

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

SILGAN HOLDINGS INC  
Form 10-Q  
November 09, 2005

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-22117

SILGAN HOLDINGS INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation or Organization)

06-1269834  
(I.R.S. Employer  
Identification No.)

4 Landmark Square  
Stamford, Connecticut  
(Address of Principal Executive Offices)

06901  
(Zip Code)

(203) 975-7110  
(Registrant's Telephone Number, Including Area Code)

N/A  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

As of October 31, 2005, the number of shares outstanding of the Registrant's common stock, \$0.01 par value, was 37,205,350.

# Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

SILGAN HOLDINGS INC.

## TABLE OF CONTENTS

	Page No. -----
Part I. Financial Information	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets at September 30, 2005 and 2004 and December 31, 2004	3
Condensed Consolidated Statements of Income for the three months ended September 30, 2005 and 2004	4
Condensed Consolidated Statements of Income for the nine months ended September 30, 2005 and 2004	5
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004	6
Condensed Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2005 and 2004	7
Notes to Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	27
Part II. Other Information	27
Item 6. Exhibits	27
Signatures	28
Exhibit Index	29

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

### Item 1. Financial Statements

SILGAN HOLDINGS INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)  
(Unaudited, see Note 1)

	Sept. 30, 2005 ----	Sept. 30, 2004 ----
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents .....	\$ 63,848	\$ 22,877
Trade accounts receivable, net .....	352,802	317,450
Inventories .....	307,836	307,966
Prepaid expenses and other current assets .....	22,640	33,862
	-----	-----
Total current assets .....	747,126	682,155
Property, plant and equipment, net .....	763,241	792,903
Goodwill, net .....	198,096	203,606
Other assets, net .....	50,284	55,818
	-----	-----
	\$1,758,747	\$1,734,482
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
<b>Current liabilities</b>		
Bank revolving loans .....	\$ 217,700	\$ 78,100
Current portion of long-term debt .....	1,250	23,670
Trade accounts payable .....	175,639	156,832
Accrued payroll and related costs .....	64,972	71,920
Accrued liabilities .....	65,167	77,334
	-----	-----
Total current liabilities .....	524,728	407,856
Long-term debt .....	751,750	953,910
Other liabilities .....	201,419	181,066
<b>Stockholders' equity</b>		
Common stock .....	426	211
Paid-in capital .....	138,441	131,383
Retained earnings .....	199,213	123,164
Accumulated other comprehensive income (loss) .....	5,137	(1,204)
Unamortized stock compensation .....	(2,135)	(1,511)
Treasury stock .....	(60,232)	(60,393)
	-----	-----
Total stockholders' equity .....	280,850	191,650
	-----	-----
	\$1,758,747	\$1,734,482
	=====	=====

See accompanying notes.

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

-3-

SILGAN HOLDINGS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 For the three months ended September 30, 2005 and 2004  
 (Dollars and shares in thousands, except per share amounts)  
 (Unaudited)

	2005 ----	2004 ----
Net sales .....	\$797,514	\$784,847
Cost of goods sold .....	681,235 -----	679,046 -----
Gross profit .....	116,279	105,801
Selling, general and administrative expenses .....	30,185	28,619
Rationalization charges .....	-- -----	66 -----
Income from operations .....	86,094	77,116
Interest and other debt expense .....	12,618 -----	13,554 -----
Income before income taxes .....	73,476	63,562
Provision for income taxes .....	28,245 -----	25,107 -----
Net income .....	\$ 45,231 =====	\$ 38,455 =====
Earnings per share: (a)		
Basic net income per share .....	\$1.22 =====	\$1.05 =====
Diluted net income per share .....	\$1.20 =====	\$1.03 =====
Dividends per share: (a) .....	\$0.10 =====	\$0.08 =====
Weighted average number of shares: (a)		
Basic .....	37,172	36,799
Effect of dilutive securities .....	474 -----	456 -----

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Diluted .....	37,646	37,255
	=====	=====

(a) Per share and share amounts have been restated for the two-for-one stock split discussed in Note 1.

See accompanying notes.

-4-

SILGAN HOLDINGS INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 For the nine months ended September 30, 2005 and 2004  
 (Dollars and shares in thousands, except per share amounts)  
 (Unaudited)

	2005	2004
	----	----
Net sales .....	\$1,908,716	\$1,854,488
Cost of goods sold .....	1,652,484	1,614,772
	-----	-----
Gross profit .....	256,232	239,716
Selling, general and administrative expenses .....	86,563	82,559
Rationalization charges .....	464	1,267
	-----	-----
Income from operations .....	169,205	155,890
Interest and other debt expense before loss on early extinguishment of debt .....	38,533	43,860
Loss on early extinguishment of debt .....	11,035	--
	-----	-----
Interest and other debt expense .....	49,568	43,860
Income before income taxes .....	119,637	112,030
Provision for income taxes .....	46,060	44,252
	-----	-----
Net income .....	\$ 73,577	\$ 67,778
	=====	=====

Earnings per share: (a)

Basic net income per share .....	\$1.99	\$1.85
	=====	=====

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Diluted net income per share .....	\$1.96 =====	\$1.82 =====
Dividends per share: (a) .....	\$0.30 =====	\$0.15 =====
Weighted average number of shares: (a)		
Basic .....	37,059	36,713
Effect of dilutive securities .....	514 -----	476 -----
Diluted .....	37,573 =====	37,189 =====

(a) Per share and share amounts have been restated for the two-for-one stock split discussed in Note 1.

See accompanying notes.

-5-

SILGAN HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the nine months ended September 30, 2005 and 2004  
(Dollars in thousands)  
(Unaudited)

	2005	
	-----	
Cash flows provided by (used in) operating activities		
Net income .....	\$ 73,577	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	92,837	
Rationalization charges .....	464	
Loss on early extinguishment of debt .....	11,035	
Other changes that provided (used) cash:		
Trade accounts receivable, net .....	(204,729)	(1
Inventories .....	10,829	
Trade accounts payable .....	11,703	
Accrued liabilities .....	51,159	
Other, net .....	5,398	
	-----	-----
Net cash provided by operating activities .....	52,273	1
	-----	-----

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Cash flows provided by (used in) investing activities		
Capital expenditures .....	(63,721)	(
Proceeds from asset sales .....	3,001	
	-----	----
Net cash used in investing activities .....	(60,720)	(
	-----	----
Cash flows provided by (used in) financing activities		
Borrowings under revolving loans .....	956,275	7
Repayments under revolving loans .....	(738,575)	(6
Proceeds from stock option exercises .....	3,305	
Changes in outstanding checks - principally vendors .....	(80,180)	(
Proceeds from issuance of long-term debt .....	550,000	
Repayments of long-term debt .....	(638,668)	
Dividends paid on common stock .....	(11,132)	
Debt issuance costs .....	(4,146)	
	-----	----
Net cash provided by (used in) financing activities .....	36,879	(
	-----	----
Cash and cash equivalents		
Net increase .....	28,432	
Balance at beginning of year .....	35,416	
	-----	----
Balance at end of period .....	\$ 63,848	\$
	=====	=====
Interest paid .....	\$ 35,167	\$
Income taxes paid, net of refunds .....	11,481	

See accompanying notes.

