

SILGAN HOLDINGS INC
Form 10-Q
November 06, 2015

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, 2015
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Large accelerated filer [X]

Accelerated filer []

Non-accelerated filer [] (Do not check if a smaller reporting company)

Smaller reporting company []

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 October 30, 2015, the number of shares outstanding of the Registrant’s common stock, \$0.01 par value, was 60,392,905.

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SILGAN HOLDINGS INC.

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Part I. Financial Information

Item 1. Financial Statements

SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

| | Sept. 30, 2015 (unaudited) | Sept. 30, 2014 (unaudited) | Dec. 31, 2014 |
|---|-------------------------------|-------------------------------|---------------|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 104,203 | \$ 145,889 | \$ 222,591 |
| Trade accounts receivable, net | 623,591 | 616,348 | 310,732 |
| Inventories | 580,276 | 588,290 | 548,765 |
| Prepaid expenses and other current assets | 51,782 | 56,928 | 75,744 |
| Total current assets | 1,359,852 | 1,407,455 | 1,157,832 |
| Property, plant and equipment, net | 1,099,873 | 1,080,226 | 1,063,631 |
| Goodwill | 617,786 | 639,216 | 630,262 |
| Other intangible assets, net | 199,475 | 217,094 | 211,770 |
| Other assets, net | 237,429 | 286,185 | 240,429 |
| | \$ 3,514,415 | \$ 3,630,176 | \$ 3,303,924 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities: | | | |
| Revolving loans and current portion of long-term debt | \$ 482,877 | \$ 443,982 | \$ 125,130 |
| Trade accounts payable | 342,878 | 285,346 | 423,905 |
| Accrued payroll and related costs | 55,107 | 58,958 | 46,242 |
| Accrued liabilities | 94,755 | 101,871 | 69,285 |
| Total current liabilities | 975,617 | 890,157 | 664,562 |
| Long-term debt | 1,448,937 | 1,523,048 | 1,473,833 |
| Other liabilities | 457,976 | 435,672 | 455,573 |
| Stockholders' equity: | | | |
| Common stock | 876 | 876 | 876 |
| Paid-in capital | 234,789 | 223,203 | 225,449 |
| Retained earnings | 1,429,468 | 1,299,502 | 1,313,521 |
| Accumulated other comprehensive loss | (196,878) | (78,016) | (165,624) |
| Treasury stock | (836,370) | (664,266) | (664,266) |
| Total stockholders' equity | 631,885 | 781,299 | 709,956 |
| | \$ 3,514,415 | \$ 3,630,176 | \$ 3,303,924 |

See accompanying notes.

SILGAN HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Dollars and shares in thousands, except per share amounts)
 (Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Net sales | \$1,203,525 | \$1,228,444 | \$2,934,355 | \$3,001,626 |
| Cost of goods sold | 1,018,419 | 1,022,830 | 2,493,355 | 2,524,298 |
| Gross profit | 185,106 | 205,614 | 441,000 | 477,328 |
| Selling, general and administrative expenses | 54,113 | 55,451 | 162,969 | 170,625 |
| Rationalization charges | 9,070 | 2,528 | 10,754 | 4,978 |
| Income from operations | 121,923 | 147,635 | 267,277 | 301,725 |
| Interest and other debt expense before loss on early extinguishment of debt | 17,159 | 19,276 | 50,364 | 56,920 |
| Loss on early extinguishment of debt | — | — | — | 1,474 |
| Interest and other debt expense | 17,159 | 19,276 | 50,364 | 58,394 |
| Income before income taxes | 104,764 | 128,359 | 216,913 | 243,331 |
| Provision for income taxes | 34,448 | 45,083 | 71,047 | 84,576 |
| Net income | \$70,316 | \$83,276 | \$145,866 | \$158,755 |
| Earnings per share: | | | | |
| Basic net income per share | \$1.16 | \$1.31 | \$2.38 | \$2.50 |
| Diluted net income per share | \$1.16 | \$1.31 | \$2.37 | \$2.49 |
| Dividends per share | | | | |
| | \$0.16 | \$0.15 | \$0.48 | \$0.45 |
| Weighted average number of shares: | | | | |
| Basic | 60,417 | 63,448 | 61,222 | 63,480 |
| Effect of dilutive securities | 279 | 266 | 271 | 347 |
| Diluted | 60,696 | 63,714 | 61,493 | 63,827 |

See accompanying notes.

