BERRY PLASTICS GROUP INC
Form 10-K
November 23, 2015

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
(Mark One)
[X] Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the fiscal year ended September 26, 2015

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

Commission File Number 001-35672

BERRY PLASTICS GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-5234618
(State or other jurisdiction of incorporation or organization)	(IRS employer identification number)
101 Oakley Street Evansville, Indiana	47710
(Address of principal executive offices)	(Zip code)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes[ ]No[X]

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 such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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 [X] No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Small reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes [ ]No [X]

The aggregate market value of the common stock of the registrant held by non-affiliates was approximately $4.2 billion as of March 27, 2015, the last business day of the registrant's most recently completed second fiscal quarter. This amount excludes shares of the registrant's common stock held by current executive officers, directors, and affiliates whose ownership did not exceed 5% as of such date. The aggregate market value was computed using the $35.43 closing price per share for such stock on the New York Stock Exchange on such date.

Class	Outstanding at November 23, 2015
Common Stock, $.01 par value per share	120.0 million shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Berry Plastics Group, Inc.'s Proxy Statement for its 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Form 10-K includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to our financial condition, results of operations and business and our expectations or beliefs concerning future events. The forward-looking statements include, in particular, statements about our plans, strategies and prospects under the heading "Management’s Discussion and Analysis of Financial Condition and Results of Operations". You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “would,” “coul “seeks,” “approximately,” “intends,” “plans,” “estimates,” “outlook,” “anticipates” or “looking forward” or similar expression relate to our strategy, plans, intentions, or our financial condition, our recent acquisition of AVINTIV Inc. (“Avintiv”) and integration thereof. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results or to our expectations regarding future industry trends are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this Form 10-K.

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, including the diversion of management time on acquisition-related issues and our ability to promptly and effectively integrate our businesses with those of acquisitions and achieve the synergies and value creation contemplated
reliance on unpatented know-how and trade secrets;
increases in the cost of compliance with laws and regulations, including environmental, safety, 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;
the other factors discussed 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-K 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.

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Item 1. BUSINESS
(In millions of dollars, except as otherwise noted)

General

Berry Plastics Group, Inc. ("Berry," "We," or the "Company") is a leading provider of value-added plastic consumer packaging and engineered materials with a track record of delivering high-quality customized solutions to our customers. Representative examples of our products include specialty closures, prescription vials, specialty films, adhesives, corrosion protection materials, as well as drink cups, thin-wall containers, and bottles. We sell our products predominantly into stable, consumer-oriented end-markets, such as healthcare, personal care, and food and beverage.

We believe that we have created one of the largest product libraries in our industry, allowing us to be a comprehensive solution provider to our customers. Our customers consist of a diverse mix of leading global, national, mid-sized regional and local specialty businesses. The size and scope of our customer network allows us to introduce new products we develop or acquire to a vast audience that is familiar with our brand. In fiscal 2015, no single customer represented more than approximately 2% of net sales and our top ten customers represented 16% of net sales. We believe our manufacturing processes and our ability to leverage our scale to reduce expenses on items, such as raw materials, position us as a low-cost manufacturer relative to our competitors.

Through November 2015 our business was organized into four operating divisions: Rigid Open Top, Rigid Closed Top, (which together make up our Rigid Packaging business), Engineered Materials, and Flexible Packaging. Additional financial information about our business segments is provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Notes to Consolidated Financial Statements," which are included elsewhere in this Form 10-K.

In November 2015, the Company reorganized into three operating segments: Health, Hygiene and Specialties, Consumer Packaging, and Engineered Materials. The Health, Hygiene and Specialties segment will include the recently acquired Avintiv business and personal care films and international business that historically reported in our Flexible Packaging segment. The Consumer Packaging segment will consist of our historical Rigid Open Top segment, Rigid Closed Top segment, the food and consumer films business that historically reported in our Flexible Packaging segment, and the custom shrink films business that was historically reported in our Engineered Materials segment. The Engineered Material segment will include the old Engineered Material segment, excluding the custom shrink films business, and the converter films business that was historically reported in our Flexible Packaging segment. Beginning with our results for the first quarter of fiscal 2016, we will report results based on our new operating segment structure.

Recent Acquisitions

Rexam Healthcare Containers and Closures

In June 2014, the Company acquired Rexam's Healthcare Containers and Closures business ("C&C") for a purchase price of $133 million, net of cash acquired. The C&C business produces bottles, closures, and specialty products for pharmaceutical and over-the-counter healthcare applications. The C&C acquisition has been accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the identifiable assets and liabilities based on their fair values at the acquisition date. The acquired assets and assumed liabilities consisted of working capital of $32 million, property and equipment of $85 million, non-current deferred tax asset of $3 million, intangible assets of $9 million, goodwill of $7 million, and other long-term liabilities of $3 million.

AVINTIV Inc.

In October 2015, the Company acquired 100% of the capital stock of Avintiv for a purchase price of approximately $2.3 billion which is preliminary and subject to adjustment. Avintiv is one of the world's leading developers, producers, and marketers of nonwoven specialty materials used in hygiene, infection prevention, personal care, and high-performance solutions. With 23 locations in 14 countries, an employee base of over 4,500 people, and the broadest range of process technologies in the industry, Avintiv's strategically located manufacturing facilities position it as a global supplier to many of the same leading consumer and industrial product manufacturers that Berry supplies and utilize similar key raw materials as Berry's existing business. 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.

Recent Developments

Revolving Line of Credit

In May 2015, the Company amended the credit agreement relating to its existing $650 million secured revolving credit facility to extend the maturity date of the revolving credit facility from June 2016 to May 2020 and to reduce interest margins and certain commitment fees.

51/8% Second Priority Senior Secured Notes

In June 2015, the Company issued $700 million of 51/8% second priority senior secured notes due July 2023. Interest on the 51/8% second priority senior secured notes is due semi-annually on January 15 and July 15. Proceeds from the issuance and existing liquidity were used to satisfy and discharge all of the outstanding 9¾% second priority senior secured notes. The Company recognized a $94 million loss on extinguishment of debt, including $83 million of early tender and redemption costs and an $11 million write-off of deferred financing fees.

Interest Rate Swap

In September 2015, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swapped the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 1.7185%, with an effective date in December 2015 and expiration in June 2019.

Product Overview

Rigid Packaging

Our Rigid Packaging business primarily includes the following product groups:

Containers. We manufacture a collection of nationally branded container products which range from four ounces to five gallons and are offered in various styles with accompanying lids, bails and handles, some of which we produce, as well as a wide array of decorating options.

Foodservice. We believe we are one of the largest providers of large size thermoformed polypropylene (“PP”) and injection-molded plastic drink cups in the United States. We manufacture plastic cups that range in size from 12 to 64 ounces primarily for quick service and family dining restaurants, convenience stores, stadiums and retail stores.

Closures and Overcaps. We believe we are a leading producer of closures and overcaps across several of our product lines, including continuous-thread and child-resistant closures, as well as aerosol overcaps. We sell our closures into numerous end markets, including household chemical, healthcare, food and beverage, and personal care.

Bottles and Prescription Containers. Our bottle and prescription container businesses target markets similar to our closure business. We believe we are a leader in various food and beverage, vitamin and nutritional markets, as well as the prescription container market.

Tubes. We offer a complete line of extruded and laminate tubes in a wide variety of sizes. We believe we are one of the largest suppliers of extruded plastic squeeze tubes in the United States. The majority of our tubes are sold in the personal care market. We also sell our tubes into the pharmaceutical and household chemical markets.

Engineered Materials

Corrosion Protection Products. We believe we are a leading global producer of anti-corrosion products to infrastructure, rehabilitation and new pipeline projects throughout the world. These products are used in oil, gas, and water supply and construction applications. Our customers primarily include contractors managing discrete construction projects around the world as well as distributors and applicators.

Tape Products. We believe we are a leading North American manufacturer of cloth and foil tape products. Other tape products include high-quality, high-performance liners of splicing and laminating tapes, flame-retardant tapes, vinyl-coated and carton sealing tapes, electrical, double-faced cloth, masking, mounting, OEM, and medical and specialty tapes. Tape products are sold primarily through distributors and directly to end users for industrial, HVAC, automotive, construction, and retail market applications.

Retail Bags. We sell a diversified portfolio of polyethylene based film products to end users in the retail markets. Our products include drop cloths and retail trash bags. These products are sold primarily through wholesale outlets, hardware stores and home centers, paint stores, and mass merchandisers.

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PVC Films. We believe we are a world leader in polyvinyl chloride ("PVC") films offering a broad array of PVC meat film. Our products are used primarily to wrap fresh meats, poultry, and produce for supermarket applications. In addition, we offer a line of boxed products for food service and retail sales. We service many of the leading supermarket chains, club stores, and wholesalers.

Institutional Can Liners. We sell trash-can liners and food bags for offices, restaurants, schools, hospitals, hotels, municipalities, and manufacturing facilities.

Stretch and Shrink Films. We manufacture both hand and machine-wrap stretch films and custom shrink films, which are used to prepare products and packages for storage and shipping. We sell stretch and shrink film products to a diverse mix of end users.

Flexible Packaging

Our Flexible Packaging division consists of high barrier, multilayer film products as well as finished flexible packages such as pouches and includes various immaterial international operations. The Flexible Packaging division primarily includes the following product groups:

Personal Care Films. We believe we are a major supplier of component and packaging films used for personal care hygiene applications predominantly sold in North America and Latin America. The end use applications include disposable baby diapers, feminine care, adult incontinence, hospital, and tissue and towel products.

Food and Consumer Films. We are a converter of printed bags, pouches, and rollstock. We believe we are a leading supplier of printed film products for the fresh bakery, tortilla, and frozen vegetable markets. We also manufacture barrier films used for cereal, cookie, cracker and dry mix packages that are sold directly to food manufactures.

Converter Films. We manufacture specialty coated and laminated products for a wide variety of packaging applications as well as a wide range of highly specialized, made-to-order film products. The key end markets and applications for our products include healthcare, industrial and military pouches, roll wrap, multi-wall bags, and fiber drum packaging.

International. We manufacture a wide range of products predominately serving the global food, healthcare, and personal care markets.

Marketing, Sales, and Competition

We reach our large and diversified customer base through our regional direct field sales force of dedicated professionals and the strategic use of distributors. Our regional field sales, production and support staff meet with customers to understand their needs and improve our product offerings and services. Our scale enables us to dedicate certain sales and marketing efforts to particular products or customers, when applicable, which enables us to develop expertise that we believe is valued by our customers. In addition, because we serve common customers across segments, we have the ability to efficiently utilize our sales and marketing resources to minimize costs.

The major markets in which the Company sells its products are highly competitive. Areas of competition include service, innovation, quality, and price. This competition is significant as to both the size and the number of competing firms. Competitors include but are not limited to Silgan, Aptar, Reynolds, AEP, Intertape, 3M, Clopay, Tredegar, and Bemis.

Research, Product Development and Design

We believe our technology base and research and development support are among the best in the industries we serve. Many of our customers work in partnership with our technical representatives to develop new, more competitive products. Our design professionals work directly with our customers to develop new styles and use computer-generated graphics to enable our customers to visualize the finished product. Expenditures for research and development activities were $33 million, $32 million, and $28 million in fiscal 2015, 2014 and 2013, respectively.

Raw Materials

Our primary raw material is plastic resin. In addition, we use butyl rubber, tackifying resins, chemicals and adhesives, paper and packaging materials, linerboard, rayon, and foil in various manufacturing processes. These raw materials are available from multiple sources and in general we purchase from a variety of global suppliers. In certain regions we may source specific raw materials from a limited number of suppliers or on a sole-source basis. While temporary shortages of raw materials can occur, we expect to continue to successfully manage raw material supplies without significant supply interruptions.

Employees

As of the end of the 2015 fiscal year, we employed approximately 16,000 employees with approximately 12% of those employees being covered by collective bargaining agreements. There are four agreements, representing approximately 7% of employees, due for renegotiation in fiscal year 2016. The remaining agreements expire after fiscal 2016. Our relations with employees under collective bargaining agreements remain satisfactory and there have been no significant work stoppages or other labor disputes during the past three years.

Avintiv acquisition - Avintiv has approximately 4,500 employees worldwide. Approximately 52% of these employees are represented by labor unions or works councils that have entered into separate collective bargaining agreements with Avintiv. All of these collective bargaining agreements will expire within one year. We believe these employee relations are satisfactory.

Patents, Trademarks and Other Intellectual Property

We customarily seek patent and trademark protection for our products and brands while seeking to protect our proprietary know-how. While important to our business in the aggregate, sales of any one individually patented product are not considered material to any specific segment or the consolidated results.

Environmental Matters and Government Regulation

Our past and present operations and our past and present ownership and operations of real property are subject to extensive and changing federal, state, local, and foreign environmental laws and regulations pertaining to the discharge of materials into the environment, handling and disposition of waste, and cleanup of contaminated soil and ground water, or otherwise relating to the protection of the environment. We believe that we are in substantial compliance with applicable environmental laws and regulations. However, we cannot predict with any certainty that we will not in the future incur liability with respect to noncompliance with environmental laws and regulations, contamination of sites formerly or currently owned or operated by us (including contamination caused by prior owners and operators of such sites) or the off-site disposal of regulated materials, which could be material.

We may from time to time be required to conduct remediation of releases of regulated materials at our owned or operated facilities. None of our pending remediation projects are expected to result in material costs. Like any manufacturer, we are also subject to the possibility that we may receive notices of potential liability in connection with materials that were sent to third-party recycling, treatment, and/or disposal facilities under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), and comparable state statutes, which impose liability for investigation and remediation of contamination without regard to fault or the legality of the conduct that contributed to the contamination, and for damages to natural resources. Liability under CERCLA is retroactive, and, under certain circumstances, liability for the entire cost of a cleanup can be imposed on any responsible party. We are not aware that any such notices are currently pending which are expected to result in material costs.

The Food and Drug Administration ("FDA") regulates the material content of direct-contact food and drug packages, including certain packages we manufacture pursuant to the Federal Food, Drug and Cosmetics Act. Certain of our products are also regulated by the Consumer Product Safety Commission ("CPSC") pursuant to various federal laws, including the Consumer Product Safety Act and the Poison Prevention Packaging Act. Both the FDA and the CPSC can require the manufacturer of defective products to repurchase or recall such products and may also impose fines or penalties on the manufacturer. Similar laws exist in some states, cities and other countries in which we sell our products. In addition, laws exist in certain states restricting the sale of packaging with certain levels of heavy metals, imposing fines and penalties for noncompliance. Although we believe that we use FDA approved resins and pigments in our products that directly contact food and drug products, and we believe our products are in material compliance with all applicable requirements, we remain subject to the risk that our products could be found not to be in compliance with such requirements.

The plastics industry, including us, is subject to existing and potential federal, state, local and foreign legislation designed to reduce solid waste by requiring, among other things, plastics to be degradable in landfills, minimum levels of recycled content, various recycling requirements, disposal fees, and limits on the use of plastic products. In particular, certain states have enacted legislation requiring products packaged in plastic containers to comply with standards intended to encourage recycling and increased use of recycled materials. In addition, various consumer and special interest groups have lobbied from time to time for the implementation of these and other similar measures. We believe that the legislation promulgated to date and such initiatives to date have not had a material adverse effect on us. There can be no assurance that any such future legislative or regulatory efforts or future initiatives would not have a material adverse effect on us.

Available Information

We make available, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments, if any, to those reports through our internet website as soon as practicable after they have been electronically filed with the SEC. Our internet address is www.berryplastics.com. The information contained on our website is not being incorporated herein.

Item 1A. RISK FACTORS

Our substantial indebtedness could affect our ability to meet our obligations and may otherwise restrict our activities.

We have a significant amount of indebtedness, which requires significant interest payments. Our inability to generate sufficient cash flow to satisfy our debt obligations, or to refinance our obligations on commercially reasonable terms, would have a material adverse effect on our business, financial condition and results of operations.

Our substantial indebtedness could have important consequences. For example, it could:

- limit our ability to borrow money for our working capital, capital expenditures, debt service requirements or other corporate purposes;
- increase our vulnerability to general adverse economic and industry conditions; and
- limit our ability to respond to business opportunities, including growing our business through acquisitions.

In addition, the credit agreements and indentures governing our current indebtedness contain, and any future debt instruments would likely contain, financial and other restrictive covenants, which will impose significant operating and financial restrictions on us, including restrictions on our ability to, among other things, incur or guarantee additional debt; pay dividends and make other restricted payments; create or incur certain liens; make certain investments; engage in sales of assets and subsidiary stock; enter into transactions with affiliates; transfer all or substantially all of our assets or enter into merger or consolidation transactions; and make capital expenditures.

As a result of these covenants, we could be limited in the manner in which we conduct our business, and we may be unable to engage in favorable business activities or finance future operations or capital needs. Furthermore, a failure to comply with these covenants could result in an event of default, which, if not cured or waived, could have a material adverse effect on our business, financial condition, and results of operations.

Increases in resin prices or a shortage of available resin could harm our financial condition and results of operations.

To produce our products, we use large quantities of plastic resins. 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. Over the past several years, we have at times experienced rapidly increasing resin prices. Historically, we have been able to successfully manage the impact of higher raw material costs by increasing our selling prices. However, raw material inflation could materially and adversely affect our revenue and profitability in the short term as we attempt to pass through price increases to our customers and in the long term as our customers could seek alternative solutions.

We may not be able to arrange for other sources of resin in the event of an industry-wide general shortage of resins used by us, or a shortage or discontinuation of certain types of grades of resin purchased from one or more of our suppliers. Any such shortage may materially negatively impact our competitive position versus companies that are able to better or more cheaply source resin.

We may not be able to compete successfully and our customers may not continue to purchase our products.

We compete with multiple companies in each of our product lines on the basis of a number of considerations, including price, service, quality, product characteristics and the ability to supply products to customers in a timely manner. Our products also compete with metal, glass, paper and other packaging materials as well as plastic packaging materials made through different manufacturing processes. Some of these competitive products are not subject to the impact of changes in resin prices, which may have a significant and negative impact on our competitive position versus substitute products. Our competitors may have financial and other resources that are substantially greater than ours and may be better able than us to withstand higher costs. Competition could result in our products losing market share or our having to reduce our prices, either of which could have a material adverse effect on our business, financial condition and results of operations. In addition, since we do not have long-term arrangements with many of our customers, these competitive factors could cause our customers to shift suppliers and/or packaging material quickly. Our success depends, in part, on our ability to respond timely to customer and market changes.

We may pursue and execute acquisitions, which could adversely affect our business.

As part of our growth strategy, we consider acquisitions that either complement or expand our existing business and create economic value. We cannot assure you that we will be able to consummate any such transactions or that any future acquisitions will be consummated at acceptable prices and terms. Acquired businesses may not achieve the levels of revenue, profit, productivity or otherwise perform as we expect. Acquisitions involve special risks, including the potential assumption of unanticipated liabilities and contingencies as well as difficulties in integrating acquired businesses creating substantial costs, delays or other problems that could adversely affect our business, financial condition and results of operations. Furthermore, we may not realize all of the synergies we expect to achieve from our current strategic initiatives due to a variety of risks. If we are unable to achieve the synergies that we expect to achieve from our strategic initiatives, it could adversely affect our business, financial condition and results of operations.

Because a significant number of Avintiv employees are represented by labor unions or trade councils and work under collective bargaining agreements, any employee slowdown or strikes or the failure to renew collective bargaining agreements could disrupt our business following the Avintiv acquisition.

As of September 26, 2015, approximately 52% of Avintiv's employees are represented by labor unions or trade councils and worked under collective bargaining agreements. We may not be able to maintain constructive relationships with these labor unions or trade councils. We may not be able to successfully negotiate new collective bargaining agreements on satisfactory terms in the future. The loss of a substantial number of these employees or a prolonged labor dispute could disrupt our business following the Avintiv acquisition. Any such disruption could reduce our revenues, increase our costs and result in significant losses following the Avintiv acquisition.

Current and future environmental and other governmental requirements could adversely affect our financial condition and our ability to conduct our business.

While we have not been required historically to make significant capital expenditures in order to comply with applicable environmental laws and regulations, we cannot predict with any certainty our future capital expenditure requirements because of continually changing compliance standards and environmental technology. Furthermore, violations or contaminated sites that we do not know about (including contamination caused by prior owners and operators of such sites or newly discovered information) could result in additional compliance or remediation costs or other liabilities, which could be material. We may also assume significant environmental liabilities in connection with acquisitions. In addition, federal, state, local, and foreign governments could enact laws or regulations concerning environmental matters that increase the cost of producing, or otherwise adversely affect the demand for, plastic products. Legislation that would prohibit, tax or restrict the sale or use of certain types of plastic and other containers, and would require diversion of solid waste such as packaging materials from disposal in landfills, has been or may be introduced in the U.S. Congress, state legislatures, and other legislative bodies. Although we believe that any such laws promulgated to date have not had a material adverse effect on us, there can be no assurance that future legislation or regulation would not have a material adverse effect on us. Furthermore, a decline in consumer preference for plastic products due to environmental considerations could have a negative effect on our business.

Both the FDA and the CPSC can require the manufacturer of defective products to repurchase or recall these products and may also impose fines or penalties on the manufacturer. Similar laws exist in some states, cities and other countries in which we sell products. In addition, laws exist in certain states restricting the sale of packaging with certain levels of heavy metals and imposing fines and penalties for noncompliance. Although we believe we use FDA-approved resins and pigments in our products that directly contact food and drug products and we believe our products are in material compliance with all applicable requirements, we remain subject to the risk that our products could be found not to be in compliance with these and other requirements. A recall of any of our products or any fines and penalties imposed in connection with noncompliance could have a materially adverse effect on us. See "Business—Environmental Matters and Government Regulation."

We may not be able to successfully manage the Avintiv integration and it may disrupt our current plans and operations.

Our business may be negatively affected if we are unable to effectively manage our expanded operations and there can be no assurance that we will be able to successfully integrate the businesses of Avintiv. Implementation of our integration plans will require significant time and focus from management and may divert attention from the day-to-day operations of the combined business. The integration of Avintiv may be made more difficult by our and Avintiv's respective efforts to continue to integrate other recent acquisitions, including Avintiv's recent acquisitions. The difficulties and risks associated with the integration of Avintiv could create substantial costs, delays or other problems that could adversely affect our business, financial condition and results of operations. As a result of these and other difficulties and risks, we may not accomplish the integration of Avintiv smoothly, successfully or within our budgetary expectations or anticipated timeframes. Accordingly, we may fail to realize some or all of the anticipated benefits of the Avintiv transaction.

In the event of a catastrophic loss of one of our key manufacturing facilities, our business would be adversely affected.

While we manufacture our products in a large number of diversified facilities and maintain insurance covering our facilities, including business interruption insurance, a catastrophic loss of the use of all or a portion of one of our key manufacturing facilities due to accident, labor issues, weather conditions, natural disaster or otherwise, whether short or long-term, could have a material adverse effect on us.