-6-

SILGAN HOLDINGS INC.  
CONDENSED CONSOLIDATED STATEMENTS OF  
STOCKHOLDERS' EQUITY  
For the nine months ended September 30, 2005 and 2004  
(Dollars and shares in thousands)  
(Unaudited)

	Common Stock		Paid-	Retained	Accumulated	Un
	Shares	Par	in	Earnings	Other	Co
	Outstanding	Value	Capital	(Loss)	Income	Co
	-----	-----	-----	-----	-----	----
Balance at December 31, 2003 .....	18,273	\$210	\$125,758	\$ 60,905	\$ (5,675)	
Comprehensive income:						
Net income .....	--	--	--	67,778	--	
Change in fair value of derivatives, net of tax provision of \$1,934 .....	--	--	--	--	2,961	

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Foreign currency translation .....	--	--	--	--	1,510
Comprehensive income .....					
Dividends declared on common stock .....	--	--	--	(5,519)	--
Issuance of restricted stock units .....	--	--	1,631	--	--
Amortization of stock compensation .....	--	--	--	--	--
Stock option exercises, including tax benefit of \$1,733 .....	149	1	3,994	--	--
Balance at September 30, 2004 .....	<u>18,422</u>	<u>\$211</u>	<u>\$131,383</u>	<u>\$123,164</u>	<u>\$ (1,204)</u>
Balance at December 31, 2004 .....	18,423	\$211	\$131,685	\$136,768	\$ 859
Comprehensive income:					
Net income .....	--	--	--	73,577	--
Change in fair value of derivatives, net of tax provision of \$1,438 .....	--	--	--	--	2,423
Foreign currency translation .....	--	--	--	--	1,855
Comprehensive income .....					
Dividends declared on common stock .....	--	--	--	(11,132)	--
Issuance of restricted stock units .....	--	--	852	--	--
Amortization of stock compensation .....	--	--	--	--	--
Stock option exercises, including tax benefit of \$2,945 .....	173	2	6,248	--	--
Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$39 .....	6	--	(131)	--	--
Two-for-one stock split, net of treasury shares of 2,679 .....	<u>18,602</u>	<u>213</u>	<u>(213)</u>	<u>--</u>	<u>--</u>
Balance at September 30, 2005 .....	<u>37,204</u>	<u>\$426</u>	<u>\$138,441</u>	<u>\$199,213</u>	<u>\$ 5,137</u>

See accompanying notes.

-7-



## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

(Information at September 30, 2005 and 2004 and for the three and nine months then ended is unaudited)

### Note 1. Significant Accounting Policies

**Basis of Presentation.** The accompanying unaudited condensed consolidated financial statements of Silgan Holdings Inc., or Holdings, have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying financial statements include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The results of operations for any interim period are not necessarily indicative of the results of operations for the full year.

The Condensed Consolidated Balance Sheet at December 31, 2004 has been derived from our audited consolidated financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

You should read the accompanying condensed consolidated financial statements in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004.

**Goodwill, Net.** We review goodwill for impairment as of July 1 of each year and more frequently if circumstances indicate a possible impairment. We determined that goodwill was not impaired in our third quarter 2005 assessment.

**Stock Split.** On August 15, 2005, our Board of Directors declared a two-for-one stock split of our issued common stock. The stock split was effected in the form of a stock dividend. Stockholders of record at the close of business on September 1, 2005 were issued one additional share of common stock for each share of common stock owned on that date. The additional shares were distributed on September 15, 2005. Information pertaining to the number of shares outstanding, per share amounts and stock compensation has been restated in the accompanying financial statements and related footnotes to reflect this stock split for all periods presented, except for the Condensed Consolidated Balance Sheets and Statements of Stockholders' Equity. Stockholders' equity reflects the stock split by reclassifying from paid-in capital to common stock an amount equal to the par value of the additional shares issued as a result of the stock split.

**Stock-Based Compensation.** We currently have one stock-based compensation plan in effect, under which we have issued options and restricted stock units to our officers, other key employees and outside directors. We apply the recognition and measurement principles of Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for stock awards. Accordingly, no compensation expense for employee stock options is recognized, as all options granted had an exercise price that was equal to or greater than the market value of the underlying stock on the date of the grant. Restricted stock units issued are accounted for as fixed grants and, accordingly, the fair value at the grant date has been charged to stockholders' equity as unamortized stock compensation and is being amortized ratably over the respective vesting period.

# Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

SILGAN HOLDINGS INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Information at September 30, 2005 and 2004 and for the  
 three and nine months then ended is unaudited)

Note 1. Significant Accounting Policies (continued)

Stock-Based Compensation (continued). During the first nine months of 2005, we granted 21,000 restricted stock units to certain of our officers and key employees. These restricted stock units vest ratably over a five-year period from the date of grant. The fair value of these units at the date of grant was \$0.7 million. Additionally, in May 2005, we granted 7,128 restricted stock units to the independent members of our Board of Directors, which vest in full one year from the date of grant. The fair value of these units at the date of grant was \$0.2 million. Unvested restricted stock units may not be disposed of or transferred during the vesting period.

If we had applied the fair value recognition provisions of Statement of Financial Accounting Standards, or SFAS, No. 123, "Accounting for Stock-Based Compensation," net income and basic and diluted earnings per share would have been as follows:

	Three Months Ended		Nine Mon
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005
	----	----	----
	(Dollars in thousands, except per share)		
Net income, as reported .....	\$45,231	\$38,455	\$73,577
Add: Stock-based compensation expense included in reported net income, net of income taxes .....	107	58	250
Deduct: Total stock-based compensation expense determined under fair value method for all awards, net of income taxes .....	(296)	(468)	(1,002)
Pro forma net income .....	\$45,042 =====	\$38,045 =====	\$72,825 =====
 Earnings per share:			
Basic net income per share - as reported .....	\$1.22 =====	\$1.05 =====	\$1.99 =====
Basic net income per share - pro forma .....	1.21 =====	1.03 =====	1.97 =====
Diluted net income per share - as reported ....	\$1.20 =====	\$1.03 =====	\$1.96 =====
Diluted net income per share - pro forma .....	1.20 =====	1.02 =====	1.94 =====

Recently Issued Accounting Pronouncements. In November 2004, the Financial

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Accounting Standards Board, or the FASB, issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current period charges in all circumstances. SFAS No. 151 will be effective for us beginning January 1, 2006. We do not expect the adoption of SFAS No. 151 to have a material effect on our financial position, results of operations or cash flows.

