

BEMIS CO INC
Form 10-Q
October 30, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2015

Commission File Number 1-5277

BEMIS COMPANY, INC.
(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

43-0178130
(I.R.S. Employer
Identification No.)

One Neenah Center
4th Floor, P.O. Box 669
Neenah, Wisconsin
(Address of principal executive offices)

54957-0669
(Zip Code)

Registrant's telephone number, including area code: (920) 527-5000

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

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

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

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Indicate by check mark whether the registrant is a shell company. YES NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of October 28, 2015, the registrant had 95,973,064 shares of Common Stock, \$0.10 par value, issued and outstanding.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain estimates, predictions, and other “forward-looking statements” (as defined in the Private Securities Litigation Reform Act of 1995, and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended).

Forward-looking statements are generally identified with the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “target,” “may,” “will,” “plan,” “project,” “should,” “continue,” or the negative thereof or other similar expressions, or discussion of future goals or aspirations, which are predictions of or indicate future events and trends and which do not relate to historical matters. Such statements are based on information available to management as of the time of such statements and relate to, among other things, expectations of the business environment in which we operate, projections of future performance (financial and otherwise), including those of acquired companies, perceived opportunities in the market and statements regarding our mission and vision. Forward-looking statements involve known and unknown risks, uncertainties, and other factors, which may cause actual results, performance, or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Factors that could cause actual results to differ from those expected include, but are not limited to, general and global economic conditions caused by inflation, interest rates, consumer confidence, rates of unemployment and foreign currency exchange rates; investment performance of assets in our pension plans; competitive conditions within our markets, including the acceptance of our new and existing products; potential loss of business or increased costs due to customer or vendor consolidation; customer contract bidding activity; threats or challenges to our patented or proprietary technologies; raw materials: costs, availability, and terms (particularly for polymer resins and adhesives); price changes for raw materials and our ability to pass these price changes on to our customers or otherwise manage commodity price fluctuation risks; unexpected energy surcharges; broad changes in customer order patterns; a failure in our information technology infrastructure or applications; changes in governmental regulation, especially in the areas of environmental, health and safety matters, fiscal incentives, and foreign investment; unexpected outcomes in our current and future administrative and litigation proceedings; unexpected outcomes in our current and future tax proceedings; changes in domestic and international tax laws; costs associated with the pursuit of business combinations or divestitures; unexpected costs associated with the integration of acquired businesses; unexpected costs and timing related to transition of production; changes in our labor relations; and the impact of changes in the world political environment including threatened or actual armed conflict. These and other risks, uncertainties, and assumptions identified from time to time in our filings with the Securities and Exchange Commission, including without limitation, those described in our Annual Report on Form 10-K for the year ended December 31, 2014 and our quarterly reports on Form 10-Q, could cause actual future results to differ materially from those projected in the forward-looking statements. In addition, actual future results could differ materially from those projected in the forward-looking statement as a result of changes in the assumptions used in making such forward-looking statement.

PART I — FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
BEMIS COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)
(in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net sales	\$1,018.3	\$1,098.2	\$3,088.7	\$3,290.8
Cost of products sold	796.5	877.5	2,428.2	2,640.2
Gross profit	221.8	220.7	660.5	650.6
Operating expenses:				
Selling, general, and administrative expenses	101.8	104.6	312.1	315.6
Research and development	11.0	11.2	33.8	33.4
Restructuring and acquisition-related costs	4.6	—	9.9	—
Other operating income	(1.4)	(2.4)	(7.7)	(7.6)
Operating income	105.8	107.3	312.4	309.2
Interest expense	12.6	14.0	38.5	47.9
Other non-operating income	(0.8)	(1.2)	(4.8)	(15.6)
Income from continuing operations before income taxes	94.0	94.5	278.7	276.9
Provision for income taxes	31.5	33.0	93.6	95.0
Income from continuing operations	62.5	61.5	185.1	181.9
Loss from discontinued operations	—	(44.5)	(2.6)	(49.9)
Net income	\$62.5	\$17.0	\$182.5	\$132.0
Basic earnings per share:				
Income from continuing operations	\$0.65	\$0.62	\$1.91	\$1.81
Loss from discontinued operations	—	(0.45)	(0.03)	(0.50)
Net income	\$0.65	\$0.17	\$1.88	\$1.31
Diluted earnings per share:				
Income from continuing operations	\$0.64	\$0.61	\$1.89	\$1.79
Loss from discontinued operations	—	(0.44)	(0.03)	(0.49)
Net income	\$0.64	\$0.17	\$1.86	\$1.30
Cash dividends paid per share	\$0.28	\$0.27	\$0.84	\$0.81

See accompanying notes to condensed consolidated financial statements.