We depend on information technology systems and infrastructure to operate our business, system inadequacies or failures could harm our business.

We rely on the efficient and uninterrupted operation of information technology systems and networks. These systems and networks are potentially vulnerable to damage or interruption from a variety of sources, including energy or telecommunications failures, breakdowns, natural disasters, terrorism, war, computer malware or other malicious intrusions, and random attacks. To date, system interruptions have been infrequent and have not had a material impact on the business. However, there can be no assurance that these efforts will prevent future interruptions that would have a material adverse effect on our business.

Goodwill and other intangibles represent a significant amount of our net worth, and a future write-off could result in lower reported net income and a reduction of our net worth.

We are required to evaluate goodwill reflected on our balance sheet when circumstances indicate a potential impairment, or at least annually, under the impairment testing guidelines outlined in the standard. Future changes in the market multiples, cost of capital, expected cash flows, or other factors may cause our goodwill to be impaired, resulting in a non-cash charge against results of operations to write off goodwill for the amount of impairment. If a future write-off is required, the charge could have a material adverse effect on our consolidated net income in the period of any such write off.

Disruptions in the overall economy and the financial markets may adversely impact our business.

Our industry is affected by macroeconomic factors, including national, regional, and local economic conditions, employment levels, and shifts in consumer spending patterns. Disruptions in the overall economy and volatility in the financial markets could reduce consumer confidence in the economy, negatively affecting consumer spending, which could be harmful to our financial position and results of operations. In such event, decreased cash flow generated from our business may adversely affect our financial position and our ability to fund our operations. In addition, major macroeconomic disruptions involving the financial markets could adversely affect our ability to access the credit markets and availability of financing for our operations.

We are a holding company and rely on dividends and other payments, advances and transfers of funds from our subsidiaries to meet our obligations and pay dividends.

Berry Plastics Group, Inc. has no direct operations and no significant assets other than ownership of 100% of the stock of Berry Plastics Corporation. Because Berry Plastics Group, Inc. conducts its operations through its subsidiaries, it depends on those entities for dividends and other payments to generate the funds necessary to meet its financial obligations, and to pay any dividends with respect to our common stock. Legal and contractual restrictions in the agreements governing current and future indebtedness of Berry Plastics Group, Inc.'s subsidiaries, as well as the financial condition and operating requirements of Berry Plastics Group, Inc.'s subsidiaries, may limit Berry Plastics Group, Inc.'s ability to obtain cash from its subsidiaries. The earnings from, or other available assets of, Berry Plastics Group, Inc.'s subsidiaries may not be sufficient to pay dividends or make distributions or loans to enable Berry Plastics Group, Inc. to pay dividends going forward.

Our international operations pose risks to our business that may not be present with our domestic operations.

We have expanded, and may continue to expand operations in foreign countries where we have an existing presence or enter new foreign markets and expect to increase sales of products as disposable income increases in developing markets. Foreign operations are subject to certain risks that are unique to doing business in foreign countries. These risks include fluctuations in foreign currency exchange rates, inflation, economic or political instability, shipping delays in both our products and receiving delays of raw materials, changes in applicable laws, including assessments of income and non-income related taxes, reduced protection of intellectual property and regulatory policies and various trade restrictions including potential changes to export taxes or countervailing and anti-dumping duties for exported products from these countries. We expect that the Avintiv transaction will rebalance our business mix to a greater percentage of international operations, which will increase our exposure to these risks. Any of these risks could have a negative impact on our ability to deliver products to customers on a competitive and timely basis. This could reduce or impair our net sales, profits, cash flows and financial position. We are also subject to the Foreign Corrupt Practices Act and other anti-bribery laws that generally bar bribes or unreasonable gifts to foreign governments or officials. We have implemented safeguards and policies to discourage these practices by our employees and agents. However, our existing safeguards and policies to assure compliance and any future improvements may prove to be less than effective and our employees or agents may engage in conduct for which we might be held responsible. If employees violate our policies, we may be subject to regulatory sanctions. Violations of these laws or regulations could result in sanctions including fines, debarment from export privileges and penalties and could adversely affect our business, financial condition and results of operations.

We hold cash and cash equivalents at various foreign subsidiaries that may not be readily available to meet U.S. cash requirements.

Our various foreign subsidiaries hold cash and cash equivalents and these balances held outside the United States may not be readily available to meet our domestic cash requirements. As a result of the Avintiv transaction, we expect a greater percentage of our cash flows to be generated by our international operations. If we are unable to meet our U.S.

cash requirements using cash flows from U.S. operations, cash and cash equivalents held in the U.S., or by settling loans receivable with our foreign subsidiaries, it may be necessary for us to consider repatriation of earnings held outside the U.S. This may require us to record additional income tax expense and remit additional taxes, which could have a material effect on our business, financial condition and results of operations.

We may not be successful in protecting our intellectual property rights, including our unpatented proprietary know-how and trade secrets, or in avoiding claims that we infringed on the intellectual property rights of others.

In addition to relying on patent and trademark rights, we rely on unpatented proprietary know-how and trade secrets, and employ various methods, including confidentiality agreements with employees and consultants, customers and suppliers to protect our know-how and trade secrets. However, these methods and our patents and trademarks may not afford complete protection and there can be no assurance that others will not independently develop the know-how and trade secrets or develop better production methods than us. Further, we may not be able to deter current and former employees, contractors and other parties from breaching agreements and misappropriating proprietary information and it is possible that third parties may copy or otherwise obtain and use our information and proprietary technology without authorization or otherwise infringe on our intellectual property rights. Furthermore, no assurance can be given that we will not be subject to claims asserting the infringement of the intellectual property rights of third parties seeking damages, the payment of royalties or licensing fees and/or injunctions against the sale of our products. Any such litigation could be protracted and costly and could have a material adverse effect on our business, financial condition and results of operations.

New and stricter legislation and regulations may affect our business and consolidated financial condition and results of operations.

Increased legislative and regulatory activity and burdens, and a more stringent manner in which they are applied (particularly in the U.S.), could significantly impact our business and the economy as a whole. This includes, among other things, the possible taxation under U.S. law of certain income from foreign operations, compliance costs and enforcement under the Dodd-Frank Wall Street Reform and Consumer Protection Act, compliance costs and enforcement under the Sarbanes-Oxley Act, and costs associated with complying with the Patient Protection and Affordable Care Act and the regulations promulgated thereunder. Specifically, the Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal control over financial reporting. Our independent public accountants auditing our financial statements are required to attest to the effectiveness of our internal control over financial reporting. In order to continue to maintain the effectiveness of our disclosure controls and procedures and internal control over financial reporting significant resources and management oversight is required.

We may not be able to achieve cost savings as a result of our restructuring efforts and productivity and cost reduction initiatives.

From time to time we enter into cost reduction plans designed to deliver cost savings and improve equipment utilization. Our ability to achieve the anticipated cost savings and other benefits from these initiatives within the expected time frame is subject to many estimates and assumptions. Additionally, there are many factors which affect our ability to achieve savings as a result of productivity and cost reduction initiatives, such as difficult economic conditions, increased costs in other areas, the effects of and costs related to newly acquired entities, mistaken assumptions, and the other risk factors set forth herein. In addition, any actual savings may be balanced by incremental costs that were not foreseen at the time of the restructuring or cost reduction initiatives. As a result, anticipated savings may not be achieved on the timetable desired or at all. Additionally, while we execute these restructuring activities to achieve these savings, it is possible that our attention may be diverted from our ongoing operations which may have a negative impact on our ongoing operations.

If we fail to maintain effective internal control over financial reporting at a reasonable assurance level following the Avintiv Transaction, we may not be able to accurately report our financial results, and may be required to restate previously published financial information which could have a material adverse effect on our operations, investor confidence in our business and the trading prices of our securities.

We are required to assess the effectiveness of our internal control over financial reporting annually, as required by Section 404 of the Sarbanes-Oxley Act. Even though, as of September 26, 2015, we concluded that our internal control over financial reporting was effective, we need to maintain our processes and systems and adapt them as our business grows and changes. This continuous process of maintaining and adapting our internal controls and complying with Section 404 is expensive, time-consuming and requires significant management attention. As we grow our business or acquire other businesses, including Avintiv, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Avintiv is not currently subject to the requirement to obtain an attestation report from its independent registered public accounting firm on its management evaluation of the effectiveness of its internal control over financial reporting.

Avintiv identified an error in the accounting for non-controlling interest in the financial statements of its subsidiary, AVINTIV Specialty Materials, for the unaudited interim periods ended June 28, 2014 and September 27, 2014 relating to its acquisition of Providência, which resulted in the restatement of certain Avintiv Specialty Materials' consolidated financial statements for such periods. In addition, in the past Avintiv has identified and remediated material weaknesses and other deficiencies in its internal control over financial reporting. As a result of the restatement, Avintiv concluded that it had a material weakness in internal controls over financial reporting. Our remediation of a material weakness could require us to incur significant expense.

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

We lease or own our principal offices and manufacturing facilities. We believe that our property and equipment is well-maintained, in good operating condition and adequate for our present needs.

Principal manufacturing facilities - United States - 70 locations (42 Rigid Packaging, 14 Engineered Materials, 14 Flexible Packaging); Canada - 4 locations (1 Rigid Packaging, 2 Engineered Materials, 1 Flexible Packaging); Mexico - 4 locations (2 Engineered Materials, 2 Flexible Packaging); India - 2 locations (1 Engineered Materials, 1 Flexible Packaging), The Netherlands, Belgium, Germany and Australia (Engineered Materials); Brazil, Malaysia, China, and France (Flexible Packaging). The Evansville, Indiana facility serves as our world headquarters.

Leased facilities - Evansville, Indiana; Lawrence, Kansas; Phillipsburg, New Jersey; Bowling Green, Kentucky; Jackson, Tennessee; Anaheim, California; Cranbury, New Jersey; Easthampton, Massachusetts; Hanover, Maryland; Baltimore, Maryland; Westerlo, Belgium; Baroda, India; Atlanta, Georgia; Louisville, Kentucky; Peosta, Iowa; Quad Cities, Iowa; Syracuse, New York; Phoenix, Arizona; Aurora, Illinois; Lathrop, California; Tacoma, Washington; Bloomington, Indiana; Chippewa Falls, Wisconsin; Orillia, Canada; Mexico City, Mexico; Preston, Australia; Johor, Malaysia; Pewaukee, Wisconsin; Smyrna, Tennessee; Des Moines, Iowa; Milwaukee, Wisconsin; Schaumburg, Illinois; Washington, New Jersey; and Tlalnepantla, Mexico

Avintiv manufacturing facilities - United States - 5 locations, Brazil – 2 locations, France – 3 locations, China – 2 locations, United Kingdom – 2 locations (leased), Germany (leased), Canada, Mexico, Argentina, Colombia, Italy, Netherlands, Spain and India. The Avintiv manufacturing facilities currently owned and located in the United States are in the process of being pledged as collateral for our senior notes and credit facility borrowings.

Item 3. LEGAL PROCEEDINGS

In July 2012, Berry Plastics Corporation ("BPC") was sued by a customer for breach of contract, breach of express warranty, and breach of implied warranties. The customer alleged that in December 2007 and January 2008 BPC supplied the customer with defective woven polypropylene fabric used to manufacture containers that it then sold to its customers. In November 2015, a jury rendered a judgment in favor of the customer, which is immaterial to the Company. The Company intends to appeal the judgment and file certain post-trial motions. While we are unable to predict the ultimate outcome of this matter, management expects any final judgment against BPC to be covered by insurance maintained by the Company.

The Company is party to various other legal proceedings, in addition to the matter discussed above, involving routine claims which are incidental to our business. Although our legal and financial liability with respect to such proceedings cannot be estimated with certainty, we believe that any ultimate liability would not be material to the business, financial condition, results of operations or cash flows.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER

Our common stock is listed on the New York Stock Exchange under the symbol "BERY". The following table sets forth, for the periods indicated, the high and low sales prices per share of our common stock reported on the New York Stock Exchange.

	Fiscal 2015		Fiscal 2014	
	High	Low	High	Low
1st quarter	$31.88	$22.62	$23.57	$18.12
2nd quarter	36.52	30.88	24.75	21.88
3rd quarter	37.08	31.94	25.84	22.13
4th quarter	35.75	28.43	26.21	23.80

As of the date of this filing there were approximately 115 active record holders of the common stock, but we estimate the number of beneficial stockholders to be much higher as a number of our shares are held by brokers or dealers for their customers in street name.

During fiscal 2014 and 2015 we did not declare or pay any cash dividends on our common stock. Any future determination as to the declaration and payment of dividends, if any, will depend on then existing conditions, contractual requirements and other factors our board of directors may deem relevant. The terms of our senior secured credit facilities and the indentures governing our notes may restrict our ability to pay cash dividends on our common stock. Our debt instruments contain covenants that restrict our ability to pay dividends on our common stock, as well as the ability of our subsidiaries to pay dividends to us.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no shares of our common stock repurchased during fiscal 2015.

Item 6. SELECTED FINANCIAL DATA

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012	Fiscal 2011
Statement of Operations Data:					
Net sales	$ 4,881	$ 4,958	$ 4,647	$ 4,766	$ 4,561
Cost of goods sold	4,012	4,190	3,835	3,984	3,908
Selling, general and administrative	357	320	307	317	284
Amortization of intangibles	91	102	105	109	106
Restructuring and impairment charges (a)	13	30	14	31	221
Operating income	408	316	386	325	42
Debt extinguishment	94	35	64	—	68
Other expense (income), net	1	(7)	(7)	(7)	(7)
Interest expense, net	191	221	244	328	327
Income (loss) before income taxes	122	67	85	4	(346)
Income tax expense (benefit)	36	4	28	2	(47)
Consolidated net income (loss)	86	63	57	2	(299)
Net income attributable to non-controlling interest	—	1	—	—	—
Net income (loss) attributable to the Company	$ 86	$ 62	$ 57	$ 2	$ (299)
Comprehensive income (loss)	$ 10	$ 37	$ 86	$ 3	$ (324)
Net income (loss) available to Common Stockholders:					
Basic	$ 0.72	$ 0.53	$ 0.50	$ 0.02	$ (3.55)
Diluted	0.70	0.51	0.48	0.02	(3.55)
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 228	$ 129	$ 142	$ 87	$ 42
	1,294	1,364	1,266	1,216	1,250

Property, plant and equipment, net					
Total assets	5,028	5,252	5,111	5,060	5,161
Long-term debt obligations, less current portion	3,648	3,844	3,851	4,385	4,525
Total liabilities	5,081	5,353	5,307	5,512	5,612
Stockholders' equity (deficit)	(65)	(114)	(196)	(475)	(467)
Cash Flow and other Financial Data:					
Net cash from operating activities	$ 637	$ 530	$ 464	$ 479	$ 327
Net cash from investing activities	(165)	(422)	(245)	(255)	(523)
Net cash from financing activities	(365)	(119)	(164)	(179)	90

(a) Includes a goodwill impairment charge of $165 million in fiscal 2011

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion in conjunction with the consolidated financial statements of Berry Plastics Group, Inc. and its subsidiaries and the accompanying notes thereto, which information is included elsewhere herein. This discussion contains forward-looking statements and involves numerous risks and uncertainties, including, but not limited to, those described in the "Risk Factors" section. Our actual results may differ materially from those contained in any forward-looking statements. Segment level discussion of the results is disclosed in a manner consistent with the organization structure at the end of the presented period.

Overview

Berry Plastics Group, Inc. ("Berry," "we," or the "Company") is a leading provider of value-added plastic consumer packaging and engineered materials with a track record of delivering high-quality customized solutions to our customers. Representative examples of our products include specialty closures, prescription vials, specialty films, adhesives, corrosion protection materials, as well as drink cups, thin-wall containers, and bottles. We sell our products predominantly into stable, consumer-oriented end-markets, such as healthcare, personal care, and food and beverage.

We believe that we have created one of the largest product libraries in our industry, allowing us to be a comprehensive solution provider to our customers. Our customers consist of a diverse mix of leading global, national, mid-sized regional and local specialty businesses. The size and scope of our customer network allows us to introduce new products we develop or acquire to a vast audience that is familiar with our brand. In fiscal 2015, no single customer represented more than approximately 2% of net sales and our top ten customers represented 16% of net sales. We believe our manufacturing processes and our ability to leverage our scale to reduce expenses on items, such as raw materials, position us as a low-cost manufacturer relative to our competitors.

Executive Summary

Business. During fiscal 2015, we operated in the following four segments: Rigid Open Top, Rigid Closed Top (together our Rigid Packaging business), Engineered Materials, and Flexible Packaging. The Rigid Packaging business sells primarily containers, foodservice items, closures, overcaps, bottles, prescription containers, and tubes. Our Engineered Materials segment primarily sells pipeline corrosion protection solutions, tapes and adhesives, polyethylene based film products, and can liners. The Flexible Packaging segment primarily sells high barrier, multilayer film products, as well as finished flexible packages such as printed pouches.

Raw Material Trends. Our primary raw material is plastic resin. Polypropylene and polyethylene account for approximately 90% of our plastic resin pounds purchased. 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 average industry prices, as published in Chem Data, per pound were as follows by fiscal year:

	Polyethylene Butene Film			Polypropylene		
	2015	2014	2013	2015	2014	2013
1st quarter	$ .86	$ .82	$ .69	$ .92	$ .89	$ .76
2nd quarter	.75	.85	.74	.73	.95	.96
3rd quarter	.76	.86	.77	.68	.91	.84
4th quarter	.73	.87	.79	.66	.92	.89

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 in the short term 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. Consumer demand for packaged food products has been under pressure for over two years. This has put pressure on industry margins and asset utilization rates, which the Company has been able to partially offset by pricing actions, asset consolidations, introduction of new products and synergies from acquisitions. During the first half of fiscal 2015 we received a favorable impact on cash from operating activities from the declining resin prices. As resin prices stabilize, we do not expect to receive this benefit from falling resin prices in fiscal 2016. Additionally, our fiscal 2016 Adjusted Free Cash Flow guidance of $475 million assumes flat overall volumes, with our new Health, Hygiene and Specialties division expected to grow above the overall Company average. Components of adjusted free cash flow include $817 million of cash flow from operations, less $285 million of additions to property, plant, and equipment and $57 million of payments under our tax receivable agreement. For further information related to Adjusted Free Cash Flow as a non-GAAP financial measure, see “Liquidity and Capital Resources.”

Recent Developments

Revolving Line of Credit

In May 2015, the Company amended the credit agreement relating to its existing $650 million secured revolving credit facility to extend the maturity date of the revolving credit facility from June 2016 to May 2020 and to reduce interest margins and certain commitment fees.

51/8% Second Priority Senior Secured Notes

In June 2015, the Company issued $700 million of 51/8% second priority senior secured notes due July 2023. Interest on the 51/8% second priority senior secured notes is due semi-annually on January 15 and July 15. Proceeds from the issuance and existing liquidity were used to satisfy and discharge all of the outstanding 9¾% second priority senior secured notes. The Company recognized a $94 million loss on extinguishment of debt, including $83 million of early tender and redemption costs and an $11 million write-off of deferred financing fees.

Interest Rate Swap

In September 2015, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swapped the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 1.7185%, with an effective date in December 2015 and expiration in June 2019.

Recent Acquisitions

Our acquisition strategy is focused on improving our long-term financial performance, enhancing our market positions, and expanding our existing and complementary product lines. 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.

Fiscal 2014 Acquisitions

In fiscal 2014, the Company completed 3 acquisitions which included the Rexam Healthcare Containers and Closures business ("C&C") for a purchase price of $133 million, net of cash acquired, Graphic Flexible Packaging LLC's flexible plastics and films business for a purchase price of $61 million, net of cash acquired, and a controlling interest (75%) in Qingdao P&B Co., Ltd. for a purchase price of $35 million, net of cash acquired. See note 2 to the consolidated financial statements for further discussion on the respective acquisitions.

AVINTIV Inc.

In October 2015, the Company acquired 100% of the capital stock of "Avintiv" for a purchase price of approximately $2.3 billion which is preliminary and subject to adjustment. Avintiv is one of the world's leading developers, producers, and marketers of nonwoven specialty materials used in hygiene, infection prevention, personal care, and high-performance solutions. With 23 locations in 14 countries, an employee base of over 4,500 people, and the broadest range of process technologies in the industry, Avintiv's strategically located manufacturing facilities position it as a global supplier to many of the same leading consumer and industrial product manufacturers that Berry supplies and utilize similar key raw materials as Berry's existing business. 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. See note 17 to the consolidated financial statements for further discussion on the Avintiv acquisition.

Discussion of Results of Operations for Fiscal 2015 Compared to Fiscal 2014

Consolidated Overview	Fiscal Year			
	2015	2014	$ Change	% Change
Net sales	$ 4,881	$ 4,958	$ (77)	(2%)
Operating income	$ 408	$ 316	$ 92	29%
Operating income percentage of net sales	8%	6%		

The net sales decrease of $77 million from fiscal 2014 is primarily attributed to a 3% base volume decline primarily related to soft customer demand, selling price decreases of 2% due to the pass through of lower raw material costs, and a 1% negative impact from foreign currency changes partially offset by net sales from businesses acquired in the last twelve months.

The operating income increase of $92 million from fiscal 2014 is primarily attributed to a $42 million improvement in the relationship of net selling price to raw material and freight costs, $6 million of operating income from businesses acquired in the last twelve months, a $17 million decrease in depreciation and amortization expense, a $19 million improvement in operating performance in manufacturing, and a $56 million decrease in business integration expenses. The $56 million decrease in business integration expenses primarily consisted of a decrease in restructuring and impairment costs of $17 million and a $39 million decrease in costs attributed primarily to manufacturing inefficiencies associated with the 2014 cost reduction plan and acquisition integration costs. These improvements were partially offset by $26 million from base volume declines, a $15 million increase in selling, general and administrative expenses, and a $7 million negative impact from foreign currency changes. Business integration expenses consist of restructuring and impairment charges, manufacturing inefficiencies associated with cost reduction plans, major innovation start-up and other business optimization costs. Acquisition operating income (loss) is generally analyzed in total until the acquisition has been included in our results for a full year.

Rigid Open Top	Fiscal Year			
	2015	2014	$ Change	% Change
Net sales	$ 1,055	$ 1,110	$ (55)	(5%)

Operating income	$	71		$	34		$	37	109	%
Operating income percentage of net sales		7	%		3	%				

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Net sales in the Rigid Open Top segment decreased by $55 million from fiscal 2014 primarily due to a 3% base volume decline and selling price decreases of 2% due to the pass through of lower raw material costs. The base volume decline is primarily related to a decline in dairy container product sales due to soft customer demand.

The operating income increase of $37 million from fiscal 2014 primarily is attributed to $14 million of improvement in the relationship of net selling price to raw material and freight costs and a $37 million decrease in business integration expenses. The $37 million decrease primarily consisted of a decrease in restructuring and impairment costs of $8 million and a $29 million decrease in costs attributed to manufacturing inefficiencies associated with the 2014 cost reduction plan. These improvements were partially offset by $7 million in base volume declines, a $5 million increase in selling, general and administrative expenses, and a decline in operating performance in manufacturing.