-9-

SILGAN HOLDINGS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2005 and 2004 and for the  
three and nine months then ended is unaudited)

Note 1. Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued). In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment." SFAS No. 123(R) requires that public companies recognize compensation expense in an amount equal to the fair value of the share-based payment. We will adopt SFAS No. 123(R) beginning January 1, 2006. SFAS No. 123(R) permits companies to adopt its requirements using one of two methods:

1. A "modified prospective" method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.
2. A "modified retrospective" method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

We are still assessing which transition method to utilize.

As permitted by SFAS No. 123, we currently account for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, recognize no compensation expense for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and diluted net income per share in Note 1 to our Condensed Consolidated Financial Statements. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow activity, rather than as an operating cash flow activity as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

employees exercise stock options), the amounts of operating cash flows recognized in prior periods for such excess tax deductions were \$3.0 million and \$1.7 million for the nine months ending September 30, 2005 and 2004, respectively.

On October 22, 2004, the American Jobs Creation Act, or the AJCA, was signed into law. The AJCA includes a deduction of 85 percent on certain foreign earnings that are repatriated during the calendar years of 2004 and 2005. We may elect to apply this provision to qualifying earnings repatriated in 2005. The range of possible amounts that we are evaluating for repatriation under this provision is between zero and \$62 million. The related potential range of income tax cannot be determined at this time. We expect to complete our evaluation of the repatriation provision under the AJCA in the fourth quarter of 2005.

-10-

SILGAN HOLDINGS INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Information at September 30, 2005 and 2004 and for the  
 three and nine months then ended is unaudited)

Note 2. Rationalization Charges and Acquisition Reserves

As part of our plans to integrate the operations of our various acquired businesses and to rationalize certain facilities, we have established reserves for employee severance and benefits and plant exit costs. Activity in our rationalization and acquisition reserves since December 31, 2004 is summarized as follows:

	Employee Severance and Benefits -----	Plant Exit Costs -----	
Balance at December 31, 2004			(Dollars in th
-----			
Fairfield Rationalization .....	\$ --	\$ 893	
2003 Acquisition Plans .....	160	46	
2003 Rationalization Plans .....	37	690	
	-----	-----	
Balance at December 31, 2004 .....	197	1,629	
Activity for the Nine Months Ended Sept. 30, 2005			
-----			
Fairfield Rationalization .....	--	(272)	
2003 Acquisition Plan Reserves Utilized .....	(76)	--	
2003 Acquisition Plan Reserves Adjusted .....	(84)	--	
2003 Rationalization Plan Reserves Utilized .....	--	(129)	
2005 Rationalization Plan Reserves Established .....	287	48	

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

2005 Rationalization Plan Reserves Utilized .....	(77)	(48)
	----	-----
Total Activity .....	50	(401)
Balance at September 30, 2005		
-----		
Fairfield Rationalization .....	--	621
2003 Acquisition Plans .....	--	46
2003 Rationalization Plans .....	37	561
2005 Rationalization Plan .....	210	--
	----	-----
Balance at September 30, 2005 .....	\$247	\$1,228
	=====	=====

2005 Rationalization Plan

-----

During the first quarter of 2005, we approved and announced to employees a plan to relocate the operations of one of our Mississauga, Ontario plastic container manufacturing facilities to other operating facilities. This decision resulted in charges to earnings of \$0.5 million, which consisted of \$0.1 million for the non-cash write-down in carrying value of assets and \$0.4 million for employee severance and benefits and plant exit costs. The relocation of operations has been substantially completed. Through September 30, 2005, there were no significant cash payments related to relocating this facility. Cash payments related to these reserves are expected through 2006 for employee severance and benefits costs.

-11-

SILGAN HOLDINGS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2005 and 2004 and for the  
three and nine months then ended is unaudited)

Note 2. Rationalization Charges and Acquisition Reserves (continued)

Rationalization and acquisition reserves are included in the Condensed Consolidated Balance Sheets as follows:

	Sept. 30, 2005	Sept. 30, 2004	Dec. 31, 2004
	----	----	----
	(Dollars in thousands)		
Accrued liabilities .....	\$ 425	\$ 462	\$ 877
Other liabilities .....	1,050	1,587	949
	-----	-----	-----
	\$1,475	\$2,049	\$1,826
	=====	=====	=====

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

### Note 3. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) is reported in the Condensed Consolidated Statements of Stockholders' Equity. Amounts included in accumulated other comprehensive income (loss) consisted of the following:

	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Dec. 31, 2004 ----
	(Dollars in thousands)		
Foreign currency translation .....	\$ 11,492	\$ 6,145	\$ 9,637
Change in fair value of derivatives .....	5,348	2,200	2,925
Minimum pension liability .....	(11,703)	(9,549)	(11,703)
	-----	-----	-----
Accumulated other comprehensive income (loss).....	\$ 5,137 =====	\$(1,204) =====	\$ 859 =====

-12-

SILGAN HOLDINGS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2005 and 2004 and for the  
three and nine months then ended is unaudited)

### Note 4. Inventories

Inventories consisted of the following:

	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Dec. 31, 2004 ----
	(Dollars in thousands)		
Raw materials .....	\$ 55,962	\$ 42,043	\$ 63,225
Work-in-process .....	59,323	61,812	50,366
Finished goods .....	190,115	191,431	198,697
Spare parts and other .....	17,141	19,231	19,324
	-----	-----	-----
Adjustment to value inventory at cost on the LIFO method .....	322,541 (14,705) -----	314,517 (6,551) -----	331,612 (12,947) -----
	\$307,836 =====	\$307,966 =====	\$318,665 =====

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Note 5. Long-Term Debt

Long-term debt consisted of the following:

	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Dec. 31, 2004 ----
	(Dollars in thousands)		
Bank debt			
Bank revolving loans .....	\$217,700	\$ 78,100	\$ --
Bank A term loans .....	425,000	83,330	63,669
Bank B term loans .....	125,000	691,250	574,999
	-----	-----	-----
Total bank debt .....	767,700	852,680	638,668
	-----	-----	-----
Subordinated debt			
6 3/4% Senior Subordinated Notes .....	200,000	200,000	200,000
Other .....	3,000	3,000	3,000
	-----	-----	-----
Total subordinated debt .....	203,000	203,000	203,000
	-----	-----	-----
Total debt .....	970,700	1,055,680	841,668
Less current portion .....	218,950	101,770	21,804
	-----	-----	-----
	\$751,750	\$ 953,910	\$819,864
	=====	=====	=====

At September 30, 2005, amounts expected to be repaid within one year consisted of \$217.7 million of bank revolving loans related primarily to seasonal working capital needs and \$1.3 million of bank term loans under our senior secured credit facility.

