SILGAN HOLDINGS INC
Form 10-Q
August 09, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended June 30, 2006

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	**06-1269834**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
4 Landmark Square, Stamford, Connecticut	**06901**

(Address of Principal Executive Offices) **(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 x No ¨

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

Large Accelerated Filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of July 31, 2006, the number of shares outstanding of the Registrant s common stock, $0.01 par value, was 37,398,560.

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Part I. Financial Information

Item 1. Financial Statements

SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited, see Note 1)

	June 30, 2006	June 30, 2005	Dec. 31, 2005
Assets			
Current assets			
Cash and cash equivalents	$ 23,900	$ 82,333	$ 20,461
Trade accounts receivable, net	301,718	249,531	154,734
Inventories	494,799	445,127	318,102
Prepaid expenses and other current assets	28,705	42,521	27,244
Total current assets	849,122	819,512	520,541
Property, plant and equipment, net	865,641	776,143	758,135
Goodwill, net	236,660	198,283	201,231
Other intangible assets, net	98,398	14,498	15,673
Other assets, net	41,000	25,813	35,040
	$ 2,090,821	$ 1,834,249	$ 1,530,620
Liabilities and Stockholders Equity			
Current liabilities			
Bank revolving loans	$ 216,323	$ 351,600	$
Current portion of long-term debt	846	1,250	846
Trade accounts payable	219,448	175,533	247,552
Accrued payroll and related costs	67,434	58,235	60,010
Accrued liabilities	39,204	44,382	11,774
Total current liabilities	543,255	631,000	320,182
Long-term debt	953,692	751,750	699,532
Other liabilities	294,634	218,048	237,556
Stockholders equity			
Common stock	427	213	426
Paid-in capital	141,245	137,608	139,475
Retained earnings	234,009	157,702	209,459
Accumulated other comprehensive (loss) income	(16,306)	485	(13,888)
Unamortized stock compensation		(2,164)	(1,893)
Treasury stock	(60,135)	(60,393)	(60,229)
Total stockholders equity	299,240	233,451	273,350

	$ 2,090,821	$ 1,834,249	$ 1,530,620

See accompanying notes.

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SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three months ended June 30, 2006 and 2005

(Dollars and shares in thousands, except per share amounts)

(Unaudited)

	2006	2005
Net sales	$ 597,212	$ 581,158
Cost of goods sold	521,914	503,389
Gross profit	75,298	77,769
Selling, general and administrative expenses	29,230	28,093
Rationalization charges	6,197	181
Income from operations	39,871	49,495
Interest and other debt expense before loss on early extinguishment of debt	14,199	13,633
Loss on early extinguishment of debt		11,035
Interest and other debt expense	14,199	24,668
Income before income taxes	25,672	24,827
Provision for income taxes	9,305	9,409
Net income	$ 16,367	$ 15,418
Earnings per share: [(a)]		
Basic net income per share	$ 0.44	$ 0.42
Diluted net income per share	$ 0.43	$ 0.41
Dividends per share: [(a)]	$ 0.12	$ 0.10
Weighted average number of shares: [(a)]		
Basic	37,354	37,081
Effect of dilutive securities	524	490
Diluted	37,878	37,571

[(a)] Per share and share amounts for the three months ended June 30, 2005 have been restated for the two-for-one split discussed in Note 1.

See accompanying notes.

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SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the six months ended June 30, 2006 and 2005

(Dollars and shares in thousands, except per share amounts)

(Unaudited)

	2006	2005
Net sales	$ 1,167,063	$ 1,111,202
Cost of goods sold	1,020,567	971,249
Gross profit	146,496	139,953
Selling, general and administrative expenses	58,679	56,378
Rationalization charges	8,350	464
Income from operations	79,467	83,111
Interest and other debt expense before loss on early extinguishment of debt	25,449	25,915
Loss on early extinguishment of debt		11,035
Interest and other debt expense	25,449	36,950
Income before income taxes	54,018	46,161
Provision for income taxes	20,473	17,815
Net income	$ 33,545	$ 28,346
Earnings per share: (a)		
Basic net income per share	$ 0.90	$ 0.77
Diluted net income per share	$ 0.89	$ 0.76
Dividends per share: (a)	$ 0.24	$ 0.20
Weighted average number of shares: (a)		
Basic	37,313	37,002
Effect of dilutive securities	540	534
Diluted	37,853	37,536

(a) Per share and share amounts for the six months ended June 30, 2005 have been restated for the two-for-one split discussed in Note 1.