Rigid Closed Top	Fiscal Year			
	2015	2014	$ Change	% Change
Net sales	$ 1,474	$ 1,469	$ 5	0 %
Operating income	$ 139	$ 132	$ 7	5 %
Operating income percentage of net sales	9 %	9 %		

Net sales in the Rigid Closed Top segment increased by $5 million from fiscal 2014 primarily as a result of acquisition volume of 7% attributed to the United States portion of the Healthcare Containers and Closures business purchased from Rexam (“C&C”), partially offset by a volume decline of 3% and selling price decreases due to the pass through of lower raw material costs. The volume decline is primarily attributed to general market softness in our closure product offerings.

The operating income increase of $7 million from fiscal 2014 is primarily attributed to a $8 million improvement in operating performance in manufacturing, $3 million of improvement in the relationship of net selling price to raw material and freight costs, a $7 million decrease in depreciation and amortization expense, and a $3 million decline in selling, general, and administrative expenses, partially offset by $14 million in base volume declines.

Engineered Materials	Fiscal Year			
	2015	2014	$ Change	% Change
Net sales	$ 1,397	$ 1,455	$ (58)	(4 %)
Operating income	$ 143	$ 125	$ 18	14 %
Operating income percentage of net sales	10 %	9 %		

Net sales in the Engineered Materials segment decreased by $58 million from fiscal 2014 primarily as a result of a 1% base volume decline, selling price decreases of 1% due to the pass through of lower raw material costs, and a 2% negative impact from foreign currency. The base volume decline is primarily attributed to general market softness and lost import revenues in our home and party product offerings.

The operating income increase of $18 million from fiscal 2014 is primarily attributed to a decrease in restructuring and impairment costs of $6 million, a $3 million improvement in operating performance in manufacturing, a $13 million improvement in the relationship of net selling price to raw material and freight costs, and a $7 million decrease in depreciation and amortization expense, partially offset by a $4 million increase in selling, general, and administrative expenses, a $3 million negative impact from foreign currency changes, and $2 million in base volume declines.

Flexible Packaging	Fiscal Year			
	2015	2014	$ Change	% Change
Net sales	$ 955	$ 924	$ 31	3 %
Operating income	$ 55	$ 25	$ 30	120 %
Operating income percentage of net sales	6 %	3 %		

Net sales in Flexible Packaging increased $31 million from fiscal 2014 primarily as a result of acquisition volume of 9% partially offset by a 3% base volume decline and a 3% negative impact from foreign currency changes.

The operating income increase of $30 million in the Flexible Packaging segment from fiscal 2014 is primarily attributed to a $9 million improvement in operating performance in manufacturing, a $12 million improvement in the relationship of net selling price to raw material and freight costs, an $8 million benefit from businesses acquired in the last 12 months, a $3 million decrease in depreciation and amortization expense, a decrease in restructuring and impairment costs of $4 million, and a $10 million decrease of costs primarily from manufacturing inefficiencies associated with the 2014 cost reduction plan partially offset by $3 million from base volume declines, $9 million of increased selling general and administrative expenses, and a $4 million negative impact from foreign currency changes.

Debt extinguishment	Fiscal Year			
	2015	2014	$ Change	% Change
Debt extinguishment	$ 94	$ 35	$ 59	169 %

Debt extinguishment increase of $59 million from fiscal 2014 primarily due to tender and redemption costs associated with the discharge of the 9¾% second priority senior secured notes in fiscal 2015 compared to the various costs related to the discharge of the 9½% second priority senior secured notes in fiscal 2014.

Other expense (income), net	Fiscal Year			
	2015	2014	$ Change	% Change
Other expense (income), net	$ 1	$ (7)	$ 8	114 %

The other expense (income) increase of $8 million from fiscal 2014 is primarily the result of losses realized on the sale and disposal of assets in fiscal 2015 compared to gains on the sale of assets in fiscal 2014.

Interest expense	Fiscal Year			
	2015	2014	$ Change	% Change
Interest expense, net	$ 191	$ 221	$ (30)	(14 %)

Interest expense decreased $30 million from fiscal 2014 primarily as the result of the retirement of the 9¾% second priority senior secured notes and corresponding issuance of the 51/8% second priority senior secured notes in June 2015 as well as the retirement of the 9½% second priority senior secured notes and corresponding issuance of the 5½% second priority senior secured notes in May 2014.

Income tax expense	Fiscal Year			
	2015	2014	$ Change	% Change
Income tax expense	$ 36	$ 4	$ 32	800 %

We recorded an income tax expense of $36 million in fiscal 2015. The effective tax rate for fiscal 2015 compared to fiscal 2014 is impacted by discrete items, the inclusion of certain international entities for which a full valuation allowance is recognized, and $20 million of federal and state research and development tax credits recognized in fiscal 2014.

Discussion of Results of Operations for Fiscal 2014 Compared to Fiscal 2013

Consolidated Overview	Fiscal Year			
	2014	2013	$ Change	% Change
Net sales	$ 4,958	$ 4,647	$ 311	7 %
Operating income	$ 316	$ 386	$ (70)	(18 %)
Operating income percentage of net sales	6 %	8 %		

Net sales increased from $4,647 million in fiscal 2013 to $4,958 million in fiscal 2014. This increase is primarily attributed to net sales from businesses acquired in the last twelve months of 4% and selling price increases of 4% due to higher resin prices partially offset by base volume declines.

Operating income decreased from $386 million in fiscal 2013 to $316 million in fiscal 2014. This decrease is primarily attributed $27 million of raw material and freight cost inflation in excess of net selling price increases, $19 million from base volume declines described above, a $2 million increase in depreciation and amortization expense, and a $57 million increase in business integration expense. The $57 million increase in business integration expense primarily consisted of an increase in restructuring and impairment costs of $16 million, an increase of $9 million related to major innovation start-up costs and the remaining $32 million primarily being costs attributed to manufacturing inefficiencies associated with the 2014 cost reduction plan and acquisition integration costs. Manufacturing inefficiencies represent abnormal period costs including wasted materials, unplanned facility or equipment downtime, and excess labor incurred at both rationalized and receiving facilities.

Rigid Open Top	Fiscal Year			
	2014	2013	$ Change	% Change
Net sales	$ 1,110	$ 1,127	$ (17)	(2 %)
Operating income	$ 34	$ 123	$ (89)	(72 %)
Operating income percentage of net sales	3 %	11 %		

Net sales in the Rigid Open Top segment decreased from $1,127 million in fiscal 2013 to $1,110 million in fiscal 2014 due to base volume declines of 5% and product realignment of 1% partially offset by net selling price increases of 4%. The volume decline was primarily attributed to softness in thermoformed drink cups and container product offerings.

Operating income for the Rigid Open Top segment decreased from $123 million in fiscal 2013 to $34 million in fiscal 2014. This decrease is primarily attributed to $18 million from base volume declines, $10 million decline in operating performance in manufacturing, $1 million increase in selling, general and administrative expenses, a $12 million decline in the relationship of net selling price to raw material and freight costs, and a $48 million increase in business integration expense primarily consisting of an increase in restructuring and impairment costs of $12 million, an increase of $9 million related to major innovation start-up costs and the remaining $27 million primarily being costs attributed to manufacturing inefficiencies associated with the 2014 cost reduction plan. These manufacturing inefficiencies represent abnormal period costs including wasted materials, unplanned facility or equipment downtime, and excess labor incurred at both rationalized and receiving facilities.

Rigid Closed Top	Fiscal Year			
	2014	2013	$ Change	% Change
Net sales	$ 1,469	$ 1,387	$ 82	6 %
Operating income	$ 132	$ 130	$ 2	2 %
Operating income percentage of net sales	9 %	9 %		

Net sales in the Rigid Closed Top segment increased from $1,387 million in fiscal 2013 to $1,469 million in fiscal 2014 as a result of net selling price increases of 2% and C&C acquisition volume of 4%.

Operating income for the Rigid Closed Top segment increased from $130 million in fiscal 2013 to $132 million in fiscal 2014. The increase is attributed to a $6 million decline in the relationship of net selling price to raw material costs, $1 million attributed to negative product mix, $3 million increase in business integration expenses attributed to acquisition integration, and $1 million loss from businesses acquired in the last twelve months offset by $1 million decrease in depreciation and amortization, a $7 million improvement in operating performance in manufacturing and a $5 million improvement in selling, general and administrative expenses.

Engineered Materials	Fiscal Year			
	2014	2013	$ Change	% Change
Net sales	$ 1,455	$ 1,397	$ 58	4 %
Operating income	$ 125	$ 116	$ 9	8 %
Operating income percentage of net sales	9 %	8 %		

The Engineered Materials segment net sales increased from $1,397 million in fiscal 2013 to $1,455 million in fiscal 2014 as a result of net selling price increases of 4% and base volume growth of 1% partially offset by exited business of 1%.

Operating income for the Engineered Materials segment increased from $116 million in fiscal 2013 to $125 million in fiscal 2014. This increase is primarily attributed to a $19 million improvement in manufacturing operating performance, $2 million decline in restructuring expense, a $5 million decline in acquisition integration expense, and a $4 million decline in selling, general and administrative expenses partially offset by $14 million of raw material cost inflation in excess of net selling prices, $2 million from exited business, and a $5 million increase in depreciation and amortization expense.

Flexible Packaging	Fiscal Year			
	2014	2013	$ Change	% Change
Net sales	$ 924	$ 736	$ 188	26 %
Operating income	$ 25	$ 17	$ 8	47 %
Operating income percentage of net sales	3 %	2 %		

The Flexible Packaging segment net sales increased from $736 million in fiscal 2013 to $924 million in fiscal 2014 as a result of businesses acquired in the last twelve months of 22%, product realignment of 1% and net selling price increases of 5% partially offset by a 2% volume decline attributed to soft customer demand.

Operating income for the Flexible Packaging segment increased from $17 million in fiscal 2013 to $25 million in fiscal 2014. This increase is primarily attributed to $10 million benefit from businesses acquired in the last twelve months, $5 million gain in the relationship of net selling price to raw material costs, $4 million improvement in operating performance in manufacturing and a $2 million decline in depreciation and amortization expense partially offset by an increase in restructuring and impairment costs of $7 million, and a $6 million increase in business integration expenses attributed to acquisition integration.

Debt extinguishment	Fiscal Year			
	2014	2013	$ Change	% Change
Debt extinguishment	$ 35	$ 64	$ (29)	(45 %)

Debt extinguishment decreased from $64 million in fiscal 2013 to $35 million in fiscal 2014. The decrease is primarily attributed to the various debt extinguishment costs that resulted from our incremental term loan restructuring and use of the proceeds from our initial public offering in fiscal 2013 compared to the debt extinguishment costs related to the discharge of the outstanding 9½% second priority senior secured notes in fiscal 2014.

Other income	Fiscal Year			
	2014	2013	$ Change	% Change
Other income, net	$ (7)	$ (7)	$ —	— %

Other income remained flat at $7 million in fiscal 2013 and fiscal 2014 primarily due to the change in the fair value of derivative instruments in fiscal 2013 offset by gains recognized on asset disposals in fiscal 2014.

Interest expense	Fiscal Year			
	2014	2013	$ Change	% Change
Interest expense, net	$ 221	$ 244	$ (23)	(9 %)

Interest expense decreased from $244 million in fiscal 2013 to $221 million in fiscal 2014 primarily as the result of the various debt extinguishments and refinancings completed in the last twenty four months.

Income tax expense	Fiscal Year			
	2014	2013	$ Change	% Change
Income tax expense	$ 4	$ 28	$ (24)	(86 %)

We recorded an income tax expense of $4 million in fiscal 2014 compared to $28 million in fiscal 2013. The effective tax rate is impacted by the relative impact of discrete items and certain international entities for which a full valuation allowance is recognized and $20 million of federal and state research and development tax credits recognized in fiscal 2014.

Liquidity and Capital Resources

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. We have senior secured credit facilities consisting of $2.4 billion of term loans and a $650 million asset based revolving line of credit. The revolving credit facility matures in May 2020, $1.0 billion of the term loans mature in January 2021, and the remaining $1.4 billion of term loans mature in February 2020. The availability under the revolving line of credit is the lesser of $650 million amount determined by a defined borrowing base which is calculated based on available accounts receivable and inventory. The revolving line of credit allows up to $130 million of letters of credit to be issued instead of borrowings under the revolving line of credit. At the end of fiscal 2015, the Company had no outstanding balance on the revolving credit facility, $37 million of outstanding letters of credit and a $142 million borrowing base reserve, resulting in unused borrowing capacity of $471 million under the revolving line of credit. The Company was in compliance with all covenants at the end of fiscal 2015.

Our fixed charge coverage ratio, as defined in the revolving credit facility, is calculated based on a numerator consisting of adjusted EBITDA less pro forma adjustments, income taxes paid in cash and capital expenditures, and a denominator consisting of scheduled principal payments in respect of indebtedness for borrowed money, interest expense and certain distributions. We are obligated to sustain a minimum fixed charge coverage ratio of 1.0 to 1.0 under the revolving credit facility at any time when the aggregate unused capacity under the revolving credit facility is less than 10% of the lesser of the revolving credit facility commitments and the borrowing base (and for 10 business days following the date upon which availability exceeds such threshold) or during the continuation of an event of default. Our fixed charge ratio was 2.9 to 1.0 at the end of fiscal 2015.

Despite not having financial maintenance covenants, our debt agreements contain certain negative covenants. The failure to comply with these negative covenants could restrict our ability to incur additional indebtedness, effect acquisitions, enter into certain significant business combinations, make distributions or redeem indebtedness. The term loan facility contains a negative covenant first lien secured leverage ratio covenant of 4.0 to 1.0 on a pro forma basis for a proposed transaction, such as an acquisition or incurrence of additional first lien debt. Our first lien secured leverage ratio was 2.8 to 1.0 at the end of fiscal 2015. In addition to its regular principal payments, in October 2014, the Company elected to make a voluntary one-time $100 million principal payment on the outstanding term loan, using existing liquidity.

A key financial metric utilized in the calculation of the first lien leverage ratio is Adjusted EBITDA as defined in the Company's senior secured credit facilities. The following table reconciles (i) our Adjusted EBITDA to operating income and (ii) our Adjusted Free Cash Flow to cash flow from operating activities, in each case, for fiscal 2015 and the quarterly period ended September 26, 2015:

	Fiscal 2015	Quarterly Period Ended September 26, 2015
Adjusted EBITDA	$ 820	$ 205
Depreciation and amortization	(350)	(87)
Business optimization and other expense (a)	(44)	(9)
Restructuring and impairment	(13)	(2)
Unrealized cost savings	(5)	—
Operating income	$ 408	$ 107
Cash flow from operating activities	$ 637	$ 245
Net additions to property, plant and equipment	(162)	(56)
Payments of tax receivable agreement	(39)	—
Adjusted free cash flow	$ 436	$ 189
Cash flow from investing activities	(165)	(59)
Cash flow from financing activities	(365)	(17)

(a) Includes business optimization, integration expenses and non-cash charges

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 or net income or cash flows from operating activities, in each case determined in accordance with GAAP. We define "Adjusted EBITDA" as operating income before depreciation, amortization, and certain restructuring and business optimization charges and as adjusted for unrealized cost reductions and acquired businesses, including unrealized synergies, which are more particularly defined in our credit documents and the indentures governing our notes. Adjusted EBITDA is used by our lenders for debt covenant compliance purposes and by our management as one of several measures to evaluate management performance. While the determination of appropriate adjustments in the calculation of Adjusted EBITDA is subject to interpretation under the terms of our credit facilities, management believes the adjustments described above are in accordance with the covenants in such credit facilities. Adjusted EBITDA eliminates certain charges that we believe do not reflect operations and underlying operational performance. Although we use Adjusted EBITDA as a financial measure to assess the performance of our business, the use of Adjusted EBITDA has important limitations, including that (1) Adjusted EBITDA does not represent funds available for dividends, reinvestment or other discretionary uses; (2) Adjusted EBITDA does not reflect cash outlays for capital expenditures or contractual commitments; (3) Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital; (4) Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or principal payments on indebtedness; (5) Adjusted EBITDA does not reflect income tax expense or the cash necessary to pay income taxes; (6) Adjusted EBITDA excludes depreciation and amortization and, although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect cash requirements for such replacements; and (7) Adjusted EBITDA does not reflect the impact of earnings or charges resulting from matters we consider not to be indicative of our ongoing operations.

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 use Adjusted Free Cash Flow as a measure of liquidity because it assists us in assessing our company’s ability to fund its growth through its generation of cash. 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 without regard to revenue and expense recognition, which can vary depending upon accounting methods. Although we use Adjusted Free Cash Flow as a liquidity measure to assess our ability to generate cash, the use of Adjusted Free Cash Flow has important limitations, including that: (1) Adjusted Free Cash Flow does not reflect the cash requirements necessary to service principal payments on our indebtedness; and (2) Adjusted Free Cash Flow removes the impact of accrual basis accounting on asset accounts and non-debt liability accounts.

These non-GAAP financial measures may be calculated differently by other companies, including other companies in our industry, limiting their usefulness as comparative measures. Because of these limitations, you should consider Adjusted EBITDA and Adjusted Free Cash Flow alongside other performance measures and liquidity measures, including operating income, various cash flow metrics, net income and our other GAAP results.

Contractual Obligations and Off Balance Sheet Transactions

Our contractual cash obligations at the end of fiscal 2015 are summarized in the following table which does not give any effect to the tax receivable agreement, including the $57 million payment made in October 2015, or income taxes payable as we cannot reasonably estimate the timing of future cash outflows associated with those commitments.

	Payments due by period as of the end of fiscal 2015				
	Total	< 1 year	1-3 years	4-5 years	> 5 years
Long-term debt, excluding capital leases	$ 3,588	$ 14	$ 28	$ 1,327	$ 2,219
Capital leases (a)	142	28	48	42	24
Fixed interest rate payments	462	63	127	127	145
Variable interest rate payments (b)	464	86	171	169	38
Operating leases	334	50	85	62	137
Funding of pension and other postretirement obligations (c)	3	3	—	—	—
Total contractual cash obligations	$ 4,993	$ 244	$ 459	$ 1,727	$ 2,563

(a) Includes anticipated interest of $16 million over the life of the capital leases.

(b) Based on applicable interest rates in effect end of fiscal 2015.

(c) Pension and other postretirement contributions have been included in the above table for the next fiscal year. The amount is the estimated contributions to our defined benefit plans. The assumptions used by the actuary in calculating the projection includes weighted average return on pension assets of approximately 7.25% for fiscal 2015. The estimation may vary based on the actual return on our plan assets. See footnotes to the Consolidated Financial Statements of this Form 10-K for more information on these obligations.

Note: Tables excludes $2.5 billion of financing related to the Avintiv acquisitions th occurred in fiscal 2016 and Redeemable non-controlling interest of $12 million as of fiscal 2015.

Cash Flows from Operating Activities

Net cash provided by operating activities increased $107 million to $637 million in fiscal 2015. The change is primarily attributed to improved operating performance and improved working capital. The working capital improvement was primarily attributed to declining resin prices during fiscal 2015.

Net cash provided by operating activities increased $66 million to $530 million in fiscal 2014. The change is primarily attributed to improved working capital.

Cash Flows from Investing Activities

Net cash used in investing activities decreased $257 million to $165 million in fiscal 2015 primarily as a result of deceased acquisition activity and lower capital expenditures.

Net cash used in investing activities increased $175 million to $422 million in fiscal 2014 million primarily as a result of an increase in acquisition activity in the prior twelve months, offset by lower capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing activities increased $246 million to $365 million in fiscal 2015. The change is primarily attributed to an increase in long-term debt repayments and increased debt financing costs related to the discharge of the 9¾% second priority senior secured notes.

Net cash used in financing activities decreased $45 million to $119 million in fiscal 2014. The change is primarily attributed to a decline in long-term repayments, net of proceeds from the initial public offering, partially offset by the $32 million of tax receivable agreement payments.

Liquidity Outlook

Tax receivable agreement – In connection with the initial public offering, the Company entered into an income tax receivable agreement ("TRA") that provides for the payment to pre-initial public offering stockholders, option holders and holders of our stock appreciation rights, 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income tax that are actually realized (or are deemed to be realized in the case of a change of control) as a result of the utilization of our and our subsidiaries' net operating losses attributable to periods prior to the initial public offering. The total TRA balance at the end of fiscal 2015 was $232 million, prior to the $57 million payment made in October of 2015.

At the end of fiscal 2015, our cash balance was $228 million, of which $65 million was located outside the U.S. The Company has deemed cash located outside the U.S. to be indefinitely reinvested and we intend to use this to finance our foreign operations and for future international expansion. We believe our existing U.S. based cash and cash flow from U.S. operations, together with available borrowings under our senior secured credit facilities, will be adequate to meet our liquidity needs over the next twelve months. We do not expect our free cash flow to be sufficient to cover all long-term debt obligations and intend to refinance these obligations prior to maturity. 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 in this Form 10-K.

Critical Accounting Policies and Estimates

We disclose those accounting policies that we consider to be significant in determining the amounts to be utilized for communicating our consolidated financial position, results of operations and cash flows in the first note to our consolidated financial statements included elsewhere herein. Our discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with these principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Our estimates and judgments are based on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition. Revenue from the sales of products is recognized at the time title and risks and rewards of ownership pass to the customer (either when the products reach the free-on-board shipping point or destination depending on the contractual terms), there is persuasive evidence of an arrangement, the sales price is fixed and determinable and collection is reasonably assured.

Accrued Rebates. We offer various rebates to our customers in exchange for their purchases. These rebate programs are individually negotiated with our customers and contain a variety of different terms and conditions. Certain rebates are calculated as flat percentages of purchases, while others include tiered volume incentives. These rebates may be payable monthly, quarterly, or annually. The calculation of the accrued rebate balance involves significant management estimates, especially where the terms of the rebate involve tiered volume levels that require estimates of expected annual sales. These provisions are based on estimates derived from current program requirements and historical experience. We use all available information when calculating these reserves. Our accrual for customer rebates was $53 million and $50 million as of the end of fiscal 2015 and 2014, respectively.

Impairments of Long-Lived Assets. In accordance with the guidance from the FASB for the impairment or disposal of long-lived assets we review long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of such assets may not be recoverable. Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. The impairment loss is measured by comparing the fair value of the asset to its carrying amount. We recognized non-cash asset impairment of long-lived assets of $2 million, $7 million and $5 million in fiscal 2015, 2014 and 2013, respectively.

Goodwill and Other Indefinite Lived Intangible Assets. We evaluate goodwill using a qualitative assessment to determine whether it is more likely than not that the fair value of any reporting unit is less that the carrying amount. If we determine that the fair value of the reporting unit is more likely than not below its carrying amount, we evaluate the goodwill of that reporting unit using a two-step impairment test. Otherwise, we conclude that no impairment is indicated and we do not perform the two-step impairment test.