-13-

SILGAN HOLDINGS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2005 and 2004 and for the  
three and nine months then ended is unaudited)

Note 5. Long-Term Debt (continued)

Bank Credit Agreement  
-----

On June 30, 2005, we completed the refinancing of our previous senior secured credit facility by entering into a new \$1.0 billion senior secured credit facility, or the Credit Agreement. Our Credit Agreement provided us with \$425

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

million of A term loans and \$125 million of B term loans, and provides us with up to \$450 million of revolving loans. Pursuant to the Credit Agreement, we also have a \$350 million incremental uncommitted loan facility, of which all of it may be borrowed in the form of term loans and up to \$150 million may be borrowed in the form of revolving loans under the revolving loan facility.

Revolving loans may be used for working capital needs and other general corporate purposes, including acquisitions. Revolving loans may be borrowed, repaid and reborrowed over the life of the Credit Agreement until their final maturity. The A term loans and revolving loans mature on June 30, 2011, and the B term loans mature on June 30, 2012. Principal on the A term loans and B term loans is required to be repaid in scheduled annual installments during each of the years set forth below and amounts repaid may not be reborrowed (in thousands):

Year	A Term Loans	B Term Loans
----	-----	-----
2005	\$ --	\$ 1,250
2006	--	1,250
2007	63,750	1,250
2008	63,750	1,250
2009	85,000	1,250
2010	85,000	1,250
2011	127,500	1,250
2012	--	116,250
	-----	-----
	\$425,000	\$125,000
	=====	=====

The Credit Agreement requires us to prepay the term loans with proceeds received from the incurrence of certain indebtedness, with proceeds received from certain asset sales and, under certain circumstances, with 50 percent of our excess cash flow. Generally, mandatory prepayments of term loans are allocated pro rata to the A term loans and B term loans and applied first to the scheduled amortization payments in the year of such prepayments and, to the extent in excess thereof, pro rata to the remaining installments of the term loans. Voluntary prepayments of term loans may be applied to any tranche of term loans at our discretion and are applied first to the scheduled amortization payments in the year of such prepayment and, to the extent in excess thereof, pro rata to the remaining installments.

The incremental uncommitted term loan facility provides, among other things, that any incremental term loan borrowing shall be denominated in a single currency, either U.S. dollars or certain foreign currencies; have a maturity date no earlier than the maturity date for the B term loans; and be used to finance acquisitions, refinance any indebtedness assumed as part of such acquisitions, to refinance or repurchase subordinated debt as permitted and to repay outstanding revolving loans.

-14-

SILGAN HOLDINGS INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Information at September 30, 2005 and 2004 and for the  
 three and nine months then ended is unaudited)

Note 5. Long-Term Debt (continued)

Bank Credit Agreement (continued)



## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

-----

Under the Credit Agreement, the interest rate for all U.S. loans will either be base rate or LIBOR, plus a margin. The base rate is the higher of the prime lending rate of Deutsche Bank AG New York Branch, or Deutsche Bank, or 1/2 of one percent in excess of the overnight federal funds rate. Initially, the interest rate for A term and revolving loans under the Credit Agreement is the base rate plus a margin of 0.125 percent or LIBOR plus a margin of 1.125 percent. After September 30, 2005, the interest rate margin on A term and revolving borrowings will be reset quarterly based upon our Total Leverage Ratio, as defined in the Credit Agreement. The interest rate for B term loans is the base rate plus a margin of 0.25 percent or LIBOR plus a margin of 1.25 percent. The margin for B term loans is fixed through maturity.

The Credit Agreement provides for the payment of a commitment fee ranging from 0.20 percent to 0.50 percent per annum on the daily average unused portion of commitments available under the revolving loan facility. Initially, the commitment fee will be 0.30 percent per annum. After September 30, 2005, the commitment fee will be reset quarterly based on our Total Leverage Ratio.

We may utilize up to a maximum of \$75 million of our revolving loan facility under the Credit Agreement for letters of credit as long as the aggregate amount of borrowings of revolving loans and letters of credit do not exceed the amount of the commitment under such revolving loan facility. The Credit Agreement provides for payment to the applicable lenders of a letter of credit fee equal to the applicable margin in effect for revolving loans and to the issuers of the letters of credit of a facing fee of 1/8 of one percent per annum, calculated on the aggregate stated amount of all letters of credit.

The indebtedness under the Credit Agreement is guaranteed by us and certain of our U.S. subsidiaries. The stock of certain of our U.S. subsidiaries has also been pledged as security to the lenders under the Credit Agreement. The Credit Agreement contains certain financial and operating covenants which limit, among other things, our ability and the ability of our subsidiaries to grant liens, sell assets and use the proceeds from certain asset sales, make certain payments (including dividends) on our capital stock, incur indebtedness or provide guarantees, make loans or investments, enter into transactions with affiliates, make certain capital expenditures, engage in any business other than the packaging business, and, with respect to our subsidiaries, issue stock. In addition, we are required to meet specified financial covenants including Interest Coverage and Total Leverage Ratios, each as defined in the Credit Agreement. We are currently in compliance with all covenants under the Credit Agreement.

As a result of this refinancing, we recorded a non-cash, pre-tax charge of \$11.0 million for the loss on early extinguishment of debt to write-off unamortized debt issuance costs of the previous credit facility.

-15-

SILGAN HOLDINGS INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Information at September 30, 2005 and 2004 and for the  
three and nine months then ended is unaudited)

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

### Note 6. Retirement Benefits

The components of the net periodic pension benefits costs are as follows:

	Three Months Ended		Nine Mont
	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Sept. 30, 2005 ----
	(Dollars in thousands)		
Service cost .....	\$ 2,843	\$ 2,405	\$ 9,327
Interest cost .....	5,123	5,056	15,489
Expected return on plan assets .....	(6,542)	(5,556)	(19,631)
Amortization of prior service cost .....	790	854	2,370
Amortization of actuarial losses .....	372	36	1,121
	-----	-----	-----
Net periodic benefit cost .....	\$ 2,586	\$ 2,795	\$ 8,676
	=====	=====	=====

The components of the net periodic other postretirement benefits costs are as follows:

	Three Months Ended		Nine Mont
	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Sept. 30, 2005 ----
	(Dollars in thousands)		
Service cost .....	\$ 252	\$(536)	\$1,065
Interest cost .....	1,074	779	3,830
Amortization of prior service cost .....	1	1	4
Amortization of actuarial losses .....	41	(455)	254
	-----	-----	-----
Net periodic benefit cost .....	\$1,368	\$(211)	\$5,153
	=====	=====	=====

In the third quarter of 2004, in order to reflect the most current estimate of our postretirement plans, we recorded a reduction to our postretirement benefits expense of \$1.8 million pertaining to amounts recorded in the first and second quarters of 2004. This change in accounting estimate for postretirement costs resulted in an increase of \$0.03 in earnings per diluted share for each of the three and nine months ended September 30, 2004.