BEMIS COMPANY, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 (Unaudited)
 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	\$62.5	\$17.0	\$182.5	\$132.0
Other comprehensive loss:				
Translation adjustments	(119.8)	(94.3)	(206.1)	(65.1)
Pension and other postretirement liability adjustments, net of tax (a)	3.2	2.6	9.6	1.1
Other comprehensive loss	(116.6)	(91.7)	(196.5)	(64.0)
Total comprehensive (loss) income	\$(54.1)	\$(74.7)	\$(14.0)	\$68.0
(a) Tax expense related to pension and other postretirement liability adjustments	\$2.0	\$1.7	\$6.0	\$0.7

See accompanying notes to condensed consolidated financial statements.

BEMIS COMPANY, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEET
 (Unaudited)
 (in millions)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$78.6	\$47.1
Trade receivables	461.8	496.3
Inventories	538.2	575.8
Prepaid expenses and other current assets	141.6	168.6
Total current assets	1,220.2	1,287.8
Property and equipment, net	1,130.6	1,142.9
Goodwill	904.8	963.1
Other intangible assets, net	149.1	168.6
Deferred charges and other assets	43.2	48.4
Total other long-term assets	1,097.1	1,180.1
TOTAL ASSETS	\$3,447.9	\$3,610.8
LIABILITIES		
Short-term borrowings	\$6.4	\$31.3
Accounts payable	348.7	268.2
Employee-related liabilities	90.6	90.8
Accrued income and other taxes	38.3	23.3
Other current liabilities	81.4	67.8
Total current liabilities	565.4	481.4
Long-term debt	1,293.6	1,311.6
Deferred taxes	219.9	223.4
Other liabilities and deferred credits	125.7	161.4
Total liabilities	2,204.6	2,177.8
Commitments and contingencies (See Note 11)		
EQUITY		
Common stock issued (128.1 and 128.0 shares, respectively)	12.8	12.8
Capital in excess of par value	571.0	559.7
Retained earnings	2,186.6	2,086.8
Accumulated other comprehensive loss	(488.2) (291.7
Common stock held in treasury (32.1 and 29.8 shares at cost, respectively)	(1,038.9) (934.6
Total equity	1,243.3	1,433.0
TOTAL LIABILITIES AND EQUITY	\$3,447.9	\$3,610.8

See accompanying notes to condensed consolidated financial statements.

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BEMIS COMPANY, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
 (Unaudited)
 (in millions)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$182.5	\$132.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118.1	139.0
Excess tax benefit from share-based payment arrangements	(0.3)	(0.6)
Share-based compensation	13.7	9.4
Deferred income taxes	(5.0)	(18.0)
Income of unconsolidated affiliated company	(1.5)	(1.0)
Non-cash impairment charge of discontinued operations	3.2	44.7
(Gain) loss on sale of property and equipment	(3.0)	0.1
Gain on divestitures	—	(9.3)
Changes in working capital, excluding effect of divestitures and currency	94.6	(101.9)
Changes in other assets and liabilities	9.7	(2.9)
Net cash provided by operating activities	412.0	191.5
Cash flows from investing activities		
Additions to property and equipment	(147.9)	(112.7)
Proceeds from sale of property and equipment	9.4	7.9
Proceeds from divestitures	13.6	79.8
Net cash used in investing activities	(124.9)	(25.0)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	2.0	199.4
Repayment of long-term debt	—	(399.8)
Net (repayment) borrowing of commercial paper	(31.8)	202.8
Net (repayment) borrowing of short-term debt	(20.0)	7.4
Cash dividends paid to shareholders	(82.2)	(81.6)
Common stock purchased for the treasury	(104.3)	(84.1)
Deferred payments for business acquisitions	(4.3)	(6.6)
Excess tax benefit from share-based payment arrangements	0.3	0.6
Stock incentive programs and related tax withholdings	(2.7)	(1.5)
Net cash used in financing activities	(243.0)	(163.4)
Effect of exchange rates on cash and cash equivalents	(12.6)	(8.7)
Cash and cash equivalents classified as held for sale assets	—	(10.0)
Net increase (decrease) in cash and cash equivalents	31.5	(15.6)
Cash and cash equivalents balance at beginning of year	47.1	141.7

Cash and cash equivalents balance at end of period	\$78.6	\$126.1
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See accompanying notes to condensed consolidated financial statements.