See accompanying notes.

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SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2006 and 2005

(Dollars in thousands)

(Unaudited)

	2006	2005
Cash flows provided by (used in) operating activities		
Net income	$ 33,545	$ 28,346
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	62,087	61,660
Rationalization charges	8,350	464
Loss on early extinguishment of debt		11,035
Other changes that provided (used) cash:		
Trade accounts receivable, net	(99,262)	(101,458)
Inventories	(116,860)	(126,462)
Trade accounts payable	43,465	11,234
Accrued liabilities	24,001	23,637
Other, net	(2,897)	7,569
Net cash used in operating activities	(47,571)	(83,975)
Cash flows provided by (used in) investing activities		
Purchase of business, net of cash acquired	(257,845)	
Capital expenditures	(58,728)	(44,199)
Proceeds from asset sales	389	188
Net cash used in investing activities	(316,184)	(44,011)
Cash flows provided by (used in) financing activities		
Borrowings under revolving loans	569,773	779,225
Repayments under revolving loans	(353,450)	(427,625)
Proceeds from stock option exercises	1,533	2,675
Changes in outstanding checks - principally vendors	(96,989)	(79,817)
Proceeds from issuance of long-term debt	257,600	550,000
Repayments of long-term debt		(638,668)
Dividends paid on common stock	(8,995)	(7,412)
Debt issuance costs	(2,278)	(3,475)
Net cash provided by financing activities	367,194	174,903
Cash and cash equivalents		
Net increase	3,439	46,917
Balance at beginning of year	20,461	35,416
Balance at end of period	$ 23,900	$ 82,333
Interest paid	$ 24,945	$ 25,615

Income taxes paid (refunded), net	4,110	(476)

See accompanying notes.

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SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF

STOCKHOLDERS EQUITY

For the six months ended June 30, 2006 and 2005

(Dollars and shares in thousands)

(Unaudited)

	Common Stock				Accumulated Other Comprehensive (Loss) Income	Unamortized Stock Compensation		
	Shares Outstanding	Par Value	Paid-in Capital	Retained Earnings			Treasury Stock	Total Stockholders Equity
Balance at December 31, 2004	18,423	$ 211	$ 131,685	$ 136,768	$ 859	$ (1,694)	$ (60,393)	$ 207,436
Comprehensive income:								
Net income				28,346				28,346
Change in fair value of derivatives, net of tax provision of $274					653			653
Foreign currency translation					(1,027)			(1,027)
Comprehensive income								27,972
Dividends declared on common stock				(7,412)				(7,412)
Issuance of restricted stock units			706			(706)		
Amortization of stock compensation						236		236
Stock option exercises, including tax benefit of $2,544	145	2	5,217					5,219
Balance at June 30, 2005	18,568	$ 213	$ 137,608	$ 157,702	$ 485	$ (2,164)	$ (60,393)	$ 233,451
Balance at December 31, 2005	37,266	$ 426	$ 139,475	$ 209,459	$ (13,888)	$ (1,893)	$ (60,229)	$ 273,350
Comprehensive income:								
Net income				33,545				33,545
Change in fair value of derivatives, net of tax benefit of $595					(833)			(833)
Foreign currency translation, net of tax provision of $1,850					(1,585)			(1,585)
Comprehensive income								31,127
Dividends declared on common stock				(8,995)				(8,995)
Reversal of unamortized stock compensation			(1,893)			1,893		
Stock compensation expense			952					952
	124	1	2,813					2,814

Stock option exercises, including tax benefit of $1,281								
Net issuance of treasury stock for vested restricted stock units, including tax benefit of $35	9		(102)				94	(8)
Balance at June 30, 2006	37,399	$ 427	$ 141,245	$ 234,009	$ (16,306)	$	$ (60,135)	$ 299,240

See accompanying notes.