As previously disclosed in our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2004, based on current tax law, there are no minimum required contributions to our pension plans in 2005. However, this estimate is subject to change based

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

on current proposals before Congress, as well as asset performance significantly below the assumed long-term rate of return on plan assets. In order to reduce our unfunded pension liability, it has been our recent practice to make contributions in excess of the ERISA minimum requirements, to the extent they are tax deductible. During the first nine months of 2005, we made no contributions to fund our pension plans.

-16-

SILGAN HOLDINGS INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Information at September 30, 2005 and 2004 and for the  
 three and nine months then ended is unaudited)

Note 7. Business Segment Information

Reportable business segment information for the three and nine months ended September 30 is as follows:

	Metal Food Containers(1) -----	Plastic Containers(2) -----	Corporate -----
	(Dollars in thousands)		
Three Months Ended Sept. 30, 2005 -----			
Net sales .....	\$ 651,129	\$146,385	\$ --
Depreciation and amortization(3) .....	19,629	11,313	16
Segment income from operations .....	81,160	7,433	(2,499)
Three Months Ended Sept. 30, 2004 -----			
Net sales .....	\$ 642,735	\$142,112	\$ --
Depreciation and amortization(3) .....	19,641	10,197	7
Segment income from operations .....	69,168	9,860	(1,912)
Nine Months Ended Sept. 30, 2005 -----			
Net sales .....	\$1,447,721	\$460,995	\$ --
Depreciation and amortization(3) .....	58,689	32,081	35
Segment income from operations .....	147,315	29,465	(7,575)
Nine Months Ended Sept. 30, 2004 -----			
Net sales .....	\$1,422,754	\$431,734	\$ --
Depreciation and amortization(3) .....	57,081	30,647	27
Segment income from operations .....	123,564	37,792	(5,466)
-----			

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

- (1) Segment income from operations includes rationalization charges of \$1.0 million for the nine months ended September 30, 2004.
- (2) Segment income from operations includes rationalization charges of \$0.5 million and \$0.3 million for the nine months ended September 30, 2005 and 2004, respectively.
- (3) Depreciation and amortization excludes amortization of debt issuance costs of \$0.2 million and \$1.0 million for the three months ended September 30, 2005 and 2004, respectively, and \$2.0 million and \$3.0 million for the nine months ended September 30, 2005 and 2004, respectively.

-17-

SILGAN HOLDINGS INC.  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
 (Information at September 30, 2005 and 2004 and for the  
 three and nine months then ended is unaudited)

Note 7. Business Segment Information (continued)

Total segment income from operations is reconciled to income before income taxes as follows:

	Three Months Ended		Nine Months En	
	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Sept. 30, 2005 ----	Se
	(Dollars in thousands)			
Total segment income from operations .....	\$86,094	\$77,116	\$169,205	\$1
Interest and other debt expense .....	12,618	13,554	49,568	
	-----	-----	-----	--
Income before income taxes .....	\$73,476	\$63,562	\$119,637	\$1
	=====	=====	=====	==

Note 8. Dividends

In March, June and September of 2005, we paid a quarterly cash dividend on our common stock of \$0.10 per share, as approved by our Board of Directors. The cash payments for these dividends totaled \$11.1 million.

On November 2, 2005, our Board of Directors declared a quarterly cash dividend on our common stock of \$0.10 per share, payable on December 15, 2005 to holders of record of our common stock on December 1, 2005. The cash payment for this dividend is expected to be approximately \$3.7 million.

Note 9. Treasury Stock

In the third quarter 2005, we issued 12,800 treasury shares at an average cost of \$13.25, for restricted stock units that vested during the period. In

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

accordance with the Silgan Holdings Inc. 2004 Stock Incentive Plan, we repurchased 282 shares of our common stock at an average cost of \$30.68 to satisfy employee withholding tax requirements resulting from certain restricted stock units becoming vested. We account for the treasury shares using the first-in, first-out (FIFO) cost method. As of September 30, 2005, 5,358,434 shares were held in treasury.

-18-

Item 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

-----

Statements included in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q which are not historical facts are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and Securities Exchange Act of 1934. Such forward-looking statements are made based upon management's expectations and beliefs concerning future events impacting us and therefore involve a number of uncertainties and risks, including, but not limited to, those described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and our other filings with the Securities and Exchange Commission. As a result, the actual results of our operations or our financial condition could differ materially from those expressed or implied in these forward-looking statements.

#### General

We are a leading North American manufacturer of metal and plastic consumer goods packaging products. We produce steel and aluminum containers for human and pet food; metal, composite and plastic vacuum closures for food and beverage products; and custom designed plastic containers, tubes and closures for personal care, health care, pharmaceutical, household and industrial chemical, food, pet care, agricultural chemical, automotive and marine chemical products. We are the largest manufacturer of metal food containers in North America, a leading manufacturer of plastic containers in North America for a variety of markets, including the personal care, health care, household and industrial chemical and pet care markets, and a leading manufacturer of metal, composite and plastic vacuum closures in North America for food and beverage products.

Our objective is to increase shareholder value by efficiently deploying capital and management resources to grow our business, reduce operating costs, build sustainable competitive positions, or franchises, and to complete acquisitions that generate attractive cash returns. We have grown our net sales and income from operations over the years, largely through acquisitions but also through internal growth, and we continue to evaluate acquisition opportunities in the consumer goods packaging market. However, in the absence of such acquisition opportunities, we expect to use our cash flow to repay debt or for other permitted purposes.

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

In 2003, we announced that in the absence of compelling acquisitions we intended to focus on reducing our debt and expected to repay \$200 - \$300 million of debt over the period from 2004 through 2006. In 2004, we paid down \$160.9 million of debt, making significant progress toward this debt reduction goal. In the absence of compelling acquisitions, we anticipate further reducing debt by approximately \$125 million in the fourth quarter of 2005 as compared with our year-end 2004 outstanding debt balance.

On August 15, 2005, our Board of Directors declared a two-for-one stock split of our issued common stock in the form of a stock dividend. The additional shares of our common stock were distributed on September 15, 2005. Information pertaining to the number of shares outstanding and per share amounts have been restated to reflect this stock split for all periods presented.

-19-

### RESULTS OF OPERATIONS

The following table sets forth certain unaudited income statement data expressed as a percentage of net sales for the periods presented.