For purposes of conducting our annual goodwill assessment, we have six reporting units, Rigid Open Top, Rigid Closed Top, Engineered Materials, Flexible Packaging, Tapes and International. We determined that each of the components within our respective reporting units should be aggregated and tested at the respective level as one reporting unit. We reached this conclusion because within each of our reporting units, we have similar products, production processes, markets served or management oversight which allows us to share assets and resources across the components. We regularly re-align our production equipment and manufacturing facilities in order to take advantage of cost savings opportunities, obtain synergies and create manufacturing efficiencies. We utilize our research and development centers, design center, tool shops, and graphics center which all provide benefits to each of the reporting units and work on new products that can benefit multiple components. We also believe that the goodwill is recoverable from the overall operations of the unit given the similarity in production processes, synergies from leveraging the combined resources, common raw materials, common research and development, similar margins, management oversight and similar distribution methodologies. There were no indicators of impairment in the fourth quarter that required us to perform a test for the recoverability of goodwill.

In conducting a qualitative assessment, the Company analyzes a variety of events or factors that may influence the fair value of the reporting unit, including; changes in the carrying amount of the reporting unit; relevant market data for both the company and its peer companies; industry outlooks; macroeconomic conditions; liquidity; changes in key personnel; and the Company's competitive position. Significant judgment is used to evaluate the totality of these events and factors to make the determination of whether it is more likely than not that the fair value of the reporting unit is less than its carrying value.

We completed our qualitative screen as of the first date of the fourth fiscal quarter and determined that it was more likely than not that the fair value of each of our reporting units was greater than the carrying value, thus it was not necessary to perform Step 1 for any of our reporting units during fiscal 2015. We reached this conclusion based on the increased valuations within the packaging industry and projected future operating results of our reporting units. The identified increased valuations within the plastics packaging industry is supported by the Company's increase in stock price, market capitalization, and total enterprise value. Future declines in packaging market multiple, significant declines in operating performance, or significant declines in sales could impact future impairment tests or may require a more frequent assessment.

Goodwill as of September 26, 2015, by reporting unit is as follows:

	Goodwill as of September 26, 2015	
Rigid Open Top	$	681
Rigid Closed Top		823
Engineered Films		52
Tapes		17
Flexible Packaging		61
International		18
	$	1,652

We also performed our annual impairment test for fiscal 2015 of our indefinite lived intangible assets, which relates to the "Berry Plastics" trade name and totaled $207 million at September 26, 2015 and determined that no impairment existed. The fair value is estimated based on the income approach. Our forecasts included revenue growth consistent with our historical revenue growth assumptions and inflation. Similar to our goodwill, significant declines in our sales or operating performance could impact future impairment tests or may require a more frequent assessment.

Deferred Taxes and Effective Tax Rates. We estimate the effective tax rates ("ETR") and associated liabilities or assets for each of our legal entities of ours in accordance with authoritative guidance. We use tax planning to minimize or defer tax liabilities to future periods. In recording ETRs and related liabilities and assets, we rely upon estimates, which are based upon our interpretation of United States and local tax laws as they apply to our legal entities and our overall tax structure. Audits by local tax jurisdictions, including the United States Government, could yield different interpretations from our own and cause the Company to owe more taxes than originally recorded. For interim periods, we accrue our tax provision at the ETR that we expect for the full year. As the actual results from our various businesses vary from our estimates earlier in the year, we adjust the succeeding interim periods' ETRs to reflect our best estimate for the year-to-date results and for the full year. As part of the ETR, if we determine that a deferred tax asset arising from temporary differences is not likely to be utilized, we will establish a valuation allowance against that asset to record it at its expected realizable value. In multiple foreign jurisdictions, the Company believes that it will not generate sufficient future taxable income to realize the related tax benefits. The Company has provided a full valuation allowance against its foreign net operating losses included within the deferred tax assets in multiple foreign jurisdictions. The Company has not provided a valuation allowance on its federal net operating losses in the United States because it has cumulative income, federal taxable income, and has also determined that future reversals of its temporary taxable differences will occur in the same periods and are of the same nature as the temporary differences giving rise to the deferred tax assets. Changes in our valuation allowance could also impact our tax receivable agreement obligation. Our valuation allowance against deferred tax assets was $29 million and $56 million as of the end of fiscal 2015 and 2014, respectively.

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

Item 7A. 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 September 26, 2015, our senior secured credit facilities are comprised of (i) $2.4 billion term loans and (ii) a $650 million revolving credit facility with no borrowings outstanding. Borrowings under our senior secured credit facilities bear interest, at our option, at either an alternate base rate or 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 September 26, 2015, the LIBOR rate of 0.33% applicable to the term loans was below the LIBOR floor of 1.00. A 0.25% change in LIBOR would not have a material impact on our interest expense.

In February 2013, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swapped the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 2.355%, with an effective date in 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 Deferred income taxes and will be amortized to Interest expense from May 2016 through May 2019, the original term of the swap agreement.

In March 2014, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swaps the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 2.59%, with an effective date in February 2016 and expiration in February 2019. The Company records changes in fair value in Accumulated other comprehensive income.

In September 2015, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swapped the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 1.7185%, with an effective date in December 2015 and expiration in June 2019. The Company records changes in fair value in Accumulated other comprehensive income.

Resin Cost Sensitivity

We are exposed to market risk from changes in plastic resin prices that could impact our results of operations and financial condition. Our plastic resin purchasing strategy is to deal with only high-quality, dependable suppliers. We believe that we have maintained strong relationships with these key suppliers and expect that such relationships will continue into the foreseeable future. However, we can give you no assurances as to such availability or the prices thereof. If the price of resin increased or decreased by 5% it would result in a material change to our financial statements.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index to Financial Statements

Index to Financial Statement Schedules

All schedules have been omitted because they are not applicable or not required or because the required information is included in the consolidated financial statements or notes thereto.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

In connection with the preparation of our Form 10-K as of and for the fiscal year ended September 26, 2015, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of September 26, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of September 26, 2015.

Management’s Report on Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projection of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control — Integrated Framework (2013 Framework).

Based upon its assessment, management concluded that as of September 26, 2015, the Company's internal controls over financial reporting were effective. In addition, Ernst & Young LLP as of September 26, 2015, the Company's independent registered public accounting firm, provided an attestation report on the Company's internal control over financial reporting.

Changes in Internal Controls over Financial Reporting

No changes in our internal control over financial reporting occurred during the fourth quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In October 2015, we acquired 100% of the capital stock of Avintiv which added 23 facilities, 18 of which are located outside the U.S. Management considers this transaction to be material to the Company's consolidated financial statements and believes that the internal controls and procedures of Avintiv will have a material effect on the Company's internal control over financial reporting. As we work to integrate and combine Avintiv into the Company's existing internal control structure we are evaluating Avintiv's existing internal controls and procedures over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item, with the exception of the Code of Ethics disclosure below, is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with the 2016 Annual Meeting of Stockholders.

Code of Ethics

We have a Code of Business Ethics that applies to all directors and employees, including our Chief Executive Officer and senior financial officers. These standards are designed to deter wrongdoing and to promote the highest ethical, moral, and legal conduct of all employees. Our Code of Business Ethics can be obtained, free of charge, by contacting our corporate headquarters or can be obtained from the Corporate Governance section of the Investors page on the Company's internet site.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with the 2016 Annual Meeting of Stockholders.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item, is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with the 2016 Annual Meeting of Stockholders.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACATION AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with the 2016 Annual Meeting of Stockholders.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to our definitive Proxy Statement to be filed in connection with the 2016 Annual Meeting of Stockholders.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements

The financial statements listed under Item 8 are filed as part of this report.

2. Financial Statement Schedules

Schedules have been omitted because they are either not applicable or the required information has been disclosed in the financial statements or notes thereto.

3. Exhibits

The exhibits listed on the Exhibit Index immediately following the signature page of this annual report are filed as part of this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Berry Plastics Group, Inc.

We have audited the accompanying consolidated balance sheets of Berry Plastics Group, Inc. as of September 26, 2015, and September 27, 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and cash flows for each of the three years in the period ended September 26, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Berry Plastics Group, Inc. at September 26, 2015, and September 27, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 26, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Berry Plastics Group, Inc.'s internal control over financial reporting as of September 26, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission "(2013 framework)" and our report dated November 23, 2015, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Indianapolis, Indiana
November 23, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Berry Plastics Group, Inc.

We have audited Berry Plastics Group, Inc.'s internal control over financial reporting as of September 26, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission "(2013 framework)" (the COSO criteria). Berry Plastics Group Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Berry Plastics Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of September 26, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of Berry Plastics Group, Inc. and our report dated November 23, 2015, expressed an unqualified opinion thereon.

/s/Ernst & Young LLP

Indianapolis, Indiana
November 23, 2015

Berry Plastics Group, Inc.
Consolidated Statements of Income
(in millions of dollars)

	Fiscal years ended		
	September 26, 2015	September 27, 2014	September 28, 2013
Net sales	$4,881	$4,958	$4,647
Costs and expenses:			
Cost of goods sold	4,012	4,190	3,835
Selling, general and administrative	357	320	307
Amortization of intangibles	91	102	105
Restructuring and impairment charges	13	30	14
Operating income	408	316	386
Debt extinguishment	94	35	64
Other expense (income), net	1	(7)	(7)
Interest expense, net	191	221	244
Income before income taxes	122	67	85
Income tax expense	36	4	28
Consolidated net income	86	63	57
Net income attributable to non-controlling interests	-	1	-
Net income attributable to the Company	$86	$62	$57
Net income per share:			
Basic (see footnote 14)	$0.72	$0.53	$0.50
Diluted (see footnote 14)	$0.70	$0.51	$0.48

Berry Plastics Group, Inc.
Consolidated Statements of Comprehensive Income
(in millions of dollars)

	Fiscal years ended		
	September 26, 2015	September 27, 2014	September 28, 2013
Consolidated net income	$86	$63	$57
Currency translation	(45)	(16)	(5)
Interest rate hedges	(33)	(3)	20
Defined benefit pension and retiree health benefit plans	(16)	(11)	34
Provision for income taxes related to other comprehensive income items	18	5	(20)
Comprehensive income	10	38	86
Comprehensive income attributable to non-controlling interests	-	1	-
Comprehensive income attributable to the Company	$10	$37	$86

See notes to consolidated financial statements.

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Berry Plastics Group, Inc.
Consolidated Balance Sheets
(in millions of dollars)

	September 26, 2015	September 27, 2014
Assets		
Current assets:		
Cash and cash equivalents	$228	$129
Accounts receivable, net	434	491
Inventories	522	604
Deferred income taxes	162	166
Prepaid expenses and other current assets	37	42
Total current assets	1,383	1,432
Property, plant and equipment, net	1,294	1,364
Goodwill, intangible assets and deferred costs, net	2,349	2,455
Other assets	2	1
Total assets	$5,028	$5,252
Liabilities and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$330	$395
Accrued expenses and other current liabilities	338	314
Current portion of long-term debt	37	58
Total current liabilities	705	767
Long-term debt, less current portion	3,648	3,844
Deferred income taxes	387	386
Other long-term liabilities	341	356
Total liabilities	5,081	5,353
Commitments and contingencies		
Redeemable non-controlling interest	12	13
Stockholders' equity (deficit):		
Common stock: (119.9 and 118.0 shares issued, respectively)	1	1
Additional paid-in capital	406	367
Non-controlling interest	3	3
Accumulated deficit	(356)	(442)
Accumulated other comprehensive loss	(119)	(43)
Total stockholders' equity (deficit)	(65)	(114)
Total liabilities and stockholders' equity (deficit)	$5,028	$5,252

See notes to consolidated financial statements.

Berry Plastics Group, Inc.
Consolidated Statements of Changes in Stockholders' Equity (Deficit)
(in millions of dollars)

	Common Stock	Additional Paid-in Capital	Notes Receivable-Common Stock	Non Controlling Interest	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance at September 29, 2012	$ 1	$ 131	$ (2)	$ 3	$ (47)	$ (561)	$ (475)
Stock compensation expense	-	16	-	-	-	-	16
Repayment of note receivable	-	-	2	-	-	-	2
Proceeds from issuance of common stock	-	27	-	-	-	-	27
Termination of redeemable shares	-	23	-	-	-	-	23
Proceeds from initial public offering	-	438	-	-	-	-	438
Obligation under tax receivable agreement	-	(313)	-	-	-	-	(313)
Interest rate hedge, net of tax	-	-	-	-	10	-	10
Net income attributable to the Company	-	-	-	-	-	57	57
Currency translation	-	-	-	-	(5)	-	(5)
Defined benefit pension and retiree health benefit plans, net of tax	-	-	-	-	21	-	21
Derivative amortization, net of tax	-	-	-	-	3	-	3
Balance at September 28, 2013	$ 1	$ 322	$ -	$ 3	$ (18)	$ (504)	$ (196)
Stock compensation expense	-	15	-	-	-	-	15
Proceeds from issuance of common stock	-	17	-	-	-	-	17
Obligation under tax receivable agreement	-	13	-	-	-	-	13
Interest rate hedge, net of tax	-	-	-	-	(2)	-	(2)

Net income attributable to the Company	-	-	-	-	-	62	62
Currency translation	-	-	-	-	(16)	-	(16)
Defined benefit pension and retiree health benefit plans, net of tax	-	-	-	-	(7)	-	(7)
Balance at September 27, 2014	$ 1	$ 367	$ -	$ 3	$ (43)	$ (442)	$ (114)
Stock compensation expense	-	21	-	-	-	-	21
Proceeds from issuance of common stock	-	18	-	-	-	-	18
Interest rate hedge, net of tax	-	-	-	-	(21)	-	(21)
Net income attributable to the Company	-	-	-	-	-	86	86
Currency translation	-	-	-	-	(45)	-	(45)
Defined benefit pension and retiree health benefit plans, net of tax	-	-	-	-	(10)	-	(10)
Balance at September 26, 2015	$ 1	$ 406	$ -	$ 3	$ (119)	$ (356)	$ (65)

See notes to consolidated financial statements.

Berry Plastics Group, Inc.

Consolidated Statements of Cash Flows
(in millions of dollars)

	Fiscal years ended		
	September 26, 2015	September 27, 2014	September 28, 2013
Cash Flows from Operating Activities:			
Consolidated net income	$ 86	$ 63	$ 57
Net income attributable to non-controlling interests	-	1	-
Net income attributable to the Company	$ 86	$ 62	$ 57
Adjustments to reconcile net cash from operating activities:			
Depreciation	259	256	236
Amortization of intangibles	91	102	105
Non-cash interest expense	6	7	14
Debt extinguishment	94	35	64
Settlement of interest rate hedge	-	-	16
Stock compensation expense	21	15	16
Deferred income tax	26	(4)	22
Impairment of long-lived assets	2	7	6
Other non-cash items	-	(3)	(6)
Changes in operating assets and liabilities:			
Accounts receivable, net	46	5	3
Inventories	74	19	(43)
Prepaid expenses and other assets	(8)	(1)	15
Accounts payable and other liabilities	(60)	30	(41)
Net cash from operating activities	637	530	464
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(180)	(215)	(239)
Proceeds from sale of assets	18	19	18
Acquisitions of business, net of cash acquired	(3)	(226)	(24)
	(165)	(422)	(245)

Net cash from investing activities						
Cash Flows from Financing Activities:						
Proceeds from long-term borrowings		693		1,627		1,391
Repayment of long-term borrowings		(951)		(1,687)		(1,978)
Proceeds from issuance of common stock		18		17		27
Payment of tax receivable agreement		(39)		(32)		(5)
Proceeds from initial public offering		-		-		438
Repayment of notes receivable		-		-		2
Debt financing costs		(86)		(44)		(39)
Net cash from financing activities		(365)		(119)		(164)
Effect of currency translation on cash		(8)		(2)		-
Net change in cash and cash equivalents		99		(13)		55
Cash and cash equivalents at beginning of period		129		142		87
Cash and cash equivalents at end of period	$	228	$	129	$	142

See notes to consolidated financial statements.

Berry Plastics Group, Inc.
Notes to Consolidated Financial Statements
(in millions of dollars, except as otherwise noted)

1. Basis of Presentation and Summary of Significant Accounting Policies

Background

Berry Plastics Group, Inc. (“Berry” or the “Company”) is a leading provider of value-added plastic consumer packaging and engineered materials with a track record of delivering high-quality customized solutions to our customers. Representative examples of our products include specialty closures, prescription vials, specialty films, adhesives, corrosion protection materials, as well as drink cups, thin-wall containers, and bottles. We sell our products predominantly into stable, consumer-oriented end-markets, such as healthcare, personal care, and food and beverage.

Basis of Presentation

Periods presented in these financial statements include fiscal periods ending September 26, 2015 (“fiscal 2015”), September 27, 2014 (“fiscal 2014”), and September 28, 2013 (“fiscal 2013”). Berry, through its wholly-owned subsidiaries operates in four primary segments: Rigid Open Top, Rigid Closed Top, Engineered Materials, and Flexible Packaging. The Company’s customers are located principally throughout the United States, without significant concentration with any one customer. The Company performs periodic credit evaluations of its customers’ financial condition and generally does not require collateral. The Company’s fiscal year is based on fifty two week periods. The Company has evaluated subsequent events through the date the financial statements were issued.

The consolidated financial statements include the accounts of Berry and its subsidiaries, all of which includes our wholly owned and majority owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation. Where our ownership of consolidated subsidiaries is less than 100% the non-controlling interests are reflected in Non-controlling interest and Redeemable non-controlling interests.

Revenue Recognition

Revenue from the sales of products is recognized at the time title and risks and rewards of ownership pass to the customer, there is persuasive evidence of an arrangement, the sales price is fixed and determinable and collection is reasonably assured. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted for as reductions in gross sales to arrive at net sales. In accordance with the Revenue Recognition standards of the Accounting Standards Codification (“Codification” or “ASC”), the Company provides for these items as reductions of revenue at the later of the date of the sale or the date the incentive is offered. These provisions are based on estimates derived from current program requirements and historical experience.

Shipping, handling, purchasing, receiving, inspecting, warehousing, and other costs of distribution are presented in Cost of goods sold in the Consolidated Statements of Income. The Company classifies amounts charged to its customers for shipping and handling in Net sales in the Consolidated Statements of Income.

Purchases of Raw Materials and Concentration of Risk

The largest supplier of the Company’s total resin material requirements represented approximately 21% of purchases in fiscal 2015. The Company uses a variety of suppliers to meet its resin requirements.

Research and Development

Research and development costs are expensed when incurred. The Company incurred research and development expenditures of $33 million, $32 million, and $28 million in fiscal 2015, 2014, and 2013, respectively.

Stock-Based Compensation

The compensation guidance of the FASB requires that the compensation cost relating to share-based payment transactions be recognized in financial statements based on alternative fair value models. The share-based compensation cost is measured based on the fair value of the equity or liability instruments issued. The Company's share-based compensation plan is more fully described in Note 12. The Company recorded total stock compensation expense of $21 million, $15 million, and $16 million for fiscal 2015, 2014 and 2013, respectively.

In August 2013, the Company recorded an $8 million stock compensation charge related to certain modifications to prior Berry Plastics Incentive Plans, and amended outstanding non-qualified stock option agreements to reflect such modifications.

The Company utilizes the Black-Scholes option valuation model for estimating the fair value of the stock options. The model allows for the use of a range of assumptions. Expected volatilities utilized in the Black-Scholes model are based on implied volatilities from traded stocks of peer companies. Similarly, the dividend yield is based on historical experience and the estimate of future dividend yields. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant. The Company's options have a ten year contractual life. For purposes of the valuation model in fiscal years 2015, 2014, and 2013, the Company used the simplified method for determining the granted options expected lives. The fair value for options granted has been estimated at the date of grant using a Black-Scholes model, with the following weighted average assumptions:

	Fiscal year					
	2015		2014		2013	
Risk-free interest rate	1.6	%	1.3	%	0.6	%
Dividend yield	0.0	%	0.0	%	0.0	%
Volatility factor	.30		.33		.38	
Expected option life	7 years		7 years		7 years	

Foreign Currency

For the non-U.S. subsidiaries that account in a functional currency other than U.S. Dollars, assets and liabilities are translated into U.S. Dollars using period-end exchange rates. Sales and expenses are translated at the average exchange rates in effect during the period. Foreign currency translation gains and losses are included as a component of Accumulated other comprehensive income (loss) within stockholders' equity (deficit). Gains and losses resulting from foreign currency transactions are included in the Consolidated Statements of Income.

Cash and Cash Equivalents

All highly liquid investments purchased with a maturity of three months or less from the time of purchase are considered to be cash equivalents.

Allowance for Doubtful Accounts

The Company's accounts receivable and related allowance for doubtful accounts are analyzed in detail on a quarterly basis and all significant customers with delinquent balances are reviewed to determine future collectability. The determinations are based on legal issues (such as bankruptcy status), past history, current financial and credit agency reports, and the experience of the credit representatives. Reserves are established in the quarter in which the Company makes the determination that the account is deemed uncollectible. The Company maintains additional reserves based on its historical bad debt experience. The following table summarizes the activity for fiscal years ended for the allowance for doubtful accounts:

	2015		2014		2013	
Allowance for doubtful accounts, beginning	$	3	$	3	$	3

Bad debt expense		2		-		1
Write-offs against allowance		(2)		-		(1)
Allowance for doubtful accounts, ending	$	3	$	3	$	3

Inventories

Inventories are stated at the lower of cost or market and are valued using the first-in, first-out method. Management periodically reviews inventory balances, using recent and future expected sales to identify slow-moving and/or obsolete items. The cost of spare parts is charged to cost of goods sold when purchased. We evaluate our reserve for inventory obsolescence on a quarterly basis and review inventory on-hand to determine future salability. We base our determinations on the age of the inventory and the experience of our personnel. We reserve inventory that we deem to be not salable in the quarter in which we make the determination. We believe, based on past history and our policies and procedures, that our net inventory is salable. Our inventory reserves were $20 million and $19 million as of fiscal 2015 and fiscal 2014, respectively. Inventory as of fiscal 2015 and 2014 was:

Inventories:	2015	2014
Finished goods	$ 309	$ 353
Raw materials	213	251
	$ 522	$ 604

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets ranging from 15 to 25 years for buildings and improvements, 2 to 10 years for machinery, equipment, and tooling and over the term of the agreement for capital leases. Leasehold improvements are depreciated over the shorter of the useful life of the improvement or the lease term. Repairs and maintenance costs are charged to expense as incurred. The Company capitalized interest of $6 million, $6 million, and $5 million in fiscal 2015, 2014, and 2013, respectively. Property, plant and equipment as of fiscal 2015 and 2014 was:

Property, plant and equipment:	2015	2014
Land, buildings and improvements	$ 367	$ 363
Equipment and construction in progress	2,618	2,509
	2,985	2,872
Less accumulated depreciation	(1,691)	(1,508)
	$ 1,294	$ 1,364

Long-lived Assets

Long-lived assets, including property, plant and equipment and definite lived intangible assets are reviewed for impairment in accordance with the Property, plant and equipment standard of the ASC whenever facts and circumstances indicate that the carrying amount may not be recoverable. Specifically, this process involves comparing an asset's carrying value to the estimated undiscounted future cash flows the asset is expected to generate over its remaining life. If this process were to result in the conclusion that the carrying value of a long-lived asset would not be recoverable, a write-down of the asset to fair value would be recorded through a charge to operations. Fair value is determined based upon discounted cash flows or appraisals as appropriate. Long-lived assets that are held for sale are reported at the lower of the assets' carrying amount or fair value less costs related to the assets' disposition. We recorded impairment charges totaling $2 million, $7 million, and $5 million to write-down long-lived assets to their net realizable valuables during fiscal years 2015, 2014, and 2013 respectively.