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BEMIS COMPANY, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF EQUITY
 (Unaudited)
 (in millions)

	Common Stock	Capital In Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock Held In Treasury	Total
Balance at December 31, 2013	\$ 12.8	\$ 548.1	\$ 2,005.1	\$ (98.7)	\$(782.5)	\$ 1,684.8
Net income			132.0			132.0
Other comprehensive loss				(64.0)		(64.0)
Cash dividends declared on common stock			(82.2)			(82.2)
Stock incentive programs and related tax withholdings (0.1 shares)		(1.5)				(1.5)
Excess tax benefit from share-based payment arrangements		0.6				0.6
Share-based compensation		9.4				9.4
Purchase of 2.1 shares of common stock for the treasury					(84.1)	(84.1)
Balance at September 30, 2014	\$ 12.8	\$ 556.6	\$ 2,054.9	\$ (162.7)	\$(866.6)	\$ 1,595.0
Balance at December 31, 2014	\$ 12.8	\$ 559.7	\$ 2,086.8	\$ (291.7)	\$(934.6)	\$ 1,433.0
Net income			182.5			182.5
Other comprehensive loss				(196.5)		(196.5)
Cash dividends declared on common stock			(82.7)			(82.7)
Stock incentive programs and related tax withholdings (0.1 shares)		(2.7)				(2.7)
Excess tax benefit from share-based payment arrangements		0.3				0.3
Share-based compensation		13.7				13.7
Purchase of 2.3 shares of common stock for the treasury					(104.3)	(104.3)
Balance at September 30, 2015	\$ 12.8	\$ 571.0	\$ 2,186.6	\$ (488.2)	\$(1,038.9)	\$ 1,243.3

See accompanying notes to condensed consolidated financial statements.

BEMIS COMPANY, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Bemis Company, Inc. (the "Company") in accordance with accounting principles for interim financial information generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations. It is management's opinion, however, that all material adjustments (consisting of normal recurring accruals) have been made which are necessary for a fair financial statement presentation. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

As noted in Note 2 - New Accounting Guidance, the Company early adopted new guidance related to the presentation of debt issuance costs.

Additionally, during the first half of 2015 the Company revised certain internal working capital metrics and goals. To align external reporting with these metrics, the Company has reclassified certain amounts from "Accounts receivable, net" to "Prepaid expenses and other current assets" and from "Accounts payable" to "Employee-related liabilities" (see table below). Included within the amounts reclassified from "Accounts receivable, net" were vendor rebates, value-added taxes, and other non-trade receivables that included divestiture-related receivables. The Company also renamed "Accounts receivable, net" to "Trade receivables", and "Accrued salaries and wages" to "Employee-related liabilities" to provide more clarity.

(in millions)	December 31, 2014 (As reported)	Reclassification	December 31, 2014 (As reclassified)
Trade receivables	\$566.1	\$(69.8) \$496.3
Prepaid expenses and other current assets	98.8	69.8	168.6
Deferred charges and other assets	52.7	(4.3) 48.4
Accounts payable	272.4	(4.2) 268.2
Employee-related liabilities	86.6	4.2	90.8
Long-term debt	1,315.9	(4.3) 1,311.6

Note 2 — New Accounting Guidance

In September 2015, the Financial Accounting Standards Board ("FASB") issued guidance that eliminates the current requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The guidance is required to be applied by the Company in 2016, but early adoption is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

In July 2015, the FASB issued guidance that simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Entities already calculate net realizable value when applying today's lower of cost or market guidance, and the new guidance does not change that calculation. For inventory within the scope of the new guidance, entities will be required to compare the cost of inventory to only its

net realizable value, and not to the three measures required by current guidance. The guidance is required to be applied by the Company in the first quarter of 2017, but early adoption is permitted. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

In April 2015, the FASB issued new guidance to simplify the presentation of debt issuance costs by requiring debt issuance costs to be presented as a deduction from the corresponding debt liability. This will make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. Current guidance generally requires entities to capitalize costs paid to third parties that are directly related to issuing debt and that otherwise wouldn't be incurred and present those amounts separately as deferred charges. The new guidance requires the discount or premium resulting from the difference between the net proceeds received upon debt issuance and the amount payable at maturity to be presented as a direct deduction from or an addition to the face amount of the debt. The guidance was early adopted as noted in Note 1.

In May 2014, the FASB issued new guidance which supersedes current revenue recognition requirements. This guidance is based on the principle that revenue is recognized to depict the transfer of 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 July 2015, the FASB voted to defer for one year the effective date of the new revenue standard. The guidance is required to be applied by the Company in the first quarter of fiscal 2018 using one of two retrospective application methods. The FASB also decided to permit entities to early adopt the standard. The Company is currently evaluating the application methods and the impact of this new statement on the Company's consolidated financial statements.