	Three Months Ended		Nine M
	Sept. 30, 2005 ----	Sept. 30, 2004 ----	Sept. 30 2005 ----
Net sales			
Metal food containers.....	81.6%	81.9%	75.8%
Plastic containers.....	18.4	18.1	24.2
	-----	-----	-----
Consolidated.....	100.0	100.0	100.0
Cost of goods sold.....	85.4	86.5	86.6
	-----	-----	-----
Gross profit.....	14.6	13.5	13.4
Selling, general and administrative expenses.....	3.8	3.7	4.5
Rationalization charges .....	--	--	--
	-----	-----	-----
Income from operations.....	10.8	9.8	8.9
Interest and other debt expense.....	1.6	1.7	2.6
	-----	-----	-----
Income before income taxes .....	9.2	8.1	6.3
Provision for income taxes.....	3.5	3.2	2.4
	-----	-----	-----
Net income.....	5.7%	4.9%	3.9%
	=====	=====	=====

Summary unaudited results of operations for the three and nine months ended September 30, 2005 and 2004 are provided below.

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
	-----	-----	-----	-----
	(Dollars in millions)			
Net sales				
Metal food containers .....	\$651.1	\$642.7	\$1,447.7	\$1,422.8
Plastic containers .....	146.4	142.1	461.0	431.7
	-----	-----	-----	-----
Consolidated .....	\$797.5	\$784.8	\$1,908.7	\$1,854.5
	=====	=====	=====	=====
Income from operations				
Metal food containers(1) .....	\$ 81.2	\$ 69.2	\$ 147.3	\$ 123.6
Plastic containers(2) .....	7.4	9.8	29.5	37.8
Corporate .....	(2.5)	(1.9)	(7.6)	(5.5)
	-----	-----	-----	-----
Consolidated .....	\$ 86.1	\$ 77.1	\$ 169.2	\$ 155.9
	=====	=====	=====	=====

- 
- (1) Includes rationalization charges of \$1.0 million for the nine months ended September 30, 2004.
- (2) Includes rationalization charges of \$0.5 million and \$0.3 million for the nine months ended September 30, 2005 and 2004, respectively.

-20-

Three Months Ended September 30, 2005 Compared with Three Months Ended September 30, 2004

Overview. Consolidated net sales were \$797.5 million in the third quarter of 2005, representing a 1.6 percent increase as compared to the third quarter of 2004 due primarily to higher average selling prices in both the metal food and plastic container businesses principally resulting from the pass through of higher raw material costs and growth in unit volumes in our closures product line, partially offset by volume declines in the plastic container business and food can product line. Income from operations for the third quarter of 2005 increased by \$9.0 million, or 11.7 percent, as compared to the same period in 2004 due to higher income from operations and an improved operating margin in our metal food container business, partially offset by lower income from operations and a decline in operating margin in the plastic container business. Net income for the third quarter of 2005 was \$45.2 million, or \$1.20 per diluted share, as compared to \$38.4 million, or \$1.03 per diluted share, for the same period in 2004.

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

Net Sales. The \$12.7 million increase in consolidated net sales in the third quarter of 2005 as compared to the third quarter of 2004 was the result of higher net sales in both the metal food and plastic container businesses.

Net sales for the metal food container business increased \$8.4 million, or 1.3 percent, in the third quarter of 2005 as compared to the same period in 2004. This increase was attributable to higher average selling prices due to price increases in response to increased raw material and other inflationary costs and higher unit volumes in our closures product line, partially offset by slightly lower food can volume. The decline in food can unit volume was primarily the result of certain low margin business with one customer that was not retained upon contract renewal last year.

Net sales for the plastic container business in the third quarter of 2005 increased \$4.3 million, or 3.0 percent, as compared to the same period in 2004. This increase was primarily the result of higher average selling prices due to the pass through of higher resin costs and an improved product mix, partially offset by lower unit volumes.

Gross Profit. Gross profit margin increased 1.1 percentage points to 14.6 percent in the third quarter of 2005 as compared to the same period in 2004 for the reasons discussed in Income from Operations below.

Selling, General and Administrative Expenses. Selling, general and administrative expenses as a percentage of consolidated net sales for the third quarter of 2005 increased 0.1 percentage points to 3.8 percent as compared to the same period in 2004. The \$1.6 million increase in selling, general and administrative expenses in the third quarter of 2005 as compared to the same period in 2004 was primarily due to higher employee benefit costs.

Income from Operations. Income from operations for the third quarter of 2005 increased by \$9.0 million as compared to the third quarter of 2004 and operating margin increased to 10.8 percent from 9.8 percent over the same periods.

Income from operations of the metal food container business for the third quarter of 2005 increased \$12.0 million, or 17.3 percent, as compared to the same period in 2004, and operating margin increased to 12.5 percent from 10.8 percent over the same periods. These increases were principally due to strong unit volumes in our closures product line, continued benefits from rationalization and integration activities and the combination of productivity benefits from relatively higher capital spending over the last several years and price increases in response to inflationary pressures.

-21-

Income from operations of the plastic container business for the third quarter of 2005 decreased \$2.4 million, or 24.5 percent, as compared to the same period in 2004, and operating margin decreased to 5.1 percent from 6.9 percent over the same periods. These decreases were primarily a result of lower volumes and higher employee benefit costs.

Late in the third quarter of 2005, a significant disruption in resin supplies occurred primarily as a direct result of the recent hurricane activity along the Gulf Coast, which required a number of our petrochemical suppliers to temporarily shut down capacity. The effects of these hurricanes and an early-October explosion in a supplier's ethylene cracking facility led many resin suppliers to declare force majeure and in some cases implement sales volume control initiatives. As a result, resin supply is tight, and we have also implemented certain sales volume control initiatives with our customers. While



## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

the petrochemical industry appears to be returning to capacity more quickly than originally anticipated, the potential impact of a continued tight supply could have a significant impact on our results of operations for 2005.

**Interest and Other Debt Expense.** Interest and other debt expense for the third quarter of 2005 decreased \$1.0 million to \$12.6 million as compared to the same period in 2004. This decrease resulted primarily from lower average borrowings due to our on-going debt reduction program and lower interest rate spreads as a result of the June 2005 refinancing of our senior secured credit facility, slightly offset by a higher average cost of borrowings resulting from rising interest rates.

Nine Months Ended September 30, 2005 Compared with Nine Months Ended September 30, 2004

**Overview.** Consolidated net sales were \$1.91 billion in the first nine months of 2005, representing a 2.9 percent increase as compared to the first nine months of 2004 primarily due to higher average selling prices in both the metal food and plastic container businesses largely as a result of the pass through of higher raw material and other inflationary costs. Income from operations for the first nine months of 2005 increased by \$13.3 million, or 8.5 percent, as compared to the same period in 2004 due to higher income from operations and an improved operating margin in our metal food container business, partially offset by lower income from operations and a decline in operating margin in our plastic container business. The results for 2005 included a non-cash, pre-tax charge of \$11.0 million, or \$0.18 per diluted share net of income tax, for the loss on early extinguishment of debt as a result of the refinancing of our senior secured credit facility. Net income for the first nine months of 2005 was \$73.6 million, or \$1.96 per diluted share, compared to \$67.7 million, or \$1.82 per diluted share, for the same period in 2004.