Goodwill

The Company follows the principles provided by the Goodwill and Other Intangibles standard of the ASC. Goodwill is not amortized but rather tested annually for impairment. The Company performs their annual impairment assessment on the first day of the fourth quarter in each respective fiscal year. The Company has recognized cumulative charges for goodwill impairment of $165 million which occurred in fiscal 2011. For purposes of conducting our annual goodwill impairment test, the Company determined that we have six reporting units, Open Top, Rigid Closed Top, Engineered Films, Flexible Packaging, International and Tapes. We determined that each of the components within our respective reporting units should be aggregated. We reached this conclusion because within each of our reporting units, we have similar products, management oversight, production processes and markets served which allow us to share assets and resources across the product lines. We regularly re-align our production equipment and manufacturing facilities in order to take advantage of cost savings opportunities, obtain synergies and create manufacturing efficiencies. In addition, we utilize our research and development centers, design center, tool shops, and graphics center which all provide benefits to each of the reporting units and work on new products that can benefit multiple product lines. We also believe that the goodwill is recoverable from the overall operations of the unit given the similarity in production processes, synergies from leveraging the combined resources, common raw materials, common research and development, similar margins and similar distribution methodologies. In fiscal year 2015, the Company applied the qualitative assessment and determined that it is more likely than not that the fair value of the reporting unit exceeded the carrying amount of each of their reporting units. The Company reached this conclusion based on the increased valuations within the packaging industry and projected future operating results and an increase in the Company's common stock price, market capitalization and total enterprise value. In fiscal 2014, the Company applied the qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit may be less than the carrying amount, and concluded that it was more likely than not that the fair value of each reporting unit exceeded the carrying except for the Rigid Open Top reporting unit due to the decline in that units operating income. The Company completed step 1 in Fiscal 2014 of the impairment test which indicated no impairment existed for Rigid Open Top. In fiscal 2013, the Company applied the qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit may be less than the carrying amount and determined that no impairment was indicated and therefore did not perform a two-step impairment test.

The changes in the carrying amount of goodwill by reportable segment are as follows:

	Rigid Open Top	Rigid Closed Top	Engineered Materials	Flexible Packaging	Total
Balance as of fiscal 2013	$ 681	$ 831	$ 73	$ 49	$ 1,634
Foreign currency translation adjustment	-	(2)	(2)	-	(4)
Acquisitions (realignment), net	-	(2)	-	31	29
Balance as of fiscal 2014	$ 681	$ 827	$ 71	$ 80	$ 1,659
Foreign currency translation adjustment	-	(5)	(2)	(2)	(9)
Acquisitions, net	-	1	-	1	2
Balance as of fiscal 2015	$ 681	$ 823	$ 69	$ 79	$ 1,652

Deferred Financing Fees

Deferred financing fees are amortized to interest expense using the effective interest method over the lives of the respective debt agreements. Pursuant to ASC 835-30 the Company presents $5 million of its debt issuance costs on the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. In addition, the remaining $4 million of deferred charges, which relate to the Company's revolving line of credit, are presented in Goodwill, intangible assets and deferred costs, net.

Intangible Assets

Customer relationships are being amortized using an accelerated amortization method which corresponds with the customer attrition rates used in the initial valuation of the intangibles over the estimated life of the relationships which range from 11 to 20 years. Trademarks that are expected to remain in use, which are indefinite lived intangible assets, are required to be reviewed for impairment annually. Technology intangibles are being amortized using the straight-line method over the estimated life of the technology which is 11 years. License intangibles are being amortized using the straight-line method over the life of the license which is 10 years. Patent intangibles are being amortized using the straight-line method over the shorter of the estimated life of the technology or the patent expiration date ranging from 10 to 20 years, with a weighted-average life of 15 years. The Company evaluates the remaining useful life of intangible assets on a periodic basis to determine whether events and circumstances warrant a revision to the remaining useful life. We completed the annual impairment test of our indefinite lived trade names and noted no impairment.

	Customer Relationships	Trademarks	Other Intangibles	Accumulated Amortization	Total
Balance as of fiscal 2013	$ 1,134	$ 283	$ 107	$ (668)	$ 856
	(2)	-	(1)	-	(3)

Adjustment for income taxes														
Foreign currency translation adjustment		(3	)		(1	)		(2	)		4			(2	)
Amortization expense		-			-			-			(102	)		(102	)
Acquisition intangibles		38			-			5			-			43	
Balance as of fiscal 2014	$	1,167		$	282		$	109		$	(766	)	$	792	
Adjustment for income taxes		(3	)		-			-			-			(3	)
Foreign currency translation adjustment		(6	)		(1	)		(3	)		4			(6	)
Amortization expense		-			-			-			(91	)		(91	)
Acquisition intangibles		1			-			-			-			1	
Balance as of fiscal 2015	$	1,159		$	281		$	106		$	(853	)	$	693	

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Insurable Liabilities

The Company records liabilities for the self-insured portion of workers' compensation, health, product, general and auto liabilities. The determination of these liabilities and related expenses is dependent on claims experience. For most of these liabilities, claims incurred but not yet reported are estimated based upon historical claims experience.

Income Taxes

The Company accounts for income taxes under the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequence of events that have been recognized in the Company's financial statements or income tax returns. Income taxes are recognized during the period in which the underlying transactions are recorded. Deferred taxes, with the exception of non-deductible goodwill, are provided for temporary differences between amounts of assets and liabilities as recorded for financial reporting purposes and such amounts as measured by tax laws. If the Company determines that a deferred tax asset arising from temporary differences is not likely to be utilized, the Company will establish a valuation allowance against that asset to record it at its expected realizable value. The Company recognizes uncertain tax positions when it is more likely than not that the tax position will be sustained upon examination by relevant taxing authorities, based on the technical merits of the position. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company's effective tax rate is dependent on many factors including: the impact of enacted tax laws in jurisdictions in which the Company operates; the amount of earnings by jurisdiction, due to varying tax rates in each country; and the Company's ability to utilize foreign tax credits related to foreign taxes paid on foreign earnings that will be remitted to the United States.

Comprehensive Income (Loss)

Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive losses include net unrealized gains or losses resulting from currency translations of foreign subsidiaries, changes in the value of our derivative instruments and adjustments to the pension liability.

The accumulated balances related to each component of other comprehensive income (loss) were as follows (amounts below are net of taxes):

	Currency Translation	Defined Benefit Pension and Retiree Health Benefit Plans	Interest Rate Hedges	Accumulated Other Comprehensive Loss
Balance as of fiscal 2012	$ (15)	$ (29)	$ (3)	$ (47)
Other comprehensive income (loss)	(5)	34	20	49
Provision for income taxes	-	(13)	(7)	(20)
Balance as of fiscal 2013	$ (20)	$ (8)	$ 10	$ (18)
	(16)	(11)	(3)	(30)

Other comprehensive loss				
Provision for income taxes	-	4	1	5
Balance as of fiscal 2014	$ (36)	$ (15)	$ 8	$ (43)
Other comprehensive loss	(45)	(16)	(33)	(94)
Provision for income taxes	-	6	12	18
Balance as of fiscal 2015	$ (81)	$ (25)	$ (13)	$ (119)

Accrued Rebates

The Company offers various rebates to customers based on purchases. These rebate programs are individually negotiated with customers and contain a variety of different terms and conditions. Certain rebates are calculated as flat percentages of purchases, while others included tiered volume incentives. These rebates may be payable monthly, quarterly, or annually. The calculation of the accrued rebate balance involves significant management estimates, especially where the terms of the rebate involve tiered volume levels that require estimates of expected annual sales. These provisions are based on estimates derived from current program requirements and historical experience. The accrual for customer rebates was $53 million and $50 million at the end of fiscal 2015 and 2014, respectively and is included in Accrued expenses and other current liabilities.

Pension

Pension benefit costs include assumptions for the discount rate, retirement age, and expected return on plan assets. Retiree medical plan costs include assumptions for the discount rate, retirement age, and health-care-cost trend rates. Periodically, the Company evaluates the discount rate and the expected return on plan assets in its defined benefit pension and retiree health benefit plans. In evaluating these assumptions, the Company considers many factors, including an evaluation of the discount rates, expected return on plan assets and the health-care-cost trend rates of other companies; historical assumptions compared with actual results; an analysis of current market conditions and asset allocations; and the views of advisers.

Net Income Per Share

The Company calculates basic net income per share based on the weighted-average number of outstanding common shares. The Company calculates diluted net income per share based on the weighted-average number of outstanding common shares plus the effect of dilutive securities.

Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make extensive use of estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of sales and expenses. Actual results could differ materially from these estimates. Changes in estimates are recorded in results of operations in the period that the event or circumstances giving rise to such changes occur.

Recently Issued Accounting Pronouncements

Income Taxes

In July 2013, the FASB issued Accounting Standards Update No. 2013-11: Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (a consensus of the FASB Emerging Issues Task Force) (“ASU 2013-11”). An entity is required to present unrecognized tax benefits as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. The determination of whether a deferred tax asset is available is based on the unrecognized tax benefit and the deferred tax asset that exists at the reporting date and presumes disallowance of the tax position at the reporting date. The guidance will eliminate the diversity in practice in the presentation of unrecognized tax benefits but will not alter the way in which entities assess deferred tax assets for realizability. The adoption of ASU 2013-11 did not have an impact on the Company’s consolidated financial statements.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued a final standard on revenue recognition. Under the new standard, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In order to do so, an entity would follow the five-step process for in-scope transactions: 1) identify the contract with a customer, 2) identify the separate performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the separate performance obligations in the contract, and 5) recognize revenue when (or as) the entity satisfies a performance obligation. For public entities, the provisions of the new standard are effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. Early adoption for annual reporting periods beginning after December 15, 2016 is permitted. An entity can apply the new revenue standard retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application in retained earnings. There are areas within the standard that are currently under review and reconsideration by the FASB, which could lead to future updates to the standard. As the outcomes of this process could lead to changes to the standard, we are still in the process of determining our approach to the adoption of this new standard, and the anticipated impact to the consolidated financial statements.

Classification of Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. This standard amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of a deferred charge. It is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company has elected to early adopt this guidance. The effects of the adoption for fiscal years ended September 26, 2015 and September 27, 2014, were a $5 million and $16 million, respectively, reduction of Goodwill, intangible assets, and deferred costs, net and Long-term debt, less current portion on the consolidated balance sheets by amounts classified as deferred costs.

Inventory

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory to simplify the guidance on the subsequent measurement of inventory, excluding inventory measured using last-in, first out or the retail inventory method. Under the new standard, inventory should be at the lower of cost and net realizable value. The new accounting guidance is effective for interim and annual periods beginning after December 15, 2016 with early adoption permitted. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures, but do not expect the standard to have a material effect on our financial statements.

Business Combinations

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805)- Simplifying the accounting for Measurement-Period Adjustments requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. Entities should present separately on the face of the income statement or disclose in the footnotes the portion of the measurement period adjustment recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment had been recognized as of the acquisition date. The new guidance is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. We are evaluating the effect this guidance will have on our consolidated financial statements and related disclosures, but do not expect the standard to have a material effect on our financial statements.

2. Acquisition

Graphic Flexible Packaging LLC’s Flexible Plastics and Films

In September 2013, the Company acquired Graphic Flexible Packaging LLC’s flexible plastics and films business (“Graphic Plastics”) for a purchase price of $61 million, net of cash acquired. Graphic Plastics is a producer of wraps, films, pouches, and bags for the food, medical, industrial, personal care, and pet food markets. The Graphic Plastics business is operated in the Company’s Flexible Packaging segment. To finance the purchase, the Company used existing liquidity. The Graphic Plastics acquisition has been accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the identifiable assets and liabilities based on estimated fair values at the acquisition date. The acquired assets and assumed liabilities consisted of working capital of $8 million, property and equipment of $18 million, intangible assets of $25 million, goodwill of $14 million and other long-term liabilities of $4 million.

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Qingdao P&B Co., Ltd

In January 2014, the Company acquired the controlling interest (75%) of Qingdao P&B Co., Ltd ("P&B") for a purchase price of $35 million, net of cash acquired. P&B utilizes thermoform, injection, and automated assembly manufacturing processes to produce products for multiple markets across China as well as globally, most predominately serving the food and personal care markets. P&B is operated in the Flexible Packaging segment. To finance the purchase, the Company used existing liquidity. The P&B acquisition has been accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the identifiable assets and liabilities based on estimated fair values at the acquisition date. As part of the P&B acquisition, the non-controlling interest holder has a put option, and the Company has a call option on the remaining 25% interest in P&B that becomes effective three years from the date of purchase. Upon execution of the put or call option, the purchase price for the remaining equity interest will be determined based on the fair value at the date of execution. The non-controlling interest of P&B is recorded in Redeemable non-controlling interest and will be carried at fair value with adjustments in the fair value being recorded in Additional paid-in capital. The acquired assets and assumed liabilities consisted of working capital of $9 million, property and equipment of $24 million, intangible assets of $11 million, goodwill of $10 million, other long-term liabilities of $4 million and Redeemable non-controlling interest of $13 million.

Rexam Healthcare Containers and Closures

In June 2014, the Company acquired Rexam's Healthcare Containers and Closures business ("C&C") for a purchase price of $133 million, net of cash acquired. The C&C business produces bottles, closures and specialty products for pharmaceutical and over-the-counter applications. Facilities located in the United States are operated in the Rigid Closed Top segment, and locations outside the United States are operated in the Flexible Packaging segment. To finance the purchase, the Company used existing liquidity. The C&C acquisition has been accounted for under the purchase method of accounting, and accordingly, the purchase price has been allocated to the identifiable assets and liabilities based on estimated fair values at the acquisition date. The acquired assets and assumed liabilities consisted of working capital of $32 million, property and equipment of $85 million, non-current deferred tax asset of $3 million, intangible assets of $9 million, goodwill of $7 million, and other long-term liabilities of $3 million.

3. Long-Term Debt

Revolving Line of Credit

In May 2015, the Company amended the credit agreement relating to its existing $650 million secured revolving credit facility to extend the maturity date of the revolving credit facility from June 2016 to May 2020 and to reduce interest margins and certain commitment fees.

51/8% Second Priority Senior Secured Notes

In June 2015, the Company issued $700 million of 51/8% second priority senior secured notes due July 2023. Interest on the 51/8% second priority senior secured notes is due semi-annually on January 15 and July 15. Proceeds from the issuance and existing liquidity were used to satisfy and discharge all of the outstanding 9¾% second priority senior secured notes. The Company recognized a $94 million loss on extinguishment of debt, including $83 million of early tender and redemption costs and an $11 million write-off of deferred financing fees.

Long-term debt consists of the following:

	Maturity Date	September 26, 2015	September 27, 2014
Term loan		$ 1,369	$ 1,383

	February 2020		
Term loan	January 2021	1,019	1,122
Revolving line of credit	May 2020	—	—
51/8% Second Priority Senior Secured Notes	July 2023	700	—
51/2% Second Priority Senior Secured Notes	May 2022	500	500
9¾% Second Priority Senior Secured Notes	Retired	—	800
Debt discounts and deferred fees		(29)	(36)
Capital leases and other	Various	126	133
Total long-term debt		3,685	3,902
Current portion of long-term debt		(37)	(58)
Long-term debt, less current portion		$ 3,648	$ 3,844

Berry Plastics Corporation Senior Secured Credit Facility

Our wholly owned subsidiary Berry Plastics Corporation's senior secured credit facilities consist of $2.4 billion of term loans and a $650 million asset-based revolving line of credit. The availability under the revolving line of credit is the lesser of $650 million or based on a defined borrowing base which is calculated based on available accounts receivable and inventory.

The borrowings under the senior secured credit facilities bear interest at a rate equal to an applicable margin plus, as determined at the Company's option, either (a) a base rate determined by reference to the higher of (1) the prime rate of Credit Suisse, Cayman Islands Branch, as administrative agent, in the case of the term loan facility or Bank of America, N.A., as administrative agent, in the case of the revolving credit facility and (2) the U.S. federal funds rate plus 1/2 of 1% or (b) LIBOR determined by reference to the costs of funds for eurodollar deposits in dollars in the London interbank market for the interest period relevant to such borrowing Bank Compliance for certain additional costs. The applicable margin for LIBOR rate borrowings under the revolving credit facility range from 1.25% to 1.75%, term loan maturing in January 2021 is 2.75% annum with a LIBOR floor of 1.00% and the term loan maturing in February 2020 is 2.50% per annum with a LIBOR floor of 1.00%.

In addition to paying interest on outstanding principal under the senior secured credit facilities, the Company is required to pay a commitment fee to the lenders under the revolving credit facilities in respect of the unutilized commitments thereunder at a rate equal to 0.25% to 0.325% per annum depending on the average daily available unused borrowing capacity. The Company also pays a customary letter of credit fee, including a fronting fee of 0.125% per annum of the stated amount of each outstanding letter of credit, and customary agency fees.

The term loan facility requires minimum quarterly principal payments of $4 million, with the remaining amount payable upon maturity. The Company may voluntarily repay outstanding loans under the senior secured credit facilities at any time without premium or penalty, other than customary "breakage" costs with respect to eurodollar loans. In October 2014, the Company elected to make a voluntary one-time $100 million principal payment on the $1 billion outstanding term loan, using existing liquidity. The senior secured credit facilities contain various restrictive covenants that, among other things and subject to specified exceptions, prohibit the Company from prepaying other indebtedness, and restrict its ability to incur indebtedness or liens, make investments or declare or pay any dividends. All obligations under the senior secured credit facilities are unconditionally guaranteed by the Company and, subject to certain exceptions, each of the Company's existing and future direct and indirect domestic subsidiaries. The guarantees of those obligations are secured by substantially all of the Company's assets as well as those of each domestic subsidiary guarantor.

Our fixed charge coverage ratio, as defined in the revolving credit facility, is calculated based on a numerator consisting of adjusted EBITDA less pro forma adjustments, income taxes paid in cash and capital expenditures, and a denominator consisting of scheduled principal payments in respect of indebtedness for borrowed money, interest expense and certain distributions. We are obligated to sustain a minimum fixed charge coverage ratio of 1.0 to 1.0 under the revolving credit facility at any time when the aggregate unused capacity under the revolving credit facility is less than 10% of the lesser of the revolving credit facility commitments and the borrowing base (and for 10 business days following the date upon which availability exceeds such threshold) or during the continuation of an event of default. At the end of fiscal 2015, the Company had unused borrowing capacity of $471 million under the revolving credit facility and thus was not subject to the minimum fixed charge coverage ratio covenant. Our fixed charge ratio was 2.9 to 1.0 at the end of fiscal 2015.

Despite not having financial maintenance covenants, our debt agreements contain certain negative covenants. The failure to comply with these negative covenants could restrict our ability to incur additional indebtedness, effect acquisitions, enter into certain significant business combinations, make distributions or redeem indebtedness. The term loan facility contains a negative covenant first lien secured leverage ratio covenant of 4.0 to 1.0 on a pro forma basis for a proposed transaction, such as an acquisition or incurrence of additional first lien debt. Our first lien secured leverage ratio was 2.8 to 1.0 at the end of fiscal 2015.

Future maturities of long-term debt as of fiscal year end 2015 are as follows:

Fiscal Year	Maturities
2016	$ 37
2017	35
2018	35
2019	33
2020	1,332
Thereafter	2,242
	$ 3,714

Interest paid was $191 million, $214 million, and $245 million in fiscal 2015, 2014, and 2013, respectively.

4. Financial Instruments and Fair Value Measurements

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. For those derivative instruments that are designated and qualify as hedging instruments, the Company must designate the hedging instrument, 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, as determined by FASB guidance, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item are recorded to Accumulated other comprehensive loss. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements and did not identify any hedge ineffectiveness related to the interest rate swaps recorded on the Consolidated Balance Sheets in the current period.

Cash Flow Hedging Strategy

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of Accumulated other comprehensive loss and reclassified into earnings in the same line item associated with the forecasted transaction and in the same period or periods during which the hedged transaction affects earnings. The categorization of the framework used to price these derivative instruments is considered a Level 3, due to the subjective nature of the unobservable inputs used to determine the fair value.

In February 2013, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swapped the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 2.355%, with an effective date in 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 Deferred income taxes and will be amortized to Interest expense from May 2016 through May 2019, the original term of the swap agreement.

In March 2014, the Company entered into an interest rate swap transaction to manage cash flow variability associated with $1 billion of outstanding variable rate term loan debt. The agreement swaps the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 2.59%, with an effective date in February 2016 and expiration in February 2019. The Company records changes in fair value in Accumulated other comprehensive income.

In September 2015, the Company entered into an interest rate swap transaction to protect $1 billion of outstanding variable rate term loan debt from future interest rate volatility. The agreement swapped the greater of a three-month variable LIBOR contract or 1.00% for a fixed annual rate of 1.7185%, with an effective date in December 2015 and expiration in June 2019. The Company records changes in fair value in Accumulated other comprehensive income.

	Liability Derivatives		
	Balance Sheet Location	2015	2014
Interest rate swaps	Other long-term liabilities	$ 36	$ 3

The Fair Value Measurements and Disclosures section of the ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value. This section also establishes a three-level hierarchy (Level 1, 2, or 3) for fair value measurements based upon the observability of inputs to the valuation of an asset or liability as of the measurement date. This section also requires the consideration of the counterparty's or the Company's nonperformance risk when assessing fair value.

The Company's interest rate swap fair values were determined using Level 2 inputs as other significant observable inputs were not available.

The Company's financial instruments consist primarily of cash and cash equivalents, long-term debt, interest rate swap agreements and capital lease obligations. The book value of our long-term indebtedness exceeded fair value by $55 million as of fiscal 2015, while conversely, its fair value exceeded book value by $86 million as of fiscal 2014. The Company's long-term debt fair values were determined using Level 2 inputs as other significant observable inputs were not available.

Non-recurring Fair Value Measurements

The Company has certain assets that are measured at fair value on a non-recurring basis under the circumstances and events described in Note 1 and Note 10. 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 (see Note 1 and 10 for additional discussion).
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 2014 assessment and no impairment indicators existed in the current quarter.