SILGAN HOLDINGS INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Dollars in thousands)
 (Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| Net income | \$70,316 | \$83,276 | \$145,866 | \$158,755 |
| Other comprehensive income (loss), net of tax: | | | | |
| Changes in net prior service credit and actuarial losses | 12 | (225) | 1,632 | (769) |
| Change in fair value of derivatives | (277) | 1,310 | (107) | 2,648 |
| Foreign currency translation | (13,834) | (34,688) | (32,779) | (41,776) |
| Other comprehensive loss | (14,099) | (33,603) | (31,254) | (39,897) |
| Comprehensive income | \$56,217 | \$49,673 | \$114,612 | \$118,858 |

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the nine months ended September 30, 2015 and 2014
(Dollars in thousands)
(Unaudited)

| | 2015 | 2014 |
|---|------------|------------|
| Cash flows provided by (used in) operating activities: | | |
| Net income | \$ 145,866 | \$ 158,755 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 109,790 | 114,211 |
| Rationalization charges | 10,754 | 4,978 |
| Loss on early extinguishment of debt | — | 1,474 |
| Excess tax benefit from stock-based compensation | (680) | (3,403) |
| Other changes that provided (used) cash, net of effects from acquisitions: | | |
| Trade accounts receivable, net | (325,281) | (291,837) |
| Inventories | (43,721) | (81,553) |
| Trade accounts payable | 8,555 | 26,698 |
| Accrued liabilities | 22,272 | 43,040 |
| Other, net | 24,268 | (24,909) |
| Net cash used in operating activities | (48,177) | (52,546) |
| Cash flows provided by (used in) investing activities: | | |
| Purchases of businesses, net of cash acquired | (690) | (17,714) |
| Capital expenditures | (151,419) | (94,290) |
| Proceeds from asset sales | 225 | 1,202 |
| Net cash used in investing activities | (151,884) | (110,802) |
| Cash flows provided by (used in) financing activities: | | |
| Borrowings under revolving loans | 692,476 | 757,960 |
| Repayments under revolving loans | (326,026) | (434,950) |
| Proceeds from issuance of long-term debt | 7,327 | 732,215 |
| Repayments of long-term debt | (7,040) | (753,168) |
| Debt issuance costs | — | (5,019) |
| Changes in outstanding checks - principally vendors | (82,801) | (86,538) |
| Dividends paid on common stock | (29,919) | (29,007) |
| Excess tax benefit from stock-based compensation | 680 | 3,403 |
| Repurchase of common stock under stock plan | (2,892) | (11,456) |
| Repurchase of common stock under share repurchase authorization | (170,132) | (24,666) |
| Net cash provided by financing activities | 81,673 | 148,774 |
| Cash and cash equivalents: | | |
| Net decrease | (118,388) | (14,574) |
| Balance at beginning of year | 222,591 | 160,463 |
| Balance at end of period | \$ 104,203 | \$ 145,889 |
| Interest paid, net | \$ 45,541 | \$ 49,632 |

| | | |
|------------------------|--------|--------|
| Income taxes paid, net | 37,546 | 40,093 |
|------------------------|--------|--------|

See accompanying notes.

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SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2015 and 2014

(Dollars and shares in thousands)

(Unaudited)

| | Common Stock | | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive | | Treasury Stock | Total Stockholders' Equity |
|---|-----------------------|--------------|--------------------|----------------------|---------------------------------------|---|-------------------|----------------------------------|
| | Shares Outstanding | Par Value | | | Loss | | | |
| Balance at December 31, 2013 | 63,415 | \$876 | \$212,822 | \$1,169,754 | \$(38,119) |) | \$(631,490) | \$713,843 |
| Net income | — | — | — | 158,755 | — | — | — | 158,755 |
| Other comprehensive loss | — | — | — | — | (39,897) |) | — | (39,897) |
| Dividends declared on common stock | — | — | — | (29,007) |) | — | — | (29,007) |
| Stock compensation expense | — | — | 10,324 | — | — | — | — | 10,324 |
| Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$3,403 | 297 | — | 57 | — | — | — | (8,110) | (8,053) |
| Repurchases of common stock | (509) |) | — | — | — | — | (24,666) | (24,666) |
| Balance at September 30, 2014 | 63,203 | \$876 | \$223,203 | \$1,299,502 | \$(78,016) |) | \$(664,266) | \$781,299 |
| Balance at December 31, 2014 | 63,203 | \$876 | \$225,449 | \$1,313,521 | \$(165,624) |) | \$(664,266) | \$709,956 |
| Net income | — | — | — | 145,866 | — | — | — | 145,866 |
| Other comprehensive loss | — | — | — | — | (31,254) |) | — | (31,254) |
| Dividends declared on common stock | — | — | — | (29,919) |) | — | — | (29,919) |
| Stock compensation expense | — | — | 9,580 | — | — | — | — | 9,580 |
| Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$680 | 96 | — | (240) |) | — | — | (1,972) | (2,212) |
| Repurchases of common stock | (2,906) |) | — | — | — | — | (170,132) | (170,132) |
| Balance at September 30, 2015 | 60,393 | \$876 | \$234,789 | \$1,429,468 | \$(196,878) |) | \$(836,370) | \$631,885 |