**Net Sales.** The \$54.2 million increase in consolidated net sales in the first nine months of 2005 as compared to the first nine months of 2004 was the result of higher average selling prices in both the metal food and plastic container businesses primarily as a result of the pass through of higher raw material and other costs.

Net sales for the metal food container business increased \$24.9 million, or 1.8 percent, in the first nine months of 2005 as compared to the same period in 2004. This increase was primarily attributable to higher average selling prices due to the pass through of higher raw material and other costs and higher unit volumes in our closures product line, partially offset by lower food can volumes.

Net sales for the plastic container business in the first nine months of 2005 increased \$29.3 million, or 6.8 percent, as compared to the same period in 2004. This increase was primarily the result of higher average selling prices due to the pass through of higher resin costs, partially offset by volume declines.

-22-

**Gross Profit.** Gross profit margin increased 0.5 percentage points for the first nine months of 2005 as compared to the same period in 2004 for the reasons discussed in Income from Operations below.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses as a percentage of consolidated net sales remained flat at 4.5 percent for the first nine months of 2005 as compared to the same period in 2004. The \$4.0 million increase in selling, general and administrative

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

expenses for the first nine months of 2005 as compared to the same period in 2004 was primarily related to increases in employee benefit costs and costs incurred as a result of the Sarbanes-Oxley Act, partially offset by continued benefits from the rationalization and integration activities at our manufacturing facilities.

**Income from Operations.** Income from operations for the first nine months of 2005 increased by \$13.3 million as compared to the first nine months of 2004, and operating margin increased to 8.9 percent from 8.4 percent over the same periods. Results for the first nine months of 2005 and 2004 included rationalization charges totaling \$0.5 million and \$1.3 million, respectively.

Income from operations of the metal food container business for the first nine months of 2005 increased \$23.7 million, or 19.2 percent, as compared to the same period in 2004, and operating margin increased to 10.2 percent from 8.7 percent over the same periods. These increases were principally due to strong unit volumes and performance in our closures product line, continued benefits from rationalization and integration activities at our manufacturing facilities and the combination of productivity benefits from relatively higher capital spending over the last several years and price increases in response to inflationary pressures. These favorable items were partially offset by the impact of lower unit volumes in the food can business.

Income from operations of the plastic container business for the first nine months of 2005 decreased \$8.3 million, or 22.0 percent, as compared to the same period in 2004, and operating margin decreased to 6.4 percent from 8.8 percent over the same periods. Income from operations and operating margins were negatively impacted in 2005 by lower unit volumes, resin inflation and higher employee benefit and other manufacturing costs.

**Interest and Other Debt Expense.** Interest and other debt expense for the first nine months of 2005 increased \$5.7 million to \$49.6 million as compared to the same period in 2004. This increase resulted primarily from the \$11.0 million non-cash charge to write-off unamortized debt issuance costs in connection with the refinancing of our senior secured credit facility in June 2005, offset by lower average borrowings due to our debt reduction program.

### CAPITAL RESOURCES AND LIQUIDITY

Our principal sources of liquidity have been cash from operations and borrowings under our debt instruments, including our Credit Agreement. Our liquidity requirements arise primarily from our obligations under the indebtedness incurred in connection with our acquisitions and the refinancing of that indebtedness, capital investment in new and existing equipment and the funding of our seasonal working capital needs.

On June 30, 2005, we completed the refinancing of our previous senior secured credit facility by entering into a new \$1.0 billion senior secured credit facility. The Credit Agreement provided us with \$425 million of A term loans and \$125 million of B term loans, and provides us with a revolving loan facility of up to \$450 million. Under the Credit Agreement, we may use revolving loans for working capital and other general corporate purposes, including acquisitions.

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

The A term loans and revolving loan facility mature on June 30, 2011, and the B term loans mature on June 30, 2012. The Credit Agreement also provides us with an incremental uncommitted loan facility of up to an additional \$350 million, which may be used to finance acquisitions and for other permitted purposes. You should also read Note 5 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2005 included elsewhere in this Quarterly Report.

Under the Credit Agreement, the interest rate for all U.S. loans will either be base rate or LIBOR, plus a margin. The base rate is the higher of the prime lending rate of Deutsche Bank or 1/2 of one percent in excess of the overnight federal funds rate. Initially, for the A term loans and revolving loans the margin will be 1.125 percent for LIBOR rate loans and 0.125 percent for base rate loans. The margin for A term loans and revolving loans is subject to adjustment quarterly based upon financial ratios. For the B term loans, the margin for LIBOR rate loans is fixed at 1.25 percent and the margin for base rate loans is fixed at 0.25 percent. Prior to the refinancing, the interest rate for A term loans and revolving loans under our previous credit facility was LIBOR plus a margin of 1.50 percent or the prime lending rate of Deutsche Bank plus a margin of 0.50 percent, and for B term loans an additional 0.25 percent, or LIBOR plus 1.75 percent.

For the nine months ended September 30, 2005, we used cash from operations of \$52.3 million, proceeds of \$550.0 million from the refinancing of our senior secured credit facility, net borrowings of revolving loans of \$217.7 million, proceeds from stock option exercises of \$3.3 million and proceeds from asset sales of \$3.0 million to fund the repayment of term loans of \$638.7 million, capital expenditures of \$63.7 million, decreases in outstanding checks of \$80.2 million, dividends paid on our common stock of \$11.1 million and debt issuance costs of \$4.2 million and to increase cash balances by \$28.4 million.

For the nine months ended September 30, 2004, we used cash from operations of \$101.5 million, proceeds from stock option exercises of \$2.3 million, proceeds from asset sales of \$9.9 million and net borrowings of revolving loans of \$53.1 million offset by the reduction in outstanding checks of \$76.9 million to fund capital expenditures of \$72.9 million, dividends paid on our common stock of \$5.5 million, debt issuance costs of \$0.7 million and to increase cash balances by \$10.8 million.

Because we sell metal containers used in fruit and vegetable pack processing, we have seasonal sales. As is common in the industry, we must utilize working capital to build inventory and then carry accounts receivable for some customers beyond the end of the packing season. Due to our seasonal requirements, we incur short-term indebtedness to finance our working capital requirements. During the third quarter of 2005, we utilized approximately \$265.1 million of revolving loans under the Credit Agreement for our peak seasonal working capital requirements. This amount does not include \$88.7 million of revolving loans borrowed under the Credit Agreement to repay term loans in connection with the June 2005 refinancing of our previous senior secured credit facility.