Included in the following tables are the major categories of assets measured at fair value on a non-recurring basis along with the impairment loss recognized on the fair value measurement for the fiscal years then ended.

	As of the end of fiscal 2015				
	Level 1	Level 2	Level 3	Total	Impairment
Indefinite-lived trademarks	$ —	$ —	$ 207	$ 207	$ —
Goodwill	—	—	1,652	1,652	—
Definite lived intangible assets	—	—	486	486	—
Property, plant, and equipment	—	—	1,294	1,294	2
Total	$ —	$ —	$ 3,639	$ 3,639	$ 2

	As of the end of fiscal 2014				
	Level 1	Level 2	Level 3	Total	Impairment
Indefinite-lived trademarks	$ —	$ —	$ 207	$ 207	$ —
Goodwill	—	—	1,659	1,659	—
Definite lived intangible assets	—	—	585	585	—
Property, plant, and equipment	—	—	1,364	1,364	7
Total	$ —	$ —	$ 3,815	$ 3,815	$ 7

	As of the end of fiscal 2013				
	Level 1	Level 2	Level 3	Total	Impairment
Indefinite-lived trademarks	$ —	$ —	$ 207	$ 207	$ —
Goodwill	—	—	1,634	1,634	—
Definite lived intangible assets	—	—	649	649	5
Property, plant, and equipment	—	—	1,266	1,266	—
Total	$ —	$ —	$ 3,756	$ 3,756	$ 5

Valuation of Goodwill and Indefinite Lived Intangible Assets

ASC Topic 350 requires the Company to test goodwill for impairment at least annually. The Company conducts the impairment test on the first day of the fourth fiscal quarter, unless indications of impairment exist during an interim period. When assessing its goodwill for impairment, the Company utilizes a comparable company market approach in combination with a discounted cash flow analysis to determine the fair value of their reporting units and corroborate the fair values. The Company utilizes a relief from royalty method to value their indefinite lived trademarks and uses the forecasts that are consistent with those used in the reporting unit analysis. The Company has six reporting units more fully discussed in Note 1. In fiscal 2015, fiscal 2014 and fiscal 2013 the Company determined no impairment existed. The Company did not recognize any impairment charges on the indefinite lived intangible assets in any of the years presented.

Valuation of Property, Plant and Equipment and Definite Lived Intangible Assets

The Company periodically realigns their manufacturing operations which results in facilities being closed and shut down and equipment transferred to other facilities or equipment being scrapped or sold. The Company utilizes appraised values to corroborate the fair value of the facilities and has utilized a scrap value based on prior facility shut downs to estimate the fair value of the equipment, which has approximated the actual value that was received. When impairment indicators exist, the Company will also perform an undiscounted cash flow analysis to determine the recoverability of the Company's long-lived assets. The Company incurred an impairment charges of $2 million and $7 million related to property, plant and equipment in fiscal years 2015 and 2014, respectively. The Company did not incur an impairment charge related to property, plant and equipment in fiscal 2013. The Company did not incur an impairment charge on definite lived intangible assets in fiscal 2015 or 2014. The Company did recognize an impairment charge of $5 million on definite lived intangible assets related to the decision to exit certain businesses during fiscal 2013.

5. Goodwill, Intangible Assets and Deferred Costs

The following table sets forth the gross carrying amount and accumulated amortization of the Company's goodwill, intangible assets and deferred costs as of the fiscal year end:

	2015	2014	Amortization Period
Deferred financing fees – revolving line of credit	$ 4	$ 8	Effective Interest Method
Accumulated amortization	—	(4)	
Deferred financing fees, net	4	4	
Goodwill	1,652	1,659	Indefinite lived
Customer relationships	1,159	1,167	11 – 20 years
Trademarks (indefinite lived)	207	207	Indefinite lived
Trademarks (definite lived)	74	75	8-15 years
Other intangibles	106	109	10-20 years
Accumulated amortization	(853)	(766)	
Intangible assets, net	693	792	
Total goodwill, intangible assets and deferred costs	$ 2,349	$ 2,455	

Future amortization expense for definite lived intangibles as of fiscal 2015 for the next five fiscal years is $84 million, $72 million, $55 million, $50 million and $46 million each year for fiscal years ending 2016, 2017, 2018, 2019, and 2020, respectively.

6. Lease and Other Commitments and Contingencies

The Company leases certain property, plant and equipment under long-term lease agreements. Property, plant, and equipment under capital leases are reflected on the Company's balance sheet as owned. The Company entered into new capital lease obligations totaling $29 million, $45 million, and $49 million during fiscal 2015, 2014, and 2013, respectively, with various lease expiration dates through 2025. The Company records amortization of capital leases in Cost of goods sold in the Consolidated Statement of Income. Assets under operating leases are not recorded on the Company's balance sheet. Operating leases expire at various dates in the future with certain leases containing renewal options. The Company had minimum lease payments or contingent rentals of $24 million and $24 million and asset retirement obligations of $8 million and $7 million as of fiscal 2015 and 2014, respectively. Total rental expense from operating leases was $53 million, $54 million, and $53 million in fiscal 2015, 2014, and 2013, respectively.

Future minimum lease payments for capital leases and non-cancellable operating leases with initial terms in excess of one year as of fiscal year end 2015 are as follows:

	Capital Leases	Operating Leases
2016	$ 28	$ 50
2017	25	46
2018	23	39

2019		21		34
2020		21		28
Thereafter		24		137
		142	$	334
Less: amount representing interest		(16)		
Present value of net minimum lease payments	$	126		

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The Company has entered into a series of sale-leaseback transactions, pursuant to which it sold certain facilities and is leasing these facilities back. The Company has a total deferred gain on these sale-leaseback transactions of $28 million and is amortizing this over the respective lease of the facility.

Litigation

In July 2012, Berry Plastics Corporation ("BPC") was sued by a customer for breach of contract, breach of express warranty, and breach of implied warranties. The customer alleged that in December 2007 and January 2008 BPC supplied the customer with defective woven polypropylene fabric used to manufacture containers that it then sold to its customers. In November 2015, a jury rendered a judgment in favor of the customer, which is immaterial to the Company. The Company intends to appeal the judgment and file certain post-trial motions. While we are unable to predict the ultimate outcome of this matter, management expects any final judgment against BPC to be covered by insurance maintained by the Company.

The Company is party to various legal proceedings in addition to the above 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, the Company believes that any ultimate liability would not be material to its financial position, results of operations or cash flows. The Company has various purchase commitments for raw materials, supplies and property and equipment incidental to the ordinary conduct of business.

Collective Bargaining Agreements

At the end of fiscal 2015, we employed approximately 16,000 employees, and approximately 12% of those employees are covered by collective bargaining agreements. There are four agreements, representing approximately 56% of union employees, due for renegotiation in fiscal 2016. The remaining agreements expire after fiscal 2016. Our relations with employees under collective bargaining agreements remain satisfactory and there have been no significant work stoppages or other labor disputes during the past three years.

7. 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 as of fiscal year end.

	2015	2014
Employee compensation, payroll, and other taxes	$ 102	$ 91
Interest	38	44
Rebates	53	50
Property taxes	13	13
Restructuring	10	13
Tax receivable agreement obligation	57	39
Other	65	64
	$ 338	$ 314

The following table sets forth the totals included in Other long-term liabilities as of fiscal year end.

	2015	2014
Lease retirement obligation	$ 32	$ 31
Sale-lease back deferred gain	28	30
Pension liability	57	45

Tax receivable agreement obligation	175	234
Interest rate swaps	36	3
Other	13	13
	$ 341	$ 356

8. Income Taxes

The Company is being taxed at the U.S. corporate level as a C-Corporation and has provided U.S. Federal, State and foreign income taxes.

Significant components of income tax expense for the fiscal years ended are as follows:

	2015	2014	2013	
Current				
United States				
Federal	$ -	-	$ -	
State	3	5	2	
Non-U.S.	7	3	4	
Current income tax provision	10	8	6	
Deferred:				
United States				
Federal	31	3	26	
State	(4)	(5)	(3)	
Non-U.S.	(1)	(2)	(1)	
Deferred income tax expense (benefit)	26	(4)	22	
Expense for income taxes	$ 36	$ (8,674)		
Effect of exchange rates on cash	—	—	(47)	—(47)
Change in cash and cash equivalents	12,458	(1,685)	2,639	—13,412
Cash and cash equivalents at beginning of the period	24,674	4,240	41,729	—70,643
Cash and cash equivalents at end of the period	$ 37,132	$ 2,555	$ 44,368	$—$84,055

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of financial condition, results of operations, liquidity and capital resources of First Cash Financial Services, Inc. and its wholly-owned subsidiaries (the "Company") should be read in conjunction with the Company's condensed consolidated financial statements and accompanying notes included under Part I, Item 1 of this quarterly report on Form 10-Q, as well as with Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's annual report on Form 10-K for the year ended December 31, 2014. References in this quarterly report on Form 10-Q to "year-to-date" refer to the six-month period from January 1, 2015 to June 30, 2015.

GENERAL

The Company is a leading operator of retail-based pawn stores in the United States and Mexico. The Company's pawn stores generate significant retail sales from the merchandise acquired through collateral forfeitures and over-the-counter purchases from customers. The Company's pawn stores are also a convenient source for small consumer loans to help customers meet their short-term cash needs. Personal property such as consumer electronics, jewelry, power tools, household appliances, sporting goods and musical instruments are pledged as collateral for the loans. In addition, some of the Company's pawn stores offer consumer loans or credit services products. The Company's strategy is to focus on growing its retail-based pawn operations in the United States and Mexico through new store openings and strategic acquisition opportunities as they arise. Pawn operations accounted for approximately 96% of the Company's consolidated revenue from continuing operations during the six months ended June 30, 2015 compared to 95% during the six months ended June 30, 2014.

The Company accrues pawn loan fee revenue on a constant-yield basis over the life of the pawn loan for all pawn loans that the Company deems collection to be probable based on historical redemption statistics. If a pawn loan is not repaid prior to the expiration of the loan term, including any automatic extension period, if applicable, the property is forfeited to the Company and transferred to inventory at a value equal to the principal amount of the loan, exclusive of accrued interest. The Company records merchandise sales revenue at the time of the sale. The Company presents merchandise sales net of any sales or value-added taxes collected. The Company does not provide financing to customers for the purchase of its merchandise, but does permit its customers to purchase merchandise on an interest-free layaway plan. Should the customer fail to make a required payment, the previous payments are forfeited to the Company. Interim payments from customers on layaway sales are recorded as deferred revenue and subsequently recorded as income during the period in which final payment is received or when previous payments are forfeited to the Company. Some jewelry is melted at a third-party facility and the precious metal content is sold at either prevailing market commodity prices or a previously agreed upon price with a commodity buyer. The Company records revenue from these transactions when a price has been agreed upon and the Company ships the jewelry to the buyer.

The Company operates a small number of stand-alone consumer finance stores in Texas and Mexico. These stores provide consumer financial services products including credit services, consumer loans and check cashing. Certain of the Company's pawn stores also offer credit services and/or consumer loans as an ancillary product. Consumer loan and credit services revenue accounted for approximately 4% of consolidated revenue from continuing operations during the six months ended June 30, 2015 compared to 5% during the six months ended June 30, 2014, and was derived primarily from credit services fees.

The Company recognizes service fee income on consumer loans and credit services transactions on a constant-yield basis over the life of the loan or credit extension, which is generally 180 days or less. The net defaults on consumer loans and credit services transactions and changes in the valuation reserve are charged to the consumer loan credit loss provision. The credit loss provision associated with the Company's credit services organization program ("CSO Program") and consumer loans are based primarily upon historical credit loss experience, with consideration given to recent credit loss trends, delinquency rates, economic conditions and management's expectations of future credit losses. For an additional discussion of the credit loss provision and related allowances and accruals, see "—Results of Continuing Operations."

Stores included in the same-store calculations presented in this quarterly report are those stores that were opened prior to the beginning of the prior-year comparative period and remained open through the end of the measurement period. Also included are stores that were relocated during the applicable period within a specified distance serving the same market where there is not a significant change in store size and where there is not a significant overlap or gap in timing between the opening of the new store and the closing of the existing store. Unless otherwise stated, non-retail sales of scrap jewelry are included in same-store revenue calculations.

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Operating expenses consist of all items directly related to the operation of the Company's stores, including salaries and related payroll costs, rent, utilities, facilities maintenance, advertising, property taxes, licenses, supplies and security. Administrative expenses consist of items relating to the operation of the corporate offices, including the compensation and benefit costs of corporate management, area supervisors and other operations management personnel, collections operations and personnel, accounting and administrative costs, information technology costs, liability and casualty insurance, outside legal and accounting fees and stockholder-related expenses.

The Company's business is subject to seasonal variations, therefore, operating results for the current quarter and year-to-date periods are not necessarily indicative of the results of operations for the full year. Typically, the Company experiences seasonal growth of service fees in the third and fourth quarter of each year due to loan balance growth. Service fees generally decline in the first and second quarter of each year after the heavy repayment period of pawn loans associated with statutory bonuses received by customers in the fourth quarter in Mexico and with tax refund proceeds received by customers in the first quarter in the U.S. Retail sales are seasonally higher in the fourth quarter associated with holiday shopping.

OPERATIONS AND LOCATIONS

As of June 30, 2015, the Company had 1,046 store locations in 14 U.S. states and 29 states in Mexico, which represents a net store-count increase of 13% over the number of stores at June 30, 2014. During the second quarter of 2015, the Company had net store growth of 35 locations, with a total of 36 new store locations added. Year-to-date, the Company had net store growth of 41 locations, with a total of 53 new store locations added.

The following table details store openings for the three months ended June 30, 2015:

	Pawn Locations		Consumer	
	Large Format (1)	Small Format (2)	Loan Locations (3)	Total Locations
Domestic:				
Total locations, beginning of period	256	11	58	325
Locations acquired	27	—	—	27
Total locations, end of period	283	11	58	352
International:				
Total locations, beginning of period	643	15	28	686
New locations opened	9	—	—	9
Locations closed or consolidated	(1)	—	—	(1)
Total locations, end of period	651	15	28	694
Total:				
Total locations, beginning of period	899	26	86	1,011
New locations opened	9	—	—	9
Locations acquired	27	—	—	27
Locations closed or consolidated	(1)	—	—	(1)
Total locations, end of period	934	26	86	1,046

(1) The large format locations include retail showrooms and accept a broad array of pawn collateral including consumer electronics, appliances, power tools, jewelry and other general merchandise items. At June 30, 2015, 130 of the U.S. large format pawn stores, which are primarily located in Texas, also offered consumer loans or credit

services products.

(2) The small format locations typically have limited retail operations and primarily accept jewelry and small electronic items as pawn collateral and also offer consumer loans or credit services products.

(3) The Company’s U.S. free-standing, small format consumer loan locations offer a credit services product and are all located in Texas. The Company intends to close an additional seven U.S. consumer loan locations in the second half of fiscal 2015. The Mexico locations offer small, short-term consumer loans. The Company’s credit services operations also include an internet distribution channel for customers residing in the state of Texas.

The following table details store openings for the six months ended June 30, 2015:

	Pawn Locations		Consumer	
	Large Format (1)	Small Format (2)	Loan Locations (3)	Total Locations
Domestic:				
Total locations, beginning of period	255	11	65	331
Locations acquired	29	—	—	29
Locations closed or consolidated	(1)	—	(7)	(8)
Total locations, end of period	283	11	58	352
International:				
Total locations, beginning of period	629	17	28	674
New locations opened	24	—	—	24
Locations closed or consolidated	(2)	(2)	—	(4)
Total locations, end of period	651	15	28	694
Total:				
Total locations, beginning of period	884	28	93	1,005
New locations opened	24	—	—	24
Locations acquired	29	—	—	29
Locations closed or consolidated	(3)	(2)	(7)	(12)
Total locations, end of period	934	26	86	1,046

(1) The large format locations include retail showrooms and accept a broad array of pawn collateral including consumer electronics, appliances, power tools, jewelry and other general merchandise items. At June 30, 2015, 130 of the U.S. large format pawn stores, which are primarily located in Texas, also offered consumer loans or credit services products.

(2) The small format locations typically have limited retail operations and primarily accept jewelry and small electronic items as pawn collateral and also offer consumer loans or credit services products.

(3) The Company’s U.S. free-standing, small format consumer loan locations offer a credit services product and are all located in Texas. The Company intends to close an additional seven U.S. consumer loan locations in the second half of fiscal 2015. The Mexico locations offer small, short-term consumer loans. The Company’s credit services operations also include an internet distribution channel for customers residing in the state of Texas.

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CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities, related revenue and expenses, and disclosure of gain and loss contingencies at the date of the financial statements. Such estimates, assumptions and judgments are subject to a number of risks and uncertainties, which may cause actual results to differ materially from the Company’s estimates. The significant accounting policies that the Company believes are the most critical to aid in fully understanding and evaluating its reported financial results have been reported in the Company’s 2014 annual report on Form 10-K. There have been no changes to the Company’s significant accounting policies for the six months ended June 30, 2015.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that had a material effect on the Company’s financial position, results of operations or financial statement disclosures.

RESULTS OF CONTINUING OPERATIONS

The following table details customer loans and inventories held by the Company and active CSO Program credit extensions from an independent third-party lender as of June 30, 2015 as compared to June 30, 2014 (unaudited, in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current-year balances at the prior-year end-of-period exchange rate.

	Balance at June 30,				Increase/(Decrease) Constant Currency
	2015	2014	Increase/(Decrease)		Basis
Domestic:					
Pawn loans	$ 69,080	$ 63,000	$ 6,080	10 %	10 %
CSO credit extensions held by independent third-party (1)	8,440	10,258	(1,818)	(18)%	(18)%
Other consumer loans	626	772	(146)	(19)%	(19)%
	78,146	74,030	4,116	6 %	6 %
International:					
Pawn loans	55,889	60,901	(5,012)	(8)%	10 %
Other consumer loans	444	567	(123)	(22)%	(6)%
	56,333	61,468	(5,135)	(8)%	9 %
Total:					
Pawn loans	124,969	123,901	1,068	1 %	10 %
CSO credit extensions held by independent third-party (1)	8,440	10,258	(1,818)	(18)%	(18)%
Other consumer loans	1,070	1,339	(269)	(20)%	(14)%
	$ 134,479	$ 135,498	$ (1,019)	(1)%	7 %
Pawn inventories:					
Domestic pawn inventories	$ 48,492	$ 36,370	$ 12,122	33 %	33 %
International pawn inventories	39,588	41,217	(1,629)	(4)%	15 %
	$ 88,080	$ 77,587	$ 10,493	14 %	23 %

(1) CSO Program amounts outstanding are composed of the principal portion of active CSO Program extensions of credit by an independent third-party lender, which are not included on the Company’s balance sheet, net of the

Company's estimated fair value of its liability under the letters of credit guaranteeing the extensions of credit.

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The following table details the composition of pawn collateral and the average outstanding pawn loan receivable as of June 30, 2015 as compared to June 30, 2014 (unaudited).

	Balance at June 30,			
	2015		2014	
Composition of pawn collateral:				
Domestic pawn loans:				
General merchandise	47	%	45	%
Jewelry	53	%	55	%
	100	%	100	%
International pawn loans:				
General merchandise	88	%	88	%
Jewelry	12	%	12	%
	100	%	100	%
Total pawn loans:				
General merchandise	66	%	66	%
Jewelry	34	%	34	%
	100	%	100	%
Average outstanding pawn loan amount:				
Domestic pawn loans	$ 159		$ 162	
International pawn loans (1)	64		71	
Total pawn loans (1)	95		100	

(1) Decline in average outstanding pawn loan is primarily due to the decline in the Mexican peso to U.S. dollar exchange rate in 2015.

Three Months Ended June 30, 2015 Compared To The Three Months Ended June 30, 2014

The following table details the components of the Company’s revenue for the three months ended June 30, 2015 as compared to the three months ended June 30, 2014 (unaudited, in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. The average value of the Mexican peso to the U.S. dollar decreased 18%, from 13.0 to 1 during the second quarter of 2014 to 15.3 to 1 during the second quarter of 2015. The end-of-period value of the Mexican peso to the U.S. dollar decreased 20% from 13.0 to 1 at June 30, 2014 to 15.6 to 1 at June 30, 2015. As a result of these currency exchange movements, revenue from Mexican operations translated into fewer U.S. dollars relative to the prior-year period, and net assets of Mexican operations as of June 30, 2015 translated into fewer U.S. dollars relative to the prior period end. While the strength of the U.S. dollar compared to the Mexican peso decreased the translated dollar-value of revenue generated in Mexico, the cost of sales and operating expenses decreased as well. The scrap jewelry generated in Mexico is exported and sold in U.S. dollars, which does not contribute to the Company’s peso-denominated earnings stream. See “—Non-GAAP Financial Information—Constant Currency Results” below. The Company’s exposure to foreign currency exchange rates is described further in the Company’s 2014 annual report on Form 10-K.

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	Three Months Ended June 30, 2015	2014	Increase/(Decrease)		Increase/(Decrease) Constant Currency Basis
Domestic revenue:					
Retail merchandise sales	$44,323	$37,877	$6,446	17 %	17 %
Pawn loan fees	22,060	20,381	1,679	8 %	8 %
Consumer loan and credit services fees	6,174	7,710	(1,536)	(20)%	(20)%
Wholesale scrap jewelry revenue	4,410	6,865	(2,455)	(36)%	(36)%
	76,967	72,833	4,134	6 %	6 %
International revenue:					
Retail merchandise sales	61,302	59,311	1,991	3 %	22 %
Pawn loan fees	25,523	27,174	(1,651)	(6)%	11 %
Consumer loan and credit services fees	536	706	(170)	(24)%	(11)%
Wholesale scrap jewelry revenue	3,295	5,302	(2,007)	(38)%	(38)%
	90,656	92,493	(1,837)	(2)%	15 %
Total revenue:					
Retail merchandise sales	105,625	97,188	8,437	9 %	20 %
Pawn loan fees	47,583	47,555	28	— %	10 %
Consumer loan and credit services fees	6,710	8,416	(1,706)	(20)%	(19)%
Wholesale scrap jewelry revenue	7,705	12,167	(4,462)	(37)%	(37)%
	$167,623	$165,326	$2,297	1 %	11 %

Domestic revenue accounted for approximately 46% of the total revenue for the current quarter, while international revenue (from Mexico) accounted for 54% of total revenue.

Retail Merchandise Sales Operations

Total retail merchandise sales increased 9% (20% on a constant currency basis) to $105,625,000 during the second quarter of 2015 compared to $97,188,000 for the second quarter of 2014. The increased retail merchandise sales in the Company’s pawn stores reflected store additions, maturation of existing stores and an increased mix of retail general merchandise inventories (primarily consumer electronics, appliances and power tools). During the second quarter of 2015, the gross profit margin on retail merchandise sales, which excludes scrap jewelry sales, was 38% compared to a gross profit margin of 39% on retail merchandise sales during the second quarter of 2014, which is consistent with the continued shift in the Company's consolidated retail product mix toward general merchandise inventory, which carries slightly lower margins than retail jewelry items.