See accompanying notes.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 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 Silgan, have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP, 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 GAAP 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, 2014 has been derived from our audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP 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, 2014.

Goodwill and Other Intangible Assets. We review goodwill and other indefinite-lived intangible assets for impairment as of July 1 of each year and more frequently if circumstances indicate a possible impairment. We determined that our goodwill and other indefinite-lived intangible assets were not impaired in our annual 2015 assessment performed during the third quarter.

Recently Issued Accounting Pronouncements. In May 2014, the Financial Accounting Standards Board, or FASB, issued an accounting standards update, or ASU, that amends the guidance for revenue recognition. This amendment contains principles that will require an entity to recognize revenue to depict the transfer of goods and services to customers at an amount that an entity expects to be entitled to in exchange for those goods or services. This amendment permits the use of one of two retrospective transition methods. In August 2015, the FASB deferred the effective date of this amendment. As a result, this amendment will be effective for us on January 1, 2018, with early adoption permitted up to one year prior to the effective date. We have not yet selected a transition method and are currently evaluating the impact of this amendment on our financial position, results of operations and cash flows.

In April 2015, the FASB issued an ASU that amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability. This amendment will be effective for us on January 1, 2016. Early adoption is permitted. The adoption of this amendment will not have a material effect on our financial position, results of operations or cash flows.

In July 2015, the FASB issued an ASU that amends existing guidance for measuring inventories. This amendment will require us to measure inventories recorded using the first-in, first-out method and the average cost method at the lower of cost and net realizable value. This amendment does not change the methodology for measuring inventories recorded using the last-in, first-out method. This amendment will be effective for us on January 1, 2017. Early adoption is permitted. The adoption of this amendment will not have a material effect on our financial position, results of operations or cash flows.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 2. Rationalization Charges

We continually evaluate cost reduction opportunities across each of our businesses, including rationalizations of our existing facilities through plant closings and downsizings. We use a disciplined approach to identify opportunities that generate attractive cash returns. Rationalization charges were as follows:

| | Three Months Ended | | Nine Months Ended | |
|--------------------|------------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| | (Dollars in thousands) | | | |
| Closures | \$205 | \$1,218 | \$1,351 | \$2,706 |
| Plastic containers | 8,865 | 1,310 | 9,403 | 2,272 |
| | \$9,070 | \$2,528 | \$10,754 | \$4,978 |

Activity in reserves for our rationalization plans for the nine months ended September 30 was as follows:

| | Employee Severance and Benefits | Non-Cash Retirement Benefit Curtailment | Plant Exit Costs | Non-Cash Asset Write-Down | Total |
|-----------------------------------|---------------------------------------|--|------------------------|---------------------------------|-----------|
| | (Dollars in thousands) | | | | |
| Balance at December 31, 2014 | \$6,052 | \$— | \$316 | \$— | \$6,368 |
| Charged to expense | 2,496 | (482 |) 361 | 8,379 | 10,754 |
| Utilized and currency translation | (5,360 |) 482 | (409 |) (8,379 |) (13,666 |
| Balance at September 30, 2015 | \$3,188 | \$— | \$268 | \$— | \$3,456 |

Non-cash asset write-downs were the result of comparing the carrying value of certain production related equipment to their fair value using estimated future discounted cash flows, a Level 3 fair value measurement (as defined in Note 6). Rationalization reserves were included in the Condensed Consolidated Balance Sheets as accrued liabilities.