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2006 and 2005 and for the

three and six 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, 2005 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, 2005.

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 for the period prior to September 15, 2005 has been restated in the accompanying financial statements and related footnotes to reflect this stock split, except for the Condensed Consolidated Balance Sheets and Statements of Stockholders Equity.

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. In December 2004, the Financial Accounting Standards Board, or the FASB, issued Statement of Financial Accounting Standards, or 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 adopted SFAS No. 123(R) on January 1, 2006, utilizing the modified prospective transition method in which compensation expense is recognized beginning January 1, 2006, 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, Accounting for Stock-Based Compensation, for all awards granted to employees and directors prior to the effective date of SFAS No. 123(R) that remain unvested on January 1, 2006. In addition, in accordance with SFAS No. 123(R), upon adoption of this pronouncement we reversed our unamortized stock compensation balance representing the unvested portion of restricted stock units granted prior to January 1, 2006 into paid-in capital. The financial statements for prior years have not been restated and do not include the impact of SFAS No. 123(R). The adoption of SFAS No. 123(R) did not have a material effect on our financial position, results of operations, cash flows or basic and diluted net income per share.

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2006 and 2005 and for the

three and six months then ended is unaudited)

Note 1. Significant Accounting Policies (continued)

Stock-Based Compensation (continued). We have calculated the paid-in capital pool related to employee compensation in accordance with SFAS No. 123(R). 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 previously required. This requirement reduces net operating cash flows and increases net financing cash flows in periods after adoption. The amounts recognized for such excess tax deductions were not material to our cash flows for the six months ending June 30, 2006 and 2005.

Prior to January 1, 2006, we applied 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 was 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.

As permitted by SFAS No. 123, stock-based compensation was included as a pro forma disclosure in the notes to the financial statements. The following table shows the effect on net income and basic and diluted net income per share if we had applied the fair value recognition provisions in accordance with SFAS No. 123:

	Three Months Ended June 30,	Six Months Ended June 30,
	2005	2005
	(Dollars in thousands, except per share data)	
Net income, as reported	$ 15,418	$ 28,346
Add: Stock-based compensation expense included in reported net income, net of income taxes	80	143
Deduct: Total stock-based compensation expense under the fair value method for all awards, net of income taxes	(346)	(705)
Pro forma net income	$ 15,152	$ 27,784
Earnings per share:		
Basic net income per share - as reported	$ 0.42	$ 0.77
Basic net income per share - pro forma	0.41	0.75
Diluted net income per share - as reported	$ 0.41	$ 0.76
Diluted net income per share - pro forma	0.40	0.74

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2006 and 2005 and for the

three and six months then ended is unaudited)

Note 1. Significant Accounting Policies (continued)

Recent Accounting Pronouncements. In June 2006, the FASB issued FASB Interpretation, or FIN, No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN No. 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. FIN No. 48 is effective for us on January 1, 2007. We are currently evaluating the impact FIN No. 48 will have on our consolidated financial statements.

Note 2. White Cap Europe Acquisition

On June 1, 2006, we acquired the Amcor White Cap closures business in Europe, or White Cap Europe, from Amcor Limited. White Cap Europe is a leading supplier of an extensive range of metal closures to consumer goods packaging companies in the food and beverage industries. White Cap Europe has been combined with our previously acquired White Cap U.S. closures business to create a global leader in vacuum closures for hot filled and retortable food and beverage products. At the closing, we paid $257.8 million for White Cap Europe, including acquisition fees, net of cash actually acquired of $0.5 million. This amount is subject to adjustment as provided in the purchase agreement dated February 22, 2006 with Amcor Limited, or the White Cap Purchase Agreement, in respect of the amount of cash and working capital acquired and certain liabilities assumed, to the extent such amounts differ from amounts estimated for closing.

In addition, on July 1, 2006, we acquired the operations of the Amcor White Cap closures business in Turkey for $3.3 million and assumed $17.0 million of estimated indebtedness, subject to adjustment as provided in the White Cap Purchase Agreement.