Pawn inventories increased from $77,587,000 at June 30, 2014 to $88,080,000 at June 30, 2015, largely as a result of the 12% increase in the weighted-average store count during the second quarter of 2015, which included certain acquired stores that carried significant levels of inventory, and the maturation of existing stores. At June 30, 2015, the Company’s pawn inventories, at cost, were composed of: 30% jewelry (primarily gold jewelry held for retail sale), 40% electronics and appliances, 10% tools and 20% other. At June 30, 2014, the Company’s pawn inventories, at cost, were composed of: 30% jewelry (primarily gold jewelry held for retail sale), 43% electronics and appliances, 10% tools and 17% other. At June 30, 2015, 94% of total inventories, at cost, had been held for one year or less, while 6% had been held for more than one year. At June 30, 2014, 97% of total inventories, at cost, had been held for one year or less, while 3% had been held for more than one year. The increase in aged inventory (inventory held for more than one year) is primarily a result of recent acquisition activity. Excluding stores acquired within the last 12 months, aged inventories represented 4% of total inventories at June 30, 2015.

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Pawn Lending Operations

Pawn loan fees increased slightly (10% on a constant currency basis) totaling $47,583,000 during the second quarter of 2015 compared to $47,555,000 for the second quarter of 2014. Consolidated pawn receivables as of June 30, 2015 increased 1% (10% increase on a constant currency basis) compared to June 30, 2014. The increase in constant currency pawn fees and receivables was primarily due to store additions. Mexico same-store pawn receivables increased slightly on a constant currency basis while U.S. same-store pawn receivables declined 4% from June 30, 2014 to June 30, 2015.

Consumer Lending Operations

Service fees from consumer loans and credit services transactions (collectively also known as payday loans) decreased 20% (19% on a constant currency basis) to $6,710,000 during the second quarter of 2015 compared to $8,416,000 for the second quarter of 2014. The Company attributes the decrease in part to increased competition and additional regulatory restrictions in many markets where the Company’s payday lending operations are focused, as well as the Company’s ongoing strategic downsizing of these operations with the closure of seven stand-alone consumer finance stores in Texas during the first quarter of 2015. Consumer/payday loan-related products comprised 4% of total revenue for the second quarter of 2015 compared to 5% for the second quarter of 2014.

The Company’s consumer loan and credit services credit loss provision of $1,709,000 was 25% of consumer loan and credit services fee revenue during the second quarter of 2015 compared to $2,236,000, or 27%, during the second quarter of 2014. The estimated fair value of liabilities under the CSO Program letters of credit, net of anticipated recoveries from customers, was $365,000, or 4.1% of the gross loan balance, at June 30, 2015 compared to $489,000, or 4.6% of the gross loan balance, at June 30, 2014, which is included as a component of the Company’s accrued liabilities. The Company’s loss reserve on consumer loans was $63,000, or 5.6% of the gross loan balance, at June 30, 2015 compared to $79,000, or 5.6% of the gross loan balance, at June 30, 2014.

Wholesale Scrap Jewelry Operations

Revenue from wholesale scrap jewelry operations decreased 37% to $7,705,000 during the second quarter of 2015 compared to $12,167,000 for the second quarter of 2014. Wholesale scrap jewelry revenue during the three months ended June 30, 2015 consisted primarily of gold sales, of which approximately 5,600 ounces were sold at an average selling price of $1,203 per ounce compared to approximately 8,000 ounces of gold sold at an average selling price of $1,318 per ounce in the prior-year period. The volume of liquidated scrap jewelry during the second quarter of 2015 decreased 30% compared to the second quarter of 2014, reflecting lower gold prices and the continued decline in transactions from customers selling gold to the Company. Gross profit from wholesale scrap jewelry operations decreased 30% (50% on a constant currency basis) to $1,473,000 during the second quarter of 2015 compared to $2,091,000 during the second quarter of 2014. The scrap gross profit margin was 19% compared to the prior-year margin of 17%. Scrap jewelry profits accounted for 2% of net revenue (gross profit) for the second quarter of 2015 and 2014. The average market price of gold during the second quarter of 2015 decreased 7% compared to the second quarter of 2014, while the ending price at June 30, 2015 decreased 11% compared to June 30, 2014. The Company’s exposure to gold price risk is described further in the Company’s 2014 annual report on Form 10-K.

Combined Revenue Results

The increase in quarter-over-quarter total revenue of 1% (11% on a constant currency basis) reflected a 6% increase (16% on a constant currency basis) in combined retail sales and pawn fee revenue from new and existing pawn stores, offset by a decrease in non-core wholesale scrap jewelry revenue and consumer loan fees. Revenue generated by the stores opened or acquired since April 1, 2014 increased by $7,849,000 in Mexico and $9,840,000 in the United States in the second quarter of 2015 compared to the second quarter of 2014.

Excluding wholesale scrap jewelry sales and consumer loan fees, the Company's same-store core revenue from retail sales and pawn fees increased 4% on a consolidated, constant currency basis from the second quarter of 2014 to the second quarter of 2015. Same-store core sales in Mexico increased 8% (constant currency basis), offset by a decrease in same-store core sales of 1% in the U.S. as compared to the prior-year period. Same-store wholesale scrap jewelry revenue decreased 42% in total, reflecting lower gold prices and reduced volumes from customers selling gold to the Company. The Company believes it will continue to experience overall growth in pawn revenue in fiscal 2015 from acquisitions, the opening of new stores and maturation of existing stores.

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Store Operating Expenses

Store operating expenses increased by 6% to $51,746,000 during the second quarter of 2015 compared to $48,934,000 during the second quarter of 2014, primarily as a result of a 12% increase in the weighted-average store count, which included a number of large, mature stores added through acquisitions, offset by a an 18% year-over-year decline in the average value of the Mexican peso. Same-store operating expenses increased 1% on a constant currency basis, compared to the prior-year period.

The net store profit contribution from continuing operations for the second quarter of 2015 was $38,557,000, which equates to a store-level operating margin of 23% compared to $41,374,000 and 25% in the prior-year quarter. The decline in the store-level operating margin related primarily to a 30% decrease (50% on a constant currency basis) in net revenue from wholesale scrap jewelry and a 19% decrease (18% on a constant currency basis) in net revenue from payday lending.

Administrative Expenses, Interest, Taxes and Income

Administrative expenses increased 8% to $14,669,000 during the second quarter of 2015 compared to $13,615,000 during the second quarter of 2014, primarily as a result of a 12% increase in the weighted-average store count resulting in additional management and supervisory compensation and other support expenses required for such growth, partially offset by an 18% decline in the average value of the Mexican peso which reduced administrative expenses in Mexico. As a percentage of revenue, administrative expenses increased slightly from 8% during the second quarter of 2014 to 9% during the second quarter of 2015.

Interest expense increased to $4,126,000 in the second quarter of 2015 compared to $3,910,000 for the second quarter of 2014, reflecting an increase in the amount of outstanding debt. See "—Liquidity and Capital Resources."

For the second quarter of 2015 and 2014, the Company's effective federal income tax rates were 31.4% and 31.6%, respectively. The Company expects the effective tax rate for the remainder of 2015 to be approximately 31% to 32%, reflecting the blended statutory federal tax rates of 35% in the U.S. and 30% in Mexico.

Net income decreased 17% to $13,339,000 during the second quarter of 2015 compared to $16,015,000 during the second quarter of 2014. The decrease was primarily due to the weaker value of the Mexican peso versus the U.S. dollar, accounting for $2,063,000 of the decline, coupled with the continued declines in non-core jewelry scrapping and non-core payday lending operations, which in total accounted for $1,203,000 of the decline. Comprehensive income decreased 46% to $9,012,000 during the second quarter of 2015 compared to $16,582,000 during the second quarter of 2014, as a result of the translation of the Company's peso-denominated net assets into U.S. dollars as of June 30, 2015. Total peso-denominated net assets related to the Company's Mexican operations were $268,052,000 as of June 30, 2015.

Six Months Ended June 30, 2015 Compared To The Six Months Ended June 30, 2014

The following table details the components of the Company's revenue for the six months ended June 30, 2015 as compared to the six months ended June 30, 2014 (unaudited, in thousands). Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. The average value of the Mexican peso to the U.S. dollar decreased 15%, from 13.1 to 1 during the six months ended June 30, 2014 to 15.1 to 1 during the six months ended June 30, 2015. The end-of-period value of the Mexican peso to the U.S. dollar decreased 20% from 13.0 to 1 at June 30, 2014 to 15.6 to 1 at June 30, 2015. As a result of these currency exchange movements, revenue from Mexican operations translated into fewer U.S. dollars relative to the prior-year period, and net assets of Mexican operations as of June 30, 2015 translated into fewer U.S.

dollars relative to the prior period end. While the strength of the U.S. dollar compared to the Mexican peso decreased the translated dollar-value of revenue generated in Mexico, the cost of sales and operating expenses decreased as well. The scrap jewelry generated in Mexico is exported and sold in U.S. dollars, which does not contribute to the Company's peso-denominated earnings stream. See "—Non-GAAP Financial Information—Constant Currency Results" below. The Company's exposure to foreign currency exchange rates is described further in the Company's 2014 annual report on Form 10-K.

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	Six Months Ended June 30, 2015	2014	Increase/(Decrease)		Increase/(Decrease) Constant Currency Basis
Domestic revenue:					
Retail merchandise sales	$96,329	$83,452	$12,877	15 %	15 %
Pawn loan fees	45,966	43,283	2,683	6 %	6 %
Consumer loan and credit services fees	13,238	16,822	(3,584)	(21)%	(21)%
Wholesale scrap jewelry revenue	10,148	15,408	(5,260)	(34)%	(34)%
	165,681	158,965	6,716	4 %	4 %
International revenue:					
Retail merchandise sales	119,750	112,444	7,306	6 %	23 %
Pawn loan fees	50,271	51,910	(1,639)	(3)%	12 %
Consumer loan and credit services fees	1,067	1,378	(311)	(23)%	(11)%
Wholesale scrap jewelry revenue	6,877	10,406	(3,529)	(34)%	(34)%
	177,965	176,138	1,827	1 %	16 %
Total revenue:					
Retail merchandise sales	216,079	195,896	20,183	10 %	20 %
Pawn loan fees	96,237	95,193	1,044	1 %	9 %
Consumer loan and credit services fees	14,305	18,200	(3,895)	(21)%	(21)%
Wholesale scrap jewelry revenue	17,025	25,814	(8,789)	(34)%	(34)%
	$343,646	$335,103	$8,543	3 %	10 %

Domestic revenue accounted for approximately 48% of the total revenue for the six months ended June 30, 2015, while international revenue (from Mexico) accounted for 52% of total revenue.

Retail Merchandise Sales Operations

Total retail merchandise sales increased 10% (20% on a constant currency basis) to $216,079,000 during the six months ended June 30, 2015 compared to $195,896,000 for the six months ended June 30, 2014. The increased retail merchandise sales in the Company’s pawn stores reflected store additions, maturation of existing stores and an increased mix of retail general merchandise inventories (primarily consumer electronics, appliances and power tools). During the six months ended June 30, 2015, the gross profit margin on retail merchandise sales, which excludes scrap jewelry sales, was 38% compared to a gross profit margin of 39% on retail merchandise sales during the six months ended June 30, 2014, which is consistent with the continued shift in the Company's consolidated retail product mix toward general merchandise inventory that carries slightly lower margins than retail jewelry items.
Pawn inventories increased from $77,587,000 at June 30, 2014 to $88,080,000 at June 30, 2015, largely as a result of the 12% increase in the weighted-average store count during the six months ended June 30, 2015, which included certain acquired stores that carried significant levels of inventory, and the maturation of existing stores. At June 30, 2015, the Company’s pawn inventories, at cost, were composed of: 30% jewelry (primarily gold jewelry held for retail sale), 40% electronics and appliances, 10% tools and 20% other. At June 30, 2014, the Company’s pawn inventories, at cost, were composed of: 30% jewelry (primarily gold jewelry held for retail sale), 43% electronics and appliances, 10% tools and 17% other. At June 30, 2015, 94% of total inventories, at cost, had been held for one year or less, while 6% had been held for more than one year. At June 30, 2014, 97% of total inventories, at cost, had been held for one year or less, while 3% had been held for more than one year. The increase in aged inventory (inventory held for more than one year) is primarily a result of recent acquisition activity. Excluding stores acquired within the last 12 months, aged inventories represented 4% of total inventories at June 30, 2015.

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Pawn Lending Operations

Pawn loan fees increased 1% (9% on a constant currency basis) to $96,237,000 during the six months ended June 30, 2015 compared to $95,193,000 for the six months ended June 30, 2014. Consolidated pawn receivables as of June 30, 2015 increased 1% (10% on a constant currency basis) compared to June 30, 2014. The increase in constant currency pawn fees and receivables was primarily due to store additions. Mexico same-store pawn receivables increased slightly on a constant currency basis while U.S. same-store pawn receivables declined 4% from June 30, 2014 to June 30, 2015.

Consumer Lending Operations

Service fees from consumer loans and credit services transactions (collectively also known as payday loans) decreased 21% (on a reported and constant currency basis) to $14,305,000 during the six months ended June 30, 2015 compared to $18,200,000 for the six months ended June 30, 2014. The Company attributes the decrease in part to increased competition and additional regulatory restrictions in many markets where the Company’s payday lending operations are focused, as well as the Company’s ongoing strategic downsizing of these operations with the closure of seven stand-alone consumer finance stores in Texas during the first quarter of 2015. Consumer/payday loan-related products comprised 4% of total revenue during the six months ended June 30, 2015 compared to 5% for the six months ended June 30, 2014.

The Company’s consumer loan and credit services credit loss provision of $2,706,000 was 19% of consumer loan and credit services fee revenue during the six months ended June 30, 2015 compared to $3,979,000, or 22%, during the six months ended June 30, 2014. The estimated fair value of liabilities under the CSO Program letters of credit, net of anticipated recoveries from customers, was $365,000, or 4.1% of the gross loan balance, at June 30, 2015 compared to $489,000, or 4.6% of the gross loan balance, at June 30, 2014, which is included as a component of the Company’s accrued liabilities. The Company’s loss reserve on consumer loans was $63,000, or 5.6% of the gross loan balance, at June 30, 2015 compared to $79,000, or 5.6% of the gross loan balance, at June 30, 2014.

Wholesale Scrap Jewelry Operations

Revenue from wholesale scrap jewelry operations decreased 34% to $17,025,000 during the six months ended June 30, 2015 compared to $25,814,000 for the six months ended June 30, 2014. Wholesale scrap jewelry revenue during the six months ended June 30, 2015 consisted primarily of gold sales, of which approximately 12,200 ounces were sold at an average selling price of $1,201 per ounce compared to approximately 16,900 ounces of gold sold at an average selling price of $1,311 per ounce in the prior-year period. The volume of liquidated scrap jewelry during the six months ended June 30, 2015 decreased 28% compared to the six months ended June 30, 2014, reflecting lower gold prices and the continued decline in transactions from customers selling gold to the Company. Gross profit from wholesale scrap jewelry operations decreased 40% (57% on a constant currency basis) to $2,784,000 during six months ended June 30, 2015 compared to $4,650,000 during the six months ended June 30, 2014. The scrap gross profit margin was 16% compared to the prior-period margin of 18%. Scrap jewelry profits accounted for 1% of net revenue (gross profit) for the six months ended June 30, 2015 compared to 2% in the six months ended June 30, 2014. The average market price of gold during the six months ended June 30, 2015 decreased 7% compared to the six months ended June 30, 2014, while the ending price at June 30, 2015 decreased 11% compared to June 30, 2014. The Company’s exposure to gold price risk is described further in the Company’s 2014 annual report on Form 10-K.

Combined Revenue Results

The increase in year-to-date total revenue of 3% (10% on a constant currency basis) reflected a 7% increase (16% on a constant currency basis) in combined retail sales and pawn fee revenue from new and existing pawn stores, offset by a decrease in non-core wholesale scrap jewelry revenue and consumer loan fees. Revenue generated by the stores opened or acquired since January 1, 2014 increased by $16,260,000 in Mexico and $20,804,000 in the United States in the six months ended June 30, 2015 compared to the six months ended June 30, 2014.

Excluding wholesale scrap jewelry sales and consumer loan fees, the Company’s same-store core revenue from retail sales and pawn fees increased 4% on a consolidated, constant currency basis from the six months ended June 30, 2014 to the six months ended June 30, 2015. Same-store core sales in Mexico increased 8% (constant currency basis), offset by a decrease in same-store core sales of 2% in the U.S. as compared to the prior-year period. Same-store wholesale scrap jewelry revenue decreased 40% in total, reflecting lower gold prices and reduced volumes from customers selling gold to the Company. The Company believes it will continue to experience overall growth in pawn revenue in fiscal 2015 from acquisitions, the opening of new stores and maturation of existing stores.

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Store Operating Expenses

Store operating expenses increased by 7% to $104,067,000 during the six months ended June 30, 2015 compared to $97,426,000 during the six months ended June 30, 2014, primarily as a result of a 12% increase in the weighted-average store count which included a number of large, mature stores added through acquisitions, offset by a 15% year-over-year decline in the average value of the Mexican peso. Same-store operating expenses increased 1% on a constant currency basis, compared to the prior-year period.

The net store profit contribution from continuing operations for the six months ended June 30, 2015 was $81,220,000, which equates to a store-level operating margin of 24% compared to $85,795,000 and 26% in the prior-year period. The decline in the store-level operating margin related primarily to a 40% decrease (57% on a constant currency basis) in net revenue from wholesale scrap jewelry and an 18% decrease (17% on a constant currency basis) in net revenue from payday lending.

Administrative Expenses, Interest, Taxes and Income

Administrative expenses increased 6% to $28,507,000 during the six months ended June 30, 2015 compared to $26,944,000 during the six months ended June 30, 2014, primarily as a result of a 12% increase in the weighted-average store count resulting in additional management and supervisory compensation and other support expenses required for such growth. This increase was partially offset by a 15% decline in the average value of the Mexican peso which reduced administrative expenses in Mexico. As a percentage of revenue, administrative expenses were 8% in both the six months ended June 30, 2015 and 2014.

Interest expense increased to $8,146,000 during the six months ended June 30, 2015 compared to $5,346,000 for the six months ended June 30, 2014, primarily due to the issuance of the Company’s 6.75% senior notes in March 2014 and, to a lesser extent, an increase in the amount outstanding on the Company’s 2014 Credit Facility, as defined below. See “—Liquidity and Capital Resources.”

For the six months ended June 30, 2015 and 2014, the Company’s effective federal income tax rates were 31.2% and 25.6%, respectively. The Company recognized an estimated non-recurring income tax benefit of $3,669,000 in March 2014 as a result of a change in its estimated U.S. federal liability associated with the 2013 termination of its election to include foreign subsidiaries in its consolidated U.S. federal income tax return. Excluding the non-recurring benefit, the consolidated tax rate for the six months ended June 30, 2014 was 32.6% compared to an effective rate of 31.2% in the six months ended June 30, 2015. The Company expects the effective tax rate for the remainder of 2015 to be approximately 31% to 32%, reflecting the blended statutory federal tax rates of 35% in the U.S. and 30% in Mexico.

Net income decreased 22% to $30,127,000 during the six months ended June 30, 2015 compared to $38,697,000 during the six months ended June 30, 2014. The decrease was primarily due to the weaker value of the Mexican peso versus the U.S. dollar, accounting for $3,323,000 of the decline, coupled with the continued declines in non-core jewelry scrapping and non-core payday lending operations, which in total accounted for $3,002,000 of the decline, and an increase in interest expense due to the issuance of the Company’s 6.75% senior notes in March 2014. In addition, the year-to-date 2014 earnings included a non-recurring tax benefit of $3,669,000. Comprehensive income decreased 46% to $21,251,000 during the six months ended June 30, 2015 compared to $39,009,000 during the six months ended June 30, 2014, as a result of the translation of the Company’s peso-denominated net assets into U.S. dollars as of June 30, 2015. Total peso-denominated net assets related to the Company’s Mexican operations were $268,052,000 as of June 30, 2015.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2015, the Company's primary sources of liquidity were $77,430,000 in cash and cash equivalents, $114,000,000 of available and unused funds under the Company's long-term lines of credit with its commercial lenders, $143,650,000 in customer loans and $88,080,000 in inventories. As of June 30, 2015, the amount of cash associated with indefinitely reinvested foreign earnings was approximately $68,451,000, which is primarily held in Mexican pesos. The Company had working capital of $279,193,000 as of June 30, 2015 and total equity exceeded liabilities by a ratio of 1.5 to 1.

On March 24, 2014, the Company issued $200,000,000 of 6.75% senior notes due on April 1, 2021 (the "Notes"). Interest on the Notes is payable semi-annually in arrears on April 1 and October 1. The Notes allow the Company to repurchase shares of its stock and to pay cash dividends within certain parameters.

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At June 30, 2015, the Company maintained a line of credit with a group of U.S. based commercial lenders (the "2014 Credit Facility") in the amount of $160,000,000, which matures in February 2019. At June 30, 2015, the Company had $56,000,000 outstanding under the 2014 Credit Facility and $104,000,000 was available for borrowings. The 2014 Credit Facility bears interest, at the Company's option, at either (i) the prevailing London Interbank Offered Rate ("LIBOR") (with interest periods of 1, 2, 3 or 6 months at the Company's option) plus a fixed spread of 2.5% or (ii) the prevailing prime or base rate plus a fixed spread of 1.5%. The interest rate on amounts outstanding under the 2014 Credit Facility at June 30, 2015 was 2.69% based on the prevailing 30-day LIBOR rate. The 2014 Credit Facility allows the Company to repurchase shares of its stock and to pay cash dividends within certain parameters and requires the Company to maintain certain financial ratios and comply with certain financial covenants. The Company was in compliance with the requirements and covenants of the 2014 Credit Facility as of June 30, 2015, and believes it has the capacity to borrow the full amount available under the 2014 Credit Facility under the most restrictive covenant. During the six months ended June 30, 2015, the Company had net proceeds of $33,600,000 on the 2014 Credit Facility.

At June 30, 2015, the Company maintained a line of credit with a bank in Mexico (the "Mexico Credit Facility") in the amount of $10,000,000. The Mexico Credit Facility bears interest at the prevailing 30-day LIBOR rate plus a fixed spread of 2.0% and matures in December 2017. Under the terms of the Mexico Credit Facility, the Company is required to maintain certain financial ratios and comply with certain financial covenants. The Company was in compliance with the requirements and covenants of the Mexico Credit Facility as of June 30, 2015, and believes it has the capacity to borrow the full amount available under the Mexico Credit Facility under the most restrictive covenant. The Company is required to pay a one-time commitment fee of $25,000 due when the first amount is drawn/borrowed. At June 30, 2015, the Company had no amount outstanding under the Mexico Credit Facility and $10,000,000 was available for borrowings.