At September 30, 2005, we had \$217.7 million of revolving loans outstanding under the Credit Agreement. After taking into account outstanding letters of credit, the available portion of the revolving loan facility under the Credit Agreement at September 30, 2005 was \$207.6 million. We may use the available portion of our revolving loan facility, after taking into account our seasonal needs and outstanding letters of credit, for acquisitions or other permitted purposes.

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

During the first nine months of 2005, we paid cash dividends on our common stock totaling \$11.1 million. On November 2, 2005, our Board of Directors declared a quarterly cash dividend on our common stock of \$0.10 per share, payable on December 15, 2005 to holders of record of our common stock on December 1, 2005. The cash payment for this dividend is expected to be approximately \$3.7 million.

We believe that cash generated from operations and funds from borrowings available under the Credit Agreement will be sufficient to meet our expected operating needs, planned capital expenditures, debt service, tax obligations, share repurchases required under our 2004 Stock Incentive Plan and common stock dividends for the foreseeable future. We continue to evaluate acquisition opportunities in the consumer goods packaging market and may incur additional indebtedness, including indebtedness under the Credit Agreement, to finance any such acquisition. However, in the absence of acquisition opportunities, we expect to use our free cash flow to repay indebtedness or for other permitted purposes.

We are in compliance with all financial and operating covenants contained in our financing agreements and believe that we will continue to be in compliance during 2005 with all of these covenants.

### Rationalization Charges and Acquisition Reserves

During the first quarter of 2005, we approved and announced to employees a plan to relocate the operations of one of our Mississauga, Ontario plastic container manufacturing facilities to other operating facilities. This decision resulted in charges to earnings of \$0.5 million, which consisted of \$0.1 million for the non-cash write-down in carrying value of assets and \$0.4 million for employee severance and benefits and plant exit costs. The relocation of operations has been substantially completed. Through September 30, 2005, there were no significant cash payments related to relocating this facility. Cash payments related to these reserves are expected through 2006 for employee severance and benefits costs.

Under our rationalization and acquisition plans, we made cash payments of \$0.6 million and \$5.6 million for the nine months ended September 30, 2005 and 2004, respectively. Total future cash spending of \$1.5 million is expected under our Fairfield and 2005 and 2003 rationalization plans and our 2003 acquisition plans. Spending under these plans in 2005 is not expected to be material to our cash flows.

You should also read Note 2 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2005 included elsewhere in this Quarterly Report.

We continually evaluate cost reduction opportunities in our business, including rationalizations of our existing facilities through plant closings and downsizings. We use a disciplined approach to identify opportunities that generate attractive cash returns. In line with our ongoing evaluation, we are currently reviewing certain facilities for potential rationalization actions which may result in cash expenditures and charges to our earnings.

## Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

### NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4." SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials should be recognized as current period charges in all circumstances. SFAS No. 151 will be effective for us beginning January 1, 2006. We do not expect the adoption of SFAS No. 151 to have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment." SFAS No. 123(R) requires that public companies recognize compensation expense in an amount equal to the fair value of the share-based payment. Based on a recent deferral of the effective date, we will adopt SFAS No. 123(R) beginning January 1, 2006. SFAS No. 123(R) permits companies to adopt its requirements using either the "modified prospective" method or the "modified retrospective" method. We are still assessing which transition method to utilize. As permitted by SFAS No. 123, we currently account for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, recognize no compensation expense for employee stock options. Accordingly, the adoption of SFAS No. 123(R)'s fair value method will have an impact on our results of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS No. 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS No. 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS No. 123 as described in the disclosure of pro forma net income and diluted net income per share in Note 1 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2005. SFAS No. 123(R) also requires the benefits of tax deductions in excess of recognized compensation expense to be reported as a financing cash flow activity, rather than as an operating cash flow activity as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. While we cannot estimate what those amounts will be in the future (because they depend on, among other things, when employees exercise stock options), the amounts of operating cash flows recognized in prior periods for such excess tax deductions were \$3.0 million and \$1.7 million for the nine months ending September 30, 2005 and 2004, respectively.

On October 22, 2004, the American Jobs Creation Act was signed into law. The AJCA includes a deduction of 85 percent on certain foreign earnings that are repatriated during the calendar years of 2004 and 2005. We may elect to apply this provision to qualifying earnings repatriated in 2005. The range of possible amounts that we are evaluating for repatriation under this provision is between zero and \$62 million. The related potential range of income tax cannot be determined at this time. We expect to complete our evaluation of the repatriation provision under the AJCA in the fourth quarter of 2005.

### Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

-----

Market risks relating to our operations result primarily from changes in interest rates. In the normal course of business, we also have limited foreign currency exchange rate risk associated with our operations in Canada and risk related to commodity price changes for items such as natural gas. We employ established policies and procedures to manage our exposure to these risks. Interest rate, foreign currency and commodity pricing transactions are used only to the extent considered necessary to meet our objectives. We do not utilize derivative financial instruments for trading or other speculative purposes.

Information regarding our interest rate risk, foreign currency exchange rate risk and commodity pricing risk has been disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004. Since such filing, there has not been a material change to our interest rate risk, foreign currency exchange rate risk or commodity pricing risk or to our policies and procedures to manage our exposure to these risks.

Item 4. CONTROLS AND PROCEDURES  
-----

We carried out an evaluation, under the supervision and with the participation of management, including our Co-Chief Executive Officers and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). Based upon that evaluation, as of the end of the period covered by this Quarterly Report our Co-Chief Executive Officers and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be disclosed in this Quarterly Report has been made known to them in a timely fashion.

There were no changes in our internal controls over financial reporting during the period covered by this Quarterly Report that have materially affected, or are reasonably likely to materially affect, these internal controls.

Part II. Other Information

Item 6. Exhibits

Exhibit Number -----	Description -----
12	Ratio of Earnings to Fixed Charges for the three and nine months ended September 30, 2005 and 2004.
31.1	Certification by the Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification by the Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.3	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification by the Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification by the Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.3	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.

-27-

SIGNATURES

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

SILGAN HOLDINGS INC.

Dated: November 9, 2005

/s/Robert B. Lewis

-----  
Robert B. Lewis  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

-28-

EXHIBIT INDEX

EXHIBIT NO.  
-----

EXHIBIT  
-----

12	Ratio of Earnings to Fixed Charges for the three and nine months ended September 30, 2005 and 2004.
31.1	Certification by the Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification by the Co-Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.

Edgar Filing: SILGAN HOLDINGS INC - Form 10-Q

- 31.3 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
- 32.1 Certification by the Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
- 32.2 Certification by the Co-Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
- 32.3 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.