We expect to acquire additional Amcor White Cap closures businesses located in Brazil, China, the Philippines and Venezuela upon satisfaction of certain specified conditions as provided in the White Cap Purchase Agreement. The aggregate purchase price for these Amcor White Cap closure businesses and related working capital will be approximately 19 million plus assumed indebtedness, subject to adjustment as provided in the White Cap Purchase Agreement.

The White Cap Europe acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price has been allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the results of operations have been included in our condensed consolidated financial statements as of the date of acquisition. The acquired White Cap Europe business has been combined with our existing U.S. closures business previously reported as part of our Metal Food Containers business segment to form a new Closures business segment (see Note 11).

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2006 and 2005 and for the

three and six months then ended is unaudited)

Note 2. White Cap Europe Acquisition (continued)

The following summarizes the estimated fair values of the assets acquired and liabilities assumed on June 1, 2006 in connection with the White Cap Europe acquisition. The valuation of assets and liabilities is still in process and, therefore, the actual fair values may vary from these preliminary estimates. In addition, the initial consideration for the acquisition is subject to closing adjustments expected to be finalized in the third quarter of 2006. We have engaged third party experts to value certain assets and liabilities including property, plant and equipment, intangible assets and pension obligations.

Preliminary valuation of acquired net assets at June 1, 2006 in connection with the White Cap Europe acquisition is as follows (dollars in thousands):

Trade accounts receivable	$ 47,722
Inventories	59,837
Property, plant and equipment	114,118
Goodwill	35,895
Other intangible assets, primarily trade name and customer relationships	83,666
Other assets	12,464
Trade accounts payable and accrued liabilities	(35,791)
Other liabilities	(60,066)

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2006 and 2005 and for the

three and six months then ended is unaudited)

Note 2. White Cap Europe Acquisition (continued)

The following unaudited pro forma financial information includes our historical results of operations for the periods indicated and gives pro forma effect to the White Cap Europe acquisition as if it had been completed as of the beginning of the periods indicated. The pro forma results of operations include interest expense related to incremental borrowings used to finance the White Cap Europe acquisition and adjustments to depreciation and amortization expense for the valuation of property, plant and equipment and intangible assets. The pro forma results of operations do not give effect to potential synergies or additional costs resulting from the integration of White Cap Europe with our existing operations, nor do they reflect savings from the impact of headcount reductions recently completed by the White Cap Europe business.

The unaudited pro forma financial information is not intended to represent or be indicative of our consolidated results of operations or financial condition that would have been reported had the White Cap Europe acquisition been completed as of the beginning of the periods presented, nor should it be taken as indicative of our future consolidated results of operations or financial condition.

	Three Months Ended		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
	(Dollars in thousands, except per share data)			
Net sales	$ 633,158	$ 645,016	$ 1,258,515	$ 1,237,653
Net income	17,668	17,079	35,874	31,780
Earnings per share:				
Basic net income per share	$ 0.47	$ 0.46	$ 0.96	$ 0.86
Diluted net income per share	$ 0.47	$ 0.46	$ 0.95	$ 0.85

Net income for the three and six months ended June 30, 2006 includes the pre-tax negative impact of $2.6 million from the inventory write-up for the White Cap Europe closures business as a result of purchase accounting in connection with the acquisition.

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2006 and 2005 and for the

three and six months then ended is unaudited)

Note 3. 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, 2005 is summarized as follows:

	Employee Severance and Benefits	Retirement Benefit Curtailments	Plant Exit Costs	Non-Cash Asset Write Down	Total
		(Dollars in thousands)			
Balance at December 31, 2005					
Fairfield Rationalization	$	$	$ 539	$	$ 539
2003 Acquisition Plans	9		46		55
2003 Rationalization Plans	30				30
2005 Rationalization Plan	177				177
Balance at December 31, 2005	216		585		801
Activity for the Six Months Ended June 30, 2006					
Fairfield Rationalization			(154)		(154)
2003 Acquisition Plan Reserves Utilized					
2003 Rationalization Plan Reserves Utilized	(30)				(30)
2005 Rationalization Plan Reserves Utilized	(77)				(77)
2006 Rationalization Plan Reserves Established	965	4,893	67	2,425	8,350
2006 Rationalization Plan Reserves Utilized	(946)	(4,893)	(67)		