In general, revenue growth is dependent upon the Company's ability to fund growth of store locations, customer loan balances and inventories. In addition to these factors, changes in loan balances, collection of pawn fees, merchandise sales, inventory levels, operating expenses, administrative expenses, tax rates, gold prices, foreign currency exchange rates and the pace of new store expansions and acquisitions affect the Company's liquidity. Management believes that cash on hand, the borrowings available under its credit facilities, anticipated cash generated from operations (including the normal seasonal increases in operating cash flows occurring in the first and fourth quarters) and other current working capital will be sufficient to meet the Company's anticipated capital requirements for its business for at least the next 12 months. Where appropriate or desirable, in connection with the Company's efficient management of its liquidity position, the Company could seek to raise additional funds from a variety of sources, including the sale of assets, reductions in capital spending, the issuance of debt or equity securities and/or changes to its management of current assets. The characteristics of the Company's current assets, specifically the ability to rapidly liquidate gold jewelry inventory and adjust outflows of cash in its lending practices, gives the Company flexibility to quickly modify its business strategy to increase cash flow from its business, if necessary. Regulatory developments affecting the Company's operations may also impact profitability and liquidity. See "—Regulatory Developments."

The following tables set forth certain historical information with respect to the Company's sources and uses of cash and other key indicators of liquidity (unaudited, dollar amounts in thousands):

	Six Months Ended June 30,	
	2015	2014
Cash flow provided by operating activities	$41,909	$48,539
Cash flow used in investing activities	$(44,171)	$(26,406)
Cash flow provided by (used in) financing activities	$15,144	$(8,674)

Balance at June 30,

	2015		2014	
Working capital	$ 279,193		$ 269,362	
Current ratio	7.84:1		7.35:1	
Leverage ratio (trailing twelve months)	1.8:1		1.4:1	
Liabilities to equity	66	%	57	%
Inventory turns (trailing twelve months)	3.5x		3.8x	

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Net cash provided by operating activities decreased $6,630,000, or 14%, from $48,539,000 for the six months ended June 30, 2014 to $41,909,000 for the six months ended June 30, 2015, due primarily to the change in income taxes payable offset by other net changes in certain operating assets and liabilities (as noted in the consolidated statements of cash flows) and a decrease in net income of $8,570,000.

Net cash used in investing activities increased $17,765,000, or 67%, from $26,406,000 for the six months ended June 30, 2014 to $44,171,000 for the six months ended June 30, 2015. Cash flows from investing activities are utilized primarily to fund pawn store acquisitions, growth of pawn loans and purchases of property and equipment. The Company paid $31,600,000 in cash related to acquisitions during the six months ended June 30, 2015 compared to $6,389,000 in the prior-year period. The Company funded loans of $3,971,000 during the six months ended June 30, 2015 compared to $7,958,000 during the six months ended June 30, 2014.

Net cash provided by financing activities increased $23,818,000, or 275%, from net cash used in financing activities of $8,674,000 for the six months ended June 30, 2014 to net cash provided by financing activities of $15,144,000 for the six months ended June 30, 2015. Net payments on the Company’s prior credit facility and the 2014 Credit Facility were $182,000,000 during the six months ended June 30, 2014 compared to net proceeds of $33,600,000 from the 2014 Credit Facility during the six months ended June 30, 2015, and the Company paid $1,410,000 of debt issuance costs related to the 2014 Credit Facility during the six months ended June 30, 2014. The Company received proceeds from the offering of the Notes of $200,000,000 and paid $4,987,000 of related debt issuance costs during the six months ended June 30, 2014. The Company repurchased its common stock ($22,974,000 during the six months ended June 30, 2015 compared to $13,314,000 during the six months ended June 30, 2014), and realized proceeds from the exercise of stock options and the related tax benefit of $4,518,000 during the six months ended June 30, 2015 compared to $1,389,000 during the six months ended June 30, 2014.

During the six months ended June 30, 2015, the Company opened 24 new pawn stores in Mexico and acquired 29 pawn stores in the United States. The purchase price of the 2015 acquisitions, net of cash acquired, was $31,825,000 and was composed of $30,675,000 in cash paid at closing and an additional $1,150,000 payable on or before June 2016. During the six months ended June 30, 2015, the Company paid $925,000 of amounts payable related to previous acquisitions. The Company funded $8,600,000 in capital expenditures, primarily for new stores, during the six months ended June 30, 2015 and expects to fund capital expenditures at a slightly increased annualized rate in the remainder of 2015. Acquisition purchase prices, capital expenditures, working capital requirements and start-up losses related to this expansion have been primarily funded through cash balances, operating cash flows and the Company’s credit facilities. The Company’s cash flow and liquidity available to fund expansion in 2015 included net cash flow from operating activities of $41,909,000 for the six months ended June 30, 2015.

The Company intends to continue expansion primarily through acquisitions and new store openings. For fiscal 2015, the Company expects to add approximately 80 to 90 stores. Management believes that cash on hand, the amounts available to be drawn under the credit facilities and cash generated from operations will be sufficient to accommodate the Company’s current operations and store expansion plans for the remainder of 2015.

The Company continually looks for, and is presented with, potential acquisition opportunities. The Company currently has no contractual commitments for materially significant future acquisitions or other capital commitments. The Company will evaluate potential acquisitions based upon growth potential, purchase price, available liquidity, strategic fit and quality of management personnel, among other factors. If the Company encounters an attractive opportunity to acquire new stores in the near future, the Company may seek additional financing, the terms of which will be negotiated on a case-by-case basis.

In January 2015, the Company’s Board of Directors authorized a new common stock repurchase program for up to 2,000,000 shares of the Company’s outstanding common stock. During the six months ended June 30, 2015, the

Company repurchased 463,000 shares of its common stock at an aggregate cost of $22,974,000 at an average price of $49.65 per share and 1,537,000 shares remain available for repurchase under the repurchase program. The number of shares to be purchased and the timing of the purchases are based on a variety of factors, including, but not limited to, the level of cash balances, credit availability, debt covenant restrictions, general business conditions, regulatory requirements, the market price of the Company's stock and the availability of alternative investment opportunities. No time limit was set for completion of repurchases under the new authorization and the program may be suspended or discontinued at any time.

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Non-GAAP Financial Information

The Company uses certain financial calculations such as EBITDA from continuing operations, free cash flow and constant currency results (as defined or explained below) as factors in the measurement and evaluation of the Company's operating performance and period-over-period growth. The Company derives these financial calculations on the basis of methodologies other than generally accepted accounting principles ("GAAP"), primarily by excluding from a comparable GAAP measure certain items that the Company does not consider to be representative of its actual operating performance. These financial calculations are "non-GAAP financial measures" as defined in SEC rules. The Company uses these financial calculations in operating its business because management believes they are less susceptible to variances in actual operating performance that can result from the excluded items and other infrequent charges. The Company presents these financial measures to investors because management believes they are useful to investors in evaluating the primary factors that drive the Company's operating performance and because management believes they provide greater transparency into the Company's results of operations. However, items that are excluded and other adjustments and assumptions that are made in calculating EBITDA from continuing operations, free cash flow and constant currency results are significant components in understanding and assessing the Company's financial performance. These non-GAAP financial measures should be evaluated in conjunction with, and are not a substitute for, the Company's GAAP financial measures. Further, because these non-GAAP financial measures are not determined in accordance with GAAP and are thus susceptible to varying calculations, EBITDA from continuing operations, free cash flow and constant currency results, as presented, may not be comparable to other similarly titled measures of other companies.

Earnings from Continuing Operations Before Interest, Taxes, Depreciation and Amortization

The Company defines EBITDA from continuing operations as net income (loss) before income (loss) from discontinued operations net of tax, income taxes, depreciation and amortization, interest expense and interest income. EBITDA from continuing operations is commonly used by investors to assess a company's leverage capacity, liquidity and financial performance. However, EBITDA from continuing operations has limitations as an analytical tool and should not be considered in isolation or as a substitute for net income (loss) or other statement of income data prepared in accordance with GAAP. The following table provides a reconciliation of net income to EBITDA from continuing operations (unaudited, in thousands):

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	Three Months Ended June 30,		Six Months Ended June 30,		Trailing Twelve Months Ended June 30,	
	2015	2014	2015	2014	2015	2014
Net income	$13,339	$16,015	$30,127	$38,697	$76,596	$86,616
Adjustments:						
Income taxes	6,092	7,384	13,693	13,438	31,797	30,059
Depreciation and amortization	4,467	4,325	9,014	8,597	17,893	16,600
Interest expense	4,126	3,910	8,146	5,346	16,327	7,486
Interest income	(393)	(262)	(737)	(343)	(1,076)	(467)
EBITDA	$27,631	$31,372	$60,243	$65,735	$141,537	$140,294
Loss from discontinued operations, net of tax	—	—	—	272	—	998
EBITDA from continuing operations	$27,631	$31,372	$60,243	$66,007	$141,537	$141,292
EBITDA from continuing operations margin calculated as follows:						
Total revenue from continuing operations	$167,623	$165,326	$343,646	$335,103	$721,420	$693,685
EBITDA from continuing operations	$27,631	$31,372	$60,243	$66,007	$141,537	$141,292
EBITDA from continuing operations as a percentage of revenue	16%	19%	18%	20%	20%	20%
Leverage ratio (indebtedness divided by EBITDA from continuing operations):						
Indebtedness					$256,000	$200,000
EBITDA from continuing operations					$141,537	$141,292
Leverage ratio					1.8:1	1.4:1

Free Cash Flow

For purposes of its internal liquidity assessments, the Company considers free cash flow, which is defined as cash flow from the operating activities of continuing and discontinued operations reduced by purchases of property and equipment and net cash outflow from loan receivables. Free cash flow is commonly used by investors as a measure of cash generated by business operations that will be used to repay scheduled debt maturities and can be used to invest in future growth through new business development activities or acquisitions, repurchase stock, or repay debt obligations prior to their maturities. These metrics can also be used to evaluate the Company’s ability to generate cash flow from business operations and the impact that this cash flow has on the Company’s liquidity. However, free cash flow has limitations as an analytical tool and should not be considered in isolation or as a substitute for cash flow from operating activities, including discontinued operations, or other income statement data prepared in accordance with GAAP. The following table reconciles “net cash flow from operating activities, including discontinued operations” to “free cash flow” (unaudited, in thousands):

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	Trailing Twelve Months Ended June 30,	
	2015	2014
Cash flow from operating activities, including discontinued operations	$91,049	$110,210
Cash flow from investing activities:		
Loan receivables	1,517	(1,007)
Purchases of property and equipment	(20,495)	(28,357)
Free cash flow	$72,071	$80,846

Constant Currency Results

The Company's reporting currency is the U.S. dollar. However, certain performance metrics discussed in this report are presented on a "constant currency" basis, which may be considered a non-GAAP measurement of financial performance. The Company's management uses constant currency results to evaluate operating results of certain business operations in Mexico, which are transacted in Mexican pesos. Pawn scrap jewelry in Mexico is sold in U.S. dollars and, accordingly, does not require a constant currency adjustment. Constant currency results reported herein are calculated by translating certain balance sheet and income statement items denominated in Mexican pesos using the exchange rate from the prior-year comparable period, as opposed to the current comparable period, in order to exclude the effects of foreign currency rate fluctuations for purposes of evaluating period-over-period comparisons. For balance sheet items, the end-of-period exchange rate of 13.0 Mexican pesos / U.S. dollar at June 30, 2014 was used compared to the exchange rate of 15.6 Mexican pesos / U.S. dollar at June 30, 2015. For income statement items, the average exchange rate for the prior-year quarter ended June 30, 2014 of 13.0 Mexican pesos / U.S. dollar was used compared to the current quarter rate of 15.3 Mexican pesos / U.S. dollar. The average exchange rate for the prior-year six-month period ended June 30, 2014 was 13.1 Mexican pesos / U.S. dollar was used compared to the current year-to-date rate of 15.1 Mexican pesos / U.S. dollar.

Regulatory Developments

The Company is subject to significant regulation of its pawn, consumer loan and general business operations in all of the jurisdictions in which it operates. These regulations are implemented through various laws, ordinances and regulatory pronouncements from federal, state and municipal governmental entities in the United States and Mexico. These regulatory bodies often have broad discretionary authority in the establishment, interpretation and enforcement of such regulations. These regulations are often subject to change, sometimes significantly, as a result of political, economic or social trends, events and media perceptions.

The Company is subject to specific laws, ordinances and regulations primarily concerning its pawn and consumer lending operations. Many statutes and regulations prescribe, among other things, the general terms of the Company's pawn and consumer loan agreements, including maximum service and/or interest rates that may be charged and collected. In many jurisdictions, in both the United States and Mexico, the Company must obtain and maintain regulatory operating licenses and comply with regular or frequent regulatory reporting and registration requirements, including reporting and recording of pawn loans, pawned collateral, used merchandise purchased from the general public, retail sales activities, firearm transactions, export, import and transfer of merchandise, and currency transactions, among other things.

In both the United States and Mexico, governmental action to further restrict or even prohibit pawn loans and transactions or small consumer loans, such as payday advances and credit services products, has been advocated over the past few years by elected officials, regulators, consumer advocacy groups and by media. The consumer groups and media typically focus on the aggregated cost to a consumer for pawn and consumer loans, which is typically higher than the interest generally charged by banks, credit unions and credit card issuers to a more creditworthy consumer.

They also focus on affordability issues such as the borrower’s ability to repay such loans, real or perceived patterns of sustained or cyclical usage of such lending products and consumer loan collection practices perceived to be unfair or abusive. The consumer groups and media articles often characterize pawn and especially payday lending activities as unfair or potentially abusive to consumers. During the last few years, in both the United States and Mexico, legislation or ordinances (on federal, state and municipal levels) have been introduced or enacted to prohibit, restrict or further regulate pawn loans and related transactions, including acceptance of pawn collateral, sale of merchandise, payday loans, consumer loans, credit services and related service fees. In addition, regulatory authorities in various levels of government in the United States and Mexico have and will likely continue to propose or publicly address new or expanded regulations that would prohibit or further restrict pawn and consumer lending activities, or other related pawn transactions. Existing regulations and recent regulatory developments are described in greater detail in the Company’s annual report on Form 10-K for the year ended December 31, 2014. This information is supplemented with the discussion provided in the following paragraphs.

In March 2015, the Federal Consumer Financial Protection Bureau ("CFPB") published proposed rules significantly affecting payday loans, vehicle title loans, deposit advance products, high-cost installment and open ended loans, lines of credit and other loans ("Proposed Rules"). The Proposed Rules, among other things, require additional underwriting requirements, requiring cooling-off periods between certain loans, and limitations to prevent the sustained use of certain loans. For example, forcing lenders to analyze whether consumers can afford and repay the loans without incurring increasing costs, capping loan amounts, limiting vehicles as collateral, capping the number of rollovers at two (three loans total) and require that the principal decrease with each rollover loan so that it is repaid after the third loan or provide a no-cost "off-ramp" after the third loan. The Proposed Rules would also restrict lenders from attempting to collect payment from consumers' bank accounts in ways that cause the consumer to incur excessive bank fees. The CFPB published the Proposed Rules under consideration in preparation for convening a Small Business Review Panel to gather feedback from industry experts, small lenders, and the business community which is the next step in the rule-making process. The Proposed Rules are not final and could change significantly.

The Company does not currently anticipate that the Proposed Rules will affect the Company's pawn loan products; however, the Company's consumer loan, credit services and vehicle title loan products could be affected if they are finally adopted as written. During the six months ended June 30, 2015, the Company's consumer and vehicle loans represented approximately 4% of the Company's overall revenues. It is not possible to accurately predict the scope, extent, nature or effect of the Proposed Rules. Further, there can be no assurance that the CFPB will not propose or adopt future rules affecting pawn or short-term lending products, such as payday, title lending and credit services products, making them materially less profitable or even impractical to offer. Fiscal 2014 domestic consumer loan and credit services fees revenue recorded by the Company was $34,051,000 and at June 30, 2015, the Company had $7,913,000 of goodwill related to its U.S. consumer loan stores.

The Company is subject to numerous other types of regulations, including but not limited to, regulations related to securities and exchange activities, including financial reporting and internal controls processes, data protection and privacy, tax compliance, labor and employment practices, real estate transactions, electronic banking, credit card transactions, marketing, and advertising and other general business activities.

There can be no assurance that additional local, state or federal statutes or regulations in either the United States or Mexico will not be enacted or that existing laws and regulations will not be amended, decreed or interpreted at some future date that could outlaw or inhibit the ability of the Company to profitably operate any or all of its services. For example, such regulations could restrict the ability of the Company to offer pawn loans, consumer loans and credit services, or significantly decrease the interest rates or service fees for such lending activities, or prohibit or more stringently regulate the acceptance of pawn collateral, sale, exportation or importation of pawn merchandise, or processing of consumer loan transactions through the banking system, any of which could have a material adverse effect on the Company's operations and financial condition. If legislative or regulatory actions or interpretations are taken at a federal, state or local jurisdiction level in the United States or Mexico which negatively affect the pawn, consumer loan or credit services industries where the Company has a significant number of stores, those actions could have a material adverse effect on the Company's business operations. There can be no assurance that such regulatory action at any jurisdiction level in the United States or Mexico will not be enacted, or that existing laws and regulations will not be amended, decreed or interpreted in such a way which could have a material adverse effect on the Company's operations and financial condition.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to the Company's operations result primarily from changes in interest rates, gold prices and foreign currency exchange rates, and are described in detail in the Company's 2014 annual report on Form 10-K. The impact of current-year fluctuations in gold prices and foreign currency exchange rates, in particular, are further discussed in Part I, Item 2 herein. There have been no material changes to the Company's exposure to market risks since December 31, 2014.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of the Company's Chief Executive Officer and Chief Financial Officer, management of the Company has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) (the "Exchange Act") as of June 30, 2015 (the "Evaluation Date"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective (i) to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms; and (ii) to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

There was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including its Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure controls and procedures or internal controls will prevent all possible error and fraud. The Company's disclosure controls and procedures are, however, designed to provide reasonable assurance of achieving their objectives, and the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective at that reasonable assurance level.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no material changes in the status of legal proceedings previously reported in the Company's 2014 annual report on Form 10-K.

ITEM 1A. RISK FACTORS

Important risk factors that could affect the Company's operations and financial performance, or that could cause results or events to differ from current expectations, are described in Part I, Item 1A, "Risk Factors" of the Company's 2014 annual report on Form 10-K. These factors are supplemented by those discussed under "Regulatory Developments" in Part I, Item 2 of this report and in "Governmental Regulation" in Part I, Item 1 of the Company's 2014 annual report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the period from January 1, 2015 through June 30, 2015, the Company issued 145,000 shares of common stock relating to the exercise of outstanding stock options for an aggregate exercise price of $4,518,000 (including income tax benefit). During the period from January 1, 2015 through June 30, 2015, the Company granted a total of 45,000 nonvested shares of restricted common stock to certain executives of the Company. A total of 43,000 previously granted restricted shares vested and were issued during the period from January 1, 2015 through June 30, 2015.

The transactions set forth in the above paragraph were completed pursuant to Section 4(2) of the Securities Act, did not involve a public offering and were sold to a limited group of persons. Each recipient either received adequate information about the Company or had access, through employment or other relationships, to such information, and the Company determined that each recipient had such knowledge and experience in financial and business matters that they were able to evaluate the merits and risks of an investment in the Company. All sales of the Company's securities were made by officers of the Company who received no commission or other remuneration for the solicitation of any person in connection with the respective sales of securities described above.

In January 2015, the Company's Board of Directors authorized a repurchase program for up to 2,000,000 shares of the Company's outstanding common stock. During the six months ended June 30, 2015, the Company repurchased 463,000 shares of its common stock at an aggregate cost of $22,974,000 at an average price of $49.65 per share and 1,537,000 shares remain available for repurchase under the repurchase program. Under its share repurchase program, the Company can purchase common stock in open market transactions, block or privately negotiated transactions, and may from time to time purchase shares pursuant to a trading

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plan in accordance with Rule 10b5-1 and Rule 10b-18 under the Exchange Act, or by any combination of such methods. The number of shares to be purchased and the timing of the purchases are based on a variety of factors, including, but not limited to, the level of cash balances, credit availability, debt covenant restrictions, general business conditions, regulatory requirements, the market price of the Company's stock and the availability of alternative investment opportunities. No time limit was set for completion of repurchases under the authorization and the program may be suspended or discontinued at any time.

The following table provides the information with respect to purchases made by the Company of shares of its common stock during each month that the program was in effect during the six months ended June 30, 2015:

	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans	Maximum Number Of Shares That May Yet Be Purchased Under The Plans
January 1 through January 31, 2015	79,600	$49.94	79,600	1,920,400
February 1 through February 28, 2015	256,002	50.78	256,002	1,664,398
March 1 through March 31, 2015	—	—	—	1,664,398
April 1 through April 30, 2015	127,115	47.20	127,115	1,537,283
May 1 through May 31, 2015	—	—	—	1,537,283
June 1 through June 30, 2015	—	—	—	1,537,283
Total	462,717	$49.65	462,717	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended Certificate of Incorporation	DEF 14A	0-19133	A	04/29/2004	
3.2	Amended Bylaws	10-K	0-19133	3.2	03/31/2000	
4.1	Common Stock Specimen	S-1	33-48436	4.2a	06/05/1992	
4.2	Indenture, dated as of March 24, 2014, by and among First Cash Financial Services, Inc., the guarantors listed therein and BOKF, NA, dba Bank of Texas (including the form of Note attached as an exhibit thereto)	8-K	0-19133	4.1	03/25/2014	
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by Rick L. Wessel, Chief Executive Officer					X
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act provided by R. Douglas Orr, Chief Financial Officer					X
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by Rick L. Wessel, Chief Executive Officer					X
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 provided by R. Douglas Orr, Chief Financial Officer					X
101 (1)	The following financial information from the Company's Quarterly Report on Form 10-Q for the second quarter of fiscal 2015, filed with the SEC on July 22, 2015, is formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets at June 30, 2015, June 30, 2014 and December 31, 2014, (ii) Condensed Consolidated Statements of Income for the three and six months ended June 30, 2015 and June 30, 2014, (iii) Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and June 30, 2014, (iv) Condensed Consolidated Statements of Changes in Stockholders’ Equity for the six months ended June 30, 2015 and June 30, 2014, (v) Condensed Consolidated Statements of Cash Flows for the six months ended June					X

30, 2015 and June 30, 2014 and (vi) Notes to Condensed Consolidated Financial Statements.

(1) The XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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SIGNATURES

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

Dated: July 22, 2015	FIRST CASH FINANCIAL SERVICES, INC. (Registrant)
	/s/ RICK L. WESSEL Rick L. Wessel Chief Executive Officer (Principal Executive Officer)
	/s/ R. DOUGLAS ORR R. Douglas Orr Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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