Remaining expenses and cash expenditures for our rationalization plans of \$3.7 million and \$7.2 million, respectively, are expected within the next twelve months.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 3. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is reported in our Condensed Consolidated Statements of Stockholders' Equity. Amounts included in accumulated other comprehensive loss, net of tax, were as follows:

| | Unrecognized Net Defined Benefit Plan Costs (Dollars in thousands) | Change in Fair Value of Derivatives | Foreign Currency Translation | Total |
|--|--|--|------------------------------------|--------------|
| Balance at December 31, 2014 | \$(89,252) | \$(1,198) | \$(75,174) | \$(165,624) |
| Other comprehensive loss before reclassifications | — | (1,292) | (32,779) | (34,071) |
| Amounts reclassified from accumulated other comprehensive loss | 1,632 | 1,185 | — | 2,817 |
| Other comprehensive loss | 1,632 | (107) | (32,779) | (31,254) |
| Balance at September 30, 2015 | \$(87,620) | \$(1,305) | \$(107,953) | \$(196,878) |

The amounts reclassified to earnings from the unrecognized net defined benefit plan costs component of accumulated other comprehensive loss were not significant for the three months ended September 30, 2015 and were net losses of \$2.6 million, excluding an income tax benefit of \$1.0 million, for the nine months ended September 30, 2015. For the nine months ended September 30, 2015, these net losses consisted of \$4.1 million of amortization of net actuarial losses and \$1.5 million of amortization of net prior service credit, respectively. Amortization of net actuarial losses and net prior service credit is a component of net periodic benefit cost. See Note 8 for further information.

The amounts reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive loss were not significant for the three months ended September 30, 2015 and were net losses of \$1.9 million, excluding an income tax benefit of \$0.7 million, for the nine months ended September 30, 2015. For the nine months ended September 30, 2015, these net losses included \$1.1 million related to our interest rate swap agreements which were recorded in interest and other debt expense in our Condensed Consolidated Statements of Income and \$0.8 million related to our natural gas swap agreements which were recorded in cost of goods sold in our Condensed Consolidated Statements of Income. See Note 6 for further information.

Foreign currency gains related to our net investment hedges included in the foreign currency translation component of accumulated other comprehensive loss were not significant for the three months ended September 30, 2015 and were \$19.5 million, excluding an income tax provision of \$7.3 million, for the nine months ended September 30, 2015. See Note 6, which includes a discussion of derivative instruments and hedging activities.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 4. Inventories

Inventories consisted of the following:

| | Sept. 30, 2015 | Sept. 30, 2014 | Dec. 31, 2014 |
|---|------------------------|-------------------|------------------|
| | (Dollars in thousands) | | |
| Raw materials | \$204,841 | \$181,034 | \$184,714 |
| Work-in-process | 104,842 | 125,290 | 115,308 |
| Finished goods | 358,783 | 364,261 | 338,562 |
| Other | 14,831 | 14,285 | 13,541 |
| | 683,297 | 684,870 | 652,125 |
| Adjustment to value inventory at cost on the LIFO method | (103,021) | (96,580) | (103,360) |
| | \$580,276 | \$588,290 | \$548,765 |

Note 5. Long-Term Debt

Long-term debt consisted of the following:

| | Sept. 30, 2015 | Sept. 30, 2014 | Dec. 31, 2014 |
|---|------------------------|-------------------|------------------|
| | (Dollars in thousands) | | |
| Bank debt | | | |
| Bank revolving loans | \$357,044 | \$335,148 | \$— |
| U.S. term loans | 365,000 | 365,000 | 365,000 |
| Canadian term loans | 49,582 | 62,699 | 60,235 |
| Euro term loans | 246,576 | 279,070 | 266,156 |
| Other foreign bank revolving and term loans | 113,612 | 125,113 | 107,572 |
| Total bank debt | 1,131,814 | 1,167,030 | 798,963 |
| 5½% Senior Notes | 300,000 | 300,000 | 300,000 |
| 5% Senior Notes | 500,000 | 500,000 | 500,000 |
| Total debt | 1,931,814 | 1,967,030 | 1,598,963 |
| Less current portion | 482,877 | 443,982 | 125,130 |
| | \$1,448,937 | \$1,523,048 | \$1,473,833 |

At September 30, 2015, amounts expected to be repaid within one year consisted of \$387.6 million of bank revolving and term loans under our senior secured credit facility, or the Credit Agreement, and \$95.3 million of foreign bank revolving and term loans.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 6. Financial Instruments