In April 2014, the FASB issued new guidance that redefines a discontinued operation as a component or group of components that has been disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's financial results. Continuing involvement no longer precludes presentation as a discontinued operation. The guidance is required to be applied by the Company prospectively to new disposals and new classifications of disposal groups as held for sale beginning in fiscal 2015. While early adoption was permitted, the Company did not early adopt this guidance for its divestiture of its Pressure Sensitive Materials business. The Company does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

Note 3 — Divestitures and Plant Closure

Bemis Healthcare Packaging Plant Closure

In January 2015, the Company announced that it will close a plant in Philadelphia, Pennsylvania, one of its healthcare packaging facilities. Production from this facility will be transferred to other healthcare packaging facilities. Total estimated costs are approximately \$7 million, with approximately \$6 million in cash payments expected. During the nine months ended September 30, 2015, plant closure costs of \$6.7 million were recorded. These costs were recorded within restructuring and acquisition-related costs and included the Company's best estimate of a withdrawal liability for a multi-employer pension plan settlement. Management expects to cease operations at this location by the end of 2015, with all closure costs to be incurred during fiscal 2015. The majority of cash payments are expected in 2016.

Divestiture of Pressure Sensitive Materials Business

On November 7, 2014, the Company completed the sale of its global Pressure Sensitive Materials business. Proceeds of the transaction totaled \$150.5 million. Of the total proceeds, \$136.9 million was received in fiscal 2014 and \$13.6 million was received in April 2015 which related to settlement of customary post-closing adjustments. The following table summarizes the results of the Pressure Sensitive Materials business, classified as discontinued operations for the three and nine month periods ended September 30, 2015 and 2014:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	\$—	\$134.4	\$—	\$421.2
Loss from discontinued operations before income taxes	\$—	\$(34.9)	\$(3.7)	\$(42.2)
Provision for (benefit of) income taxes on discontinued operations	—	9.6	(1.1)	7.7
Loss from discontinued operations, net of tax	\$—	\$(44.5)	\$(2.6)	\$(49.9)

Loss from discontinued operations in 2015 resulted from additional impairment charges, net of tax, reflecting finalization of post-closing adjustments. Loss from discontinued operations in 2014 includes the operating results of

the Pressure Sensitive Materials business, goodwill impairment charges, direct transaction costs associated with the divestiture, \$25.0 million of plant closure costs associated with the Stow, Ohio facility, and the associated income tax effects of these items. The pre-tax \$44.7 million non-cash goodwill impairment charge is to reduce net assets held for sale to estimated fair value, less costs to sell.

Divestiture of Paper Packaging Division

On March 31, 2014, the Company completed the sale of its Paper Packaging Division. Annual net sales by this division were approximately \$160 million. Net proceeds of the transaction totaled \$79.8 million for the nine months ended September 30, 2014. A \$9.3 million pre-tax gain on the sale was recorded as part of other non-operating income for the nine months ended September 30, 2014.

Note 4 — Financial Assets and Financial Liabilities Measured at Fair Value

The fair values of the Company's financial assets and financial liabilities listed below reflect the amounts that would be received to sell the assets or paid to transfer the liabilities in an orderly transaction between market participants at the measurement date (exit price).

The Company's non-derivative financial instruments include cash and cash equivalents, trade receivables, accounts payable, short-term borrowings, and long-term debt. At September 30, 2015 and December 31, 2014, the carrying value of these financial instruments, excluding long-term debt, approximates fair value because of the short-term maturities of these instruments.

Fair value disclosures are classified based on the fair value hierarchy. Level 1 fair value measurements represent exchange-traded securities which are valued at quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access as of the reporting date. Level 2 fair value measurements are determined using input prices that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data. Level 3 fair value measurements are determined using unobservable inputs, such as internally developed pricing models for the asset or liability due to little or no market activity for the asset or liability.

The fair value measurements of the Company's long-term debt represent non-active market exchange-traded securities which are valued at quoted prices or using input prices that are directly observable or indirectly observable through corroboration with observable market data. The carrying values and estimated fair values of long-term debt at September 30, 2015 and December 31, 2014 follow:

(in millions)	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
Long-term debt	\$1,293.6	\$1,382.8	\$1,311.6	\$1,410.9

The fair values for derivatives are based on inputs other than quoted prices that are observable for the asset or liability. These inputs include interest rates. The financial assets and financial liabilities are primarily valued using standard calculations / models that use as their basis readily observable market parameters. Industry standard data providers are the primary source for forward and spot rate information for both interest rates and currency rates, with resulting valuations periodically validated through third-party or counterparty quotes. The fair value of the Company's derivatives follow:

