Berry Plastics Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on March 3, 2017).
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Berry Plastics Group, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed on April 18, 2017).
3.3	Amended and Restated Bylaws of Berry Plastics Group, Inc., as amended and restated on March 2, 2017. (incorporated by reference to Exhibit 3.2 to the Company's Form 8-K filed on March 3, 2017).
10.1	Incremental Assumption Agreement, dated as of January 19, 2017, by and among Berry Plastics Group, Inc., Berry Plastics Corporation and certain of its subsidiaries referenced therein, Credit Suisse AG, Cayman Islands Branch, as administrative agent for the lenders under the term loan credit agreement referenced therein, Citibank, N.A., as initial Term I lender and Citibank, N.A., as incremental term J lender (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on February 3, 2017).
10.2	Amendment No. 7 to the Amended and Restated Credit Agreement, dated as of March 24, 2017, by and among Berry Plastics Group, Inc., Berry Plastics Corporation, certain domestic subsidiaries party thereto, Bank of America, N.A., as collateral agent and administrative agent, and the lenders party thereto (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on March 27, 2017).
10.3	Employment Agreement of Thomas E. Salmon (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on February 6, 2017).
10.4	Offer Letter of Jonathan D. Rich (incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed on February 6, 2017).
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.*
101.	Interactive Data Files.

* Filed herewith.

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.

Berry Global Group, Inc.

May 3, 2017 By: /s/ Mark W. Miles
Mark W. Miles
Chief Financial Officer

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