The financial instruments recorded in our Condensed Consolidated Balance Sheets include cash and cash equivalents, trade accounts receivable, trade accounts payable, debt obligations and swap agreements. Due to their short-term maturity, the carrying amounts of trade accounts receivable and trade accounts payable approximate their fair market values. The following table summarizes the carrying amounts and estimated fair values of our other financial instruments at September 30, 2015:

| | Carrying Amount | Fair Value |
|-------------------------------|------------------------|---------------|
| | (Dollars in thousands) | |
| Assets: | | |
| Cash and cash equivalents | \$ 104,203 | \$ 104,203 |
| Liabilities: | | |
| Bank debt | \$ 1,131,814 | \$ 1,131,814 |
| 5½% Senior Notes | 300,000 | 310,410 |
| 5% Senior Notes | 500,000 | 503,750 |
| Interest rate swap agreements | 1,465 | 1,465 |
| Natural gas swap agreements | 626 | 626 |

Fair Value Measurements

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). GAAP classifies the inputs used to measure fair value into a hierarchy consisting of three levels. Level 1 inputs represent unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs represent unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs represent unobservable inputs for the asset or liability. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Financial Instruments Measured at Fair Value

The financial assets and liabilities that were measured on a recurring basis at September 30, 2015 consisted of our cash and cash equivalents, interest rate swap agreements and natural gas swap agreements. We measured the fair value of cash and cash equivalents using Level 1 inputs. We measured the fair value of the swap agreements using the income approach. The fair value of the swap agreements reflects the estimated amounts that we would pay or receive based on the present value of the expected cash flows derived from market interest rates and prices. As such, these derivative instruments were classified within Level 2.

Financial Instruments Not Measured at Fair Value

Our bank debt, 5½% Senior Notes due 2022, or the 5½% Notes, and 5% Senior Notes due 2020, or the 5% Notes, were recorded at historical amounts in our Condensed Consolidated Balance Sheets, as we have not elected to

measure them at fair value. We measured the fair value of our variable rate bank debt using the market approach based on Level 2 inputs. Fair values of the 5½% Notes and the 5% Notes were estimated based on quoted market prices, a Level 1 input.

Derivative Instruments and Hedging Activities

Our derivative financial instruments were recorded in the Condensed Consolidated Balance Sheets at their fair values. Changes in fair values of derivatives are recorded in each period in earnings or comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction.

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

We utilize certain derivative financial instruments to manage a portion of our interest rate and natural gas cost exposures. We limit our use of derivative financial instruments to interest rate and natural gas swap agreements. We do not engage in trading or other speculative uses of these financial instruments. For a financial instrument to qualify as a hedge, we must be exposed to interest rate or price risk, and the financial instrument must reduce the exposure and be designated as a hedge. Financial instruments qualifying for hedge accounting must maintain a high correlation between the hedging instrument and the item being hedged, both at inception and throughout the hedged period.

We utilize certain internal hedging strategies to minimize our foreign currency exchange rate risk. Net investment hedges that qualify for hedge accounting result in the recognition of foreign currency gains or losses, net of tax, in accumulated other comprehensive (loss) income. We generally do not utilize external derivative financial instruments to manage our foreign currency exchange rate risk.

Our interest rate and natural gas swap agreements are accounted for as cash flow hedges. During the first nine months of 2015, our hedges were fully effective. The fair value of our outstanding swap agreements in effect at September 30, 2015 was recorded in our Condensed Consolidated Balance Sheet as a net liability of \$2.1 million, of which \$1.7 million was included in accrued liabilities and \$0.4 million was included in other liabilities.

The amounts reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive loss for the three and nine months ended September 30, 2015 were losses, net of income taxes, of \$0.3 million and \$1.2 million, respectively. We estimate that we will reclassify losses of \$1.0 million, net of income taxes, from the change in fair value of derivatives component of accumulated other comprehensive loss to earnings during the next twelve months. The actual amount that will be reclassified to earnings will vary from this amount as a result of changes in market conditions.

Interest Rate Swap Agreements

We have entered into U.S. dollar interest rate swap agreements to manage a portion of our exposure to interest rate fluctuations. At September 30, 2015, the aggregate notional principal amount of our outstanding interest rate swap agreements was \$100.0 million. The difference between amounts to be paid or received on our interest rate swap agreements is recorded in interest and other debt expense in our Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2015, net payments under our interest rate swap agreements were \$0.3 million and \$1.1 million, respectively. These agreements are with financial institutions which are expected to fully perform under the terms thereof.