(in millions)	Fair Value As of September 30, 2015 (Level 2)	Fair Value As of December 31, 2014 (Level 2)
Interest rate swaps — net asset position	\$11.9	\$1.0
Forward exchange contracts — net asset position	\$0.5	\$—

Note 5 — Derivative Instruments

The Company enters into derivative transactions to manage exposures arising in the normal course of business. The Company does not enter into derivative transactions for speculative or trading purposes. The Company recognizes all derivative instruments on the balance sheet at fair value. Derivatives not designated as hedging instruments are adjusted to fair value through income. Depending on the nature of derivatives designated as hedging instruments, changes in the fair value are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or

recognized in shareholders' equity through other comprehensive income until the hedged item is recognized. Gains or losses, if any, related to the ineffective portion of any hedge are recognized through earnings in the current period.

The Company enters into interest rate swap contracts to economically convert a portion of the Company's fixed-rate debt to variable rate debt. During the fourth quarter of 2011, the Company entered into four interest rate swap agreements with a total notional amount of \$400 million. These contracts were designated as fair value hedges of the Company's \$400 million 4.50 percent fixed-rate debt due in 2021. The variable rate for each of the interest rate swaps is based on the six-month London Interbank Offered Rate (LIBOR), set in arrears, plus a fixed spread. The variable rates are reset semi-annually at each net settlement date. Fair values of these interest rate swaps are determined using discounted cash flow or other appropriate methodologies. Asset positions are included in deferred charges and other assets with a corresponding increase in long-term debt. Liability positions are included in other liabilities and deferred credits with a corresponding decrease in long-term debt.

The Company enters into forward exchange contracts to manage foreign currency exchange rate exposures associated with certain foreign currency denominated receivables and payables. Forward exchange contracts generally have maturities of less than six months and relate primarily to major Western European currencies for the Company's European operations, the U.S. dollar for the Company's Brazilian operations, and the U.S. and Australian dollars for the Company's New Zealand and Australian operations. The Company has not designated these derivative instruments as hedging instruments. At September 30, 2015 and December 31, 2014, the Company had outstanding forward exchange contracts with notional amounts aggregating \$2.8 million and \$2.3 million, respectively. The net settlement amount (fair value) related to active forward exchange contracts is recorded on the balance sheet as either a current or long-term asset or liability and as an element of other operating income which offsets the related transaction gains or losses.

The Company is exposed to credit loss in the event of non-performance by counterparties in forward exchange contracts and interest-rate swap contracts. Collateral is generally not required of the counterparties or of the Company. In the event a counterparty fails to meet the contractual terms of a currency swap or forward exchange contract, the Company's risk is limited to the fair value of the instrument. The Company actively monitors its exposure to credit risk through the use of credit approvals and credit limits, and by selecting major international banks and financial institutions as counterparties. The Company has not had any historical instances of non-performance by any counterparties, nor does it anticipate any future instances of non-performance.

The fair values, balance sheet presentation, and the hedge designation status of derivative instruments at September 30, 2015 and December 31, 2014 are presented in the table below:

(in millions)	Balance Sheet Location	Fair Value (Level 2) As of	
		September 30, 2015	December 31, 2014
Asset Derivatives			
Interest rate swaps — designated as hedge	Deferred charges and other assets	\$ 11.9	\$ 1.0
Forward exchange contracts — not designated as hedge	Deferred charges and other assets	0.5	—
Total		\$ 12.4	\$ 1.0

The income statement impact of derivatives is presented in the table below:

(in millions)	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income on Derivatives			
		Three Months Ended		Nine Months Ended	
		September 30, 2015	2014	September 30, 2015	2014

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	on Derivatives				
Designated as hedges					
Interest rate swaps	Interest expense	\$ 1.7	\$ 2.0	\$ 5.6	\$ 6.2
Not designated as hedges					
Forward exchange contracts	Other operating income	0.2	—	0.6	(0.2)
Total		\$ 1.9	\$ 2.0	\$ 6.2	\$ 6.0

Note 6 — Inventories

Inventories are valued at the lower of cost, as determined by the first-in, first-out ("FIFO") method, or market. Inventory values using the FIFO method of accounting approximate replacement cost. Inventories are summarized as follows:

(in millions)	September 30, 2015	December 31, 2014
Raw materials and supplies	\$172.5	\$193.9
Work in process and finished goods	365.7	381.9
Total inventories	\$538.2	\$575.8

Note 7 — Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill attributable to each reportable business segment follow:

(in millions)	U.S. Packaging Segment	Global Packaging Segment	Total
Reported balance at December 31, 2014	\$634.0	\$329.1	