Natural Gas Swap Agreements

We have entered into natural gas swap agreements with a major financial institution to manage a portion of our exposure to fluctuations in natural gas prices. At September 30, 2015, the aggregate notional principal amount of our natural gas swap agreements was 1,764,000 MMBtu of natural gas with fixed prices ranging from \$2.86 to \$4.16 per MMBtu, which hedged approximately 41 percent of our estimated twelve month exposure to fluctuations in natural gas prices. The difference between amounts to be paid or received on our natural gas swap agreements is recorded in cost of goods sold in our Condensed Consolidated Statements of Income. For the three and nine months ended September 30, 2015, net payments under our natural gas swap agreements were \$0.2 million and \$0.8 million, respectively. These agreements are with a financial institution which is expected to fully perform under the terms thereof.

Foreign Currency Exchange Rate Risk

In an effort to minimize foreign currency exchange rate risk, we have financed acquisitions of foreign operations primarily with loans borrowed under our senior secured credit facilities denominated in Euros and Canadian dollars. In addition, where available, we have borrowed funds in local currency or implemented certain internal hedging strategies to minimize our foreign currency exchange rate risk related to foreign operations. We have designated substantially all of our Euro denominated borrowings under the Credit Agreement as net investment hedges. Foreign currency gains related to our net investment hedges included in accumulated other comprehensive loss for the three and nine months ended September 30, 2015 were \$0.4 million and \$19.5 million, respectively.

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 7. Commitments and Contingencies

A competition authority in Germany commenced an antitrust investigation involving the industry association for metal packaging in Germany and its members, including our metal container and closures subsidiaries in Germany. Given the early stage of the investigation, we cannot reasonably assess what actions may result from the investigation or estimate what costs we may incur as a result of the investigation.

We are a party to other legal proceedings, contract disputes and claims arising in the ordinary course of our business, none of which are expected to have a material adverse effect on our business or financial condition.

Note 8. Retirement Benefits

The components of the net periodic pension benefit costs were as follows:

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|------------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| | (Dollars in thousands) | | | |
| Service cost | \$3,688 | \$3,392 | \$11,689 | \$10,163 |
| Interest cost | 6,753 | 7,399 | 21,044 | 22,248 |
| Expected return on plan assets | (15,692) | (14,312) | (47,045) | (43,000) |
| Amortization of prior service cost | 264 | 272 | 778 | 891 |
| Amortization of actuarial losses | 627 | 154 | 4,293 | 588 |
| Curtailement gain | (482) | — | (482) | — |
| Net periodic benefit credit | \$(4,842) | \$(3,095) | \$(9,723) | \$(9,110) |

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

| | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|------------------------|-------------------|-------------------|-------------------|
| | Sept. 30, 2015 | Sept. 30, 2014 | Sept. 30, 2015 | Sept. 30, 2014 |
| | (Dollars in thousands) | | | |
| Service cost | \$56 | \$138 | \$335 | \$402 |
| Interest cost | 256 | 420 | 965 | 1,245 |
| Amortization of prior service credit | (817) | (726) | (2,289) | (2,154) |
| Amortization of actuarial gains | (133) | (75) | (260) | (246) |
| Net periodic benefit credit | \$(638) | \$(243) | \$(1,249) | \$(753) |

Note 9. Income Taxes

Silgan and its subsidiaries file U.S. Federal income tax returns, as well as income tax returns in various states and foreign jurisdictions. The Internal Revenue Service, or IRS, has completed its review of the tax years 2012 and 2013 for us, and we have been accepted into the Compliance Assurance Program for the 2014 and 2015 tax years, which

provides for the review by the IRS of tax matters relating to our tax return prior to filing. We do not expect a material change to our unrecognized tax benefits within the next twelve months.

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SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 10. Treasury Stock

On February 9, 2015, we commenced a “modified Dutch auction” tender offer to purchase up to \$200.0 million of our common stock. Pursuant to the tender offer, which expired on March 10, 2015, we purchased 2,766,354 shares of our common stock from our stockholders on March 17, 2015 at a price of \$58.50 per share, for a total purchase price of \$161.8 million, exclusive of \$0.7 million of fees and expenses. During the nine months ended September 30, 2015, we repurchased an additional 139,421 shares of our common stock at an average price per share of \$54.71, for a total purchase price of \$7.6 million. As a result, at September 30, 2015, we had \$106.0 million remaining under an authorization from our Board of Directors for the repurchase of our common stock from time to time through and including December 31, 2019.

During the first nine months of 2015, we issued 146,160 treasury shares which had an average cost of \$6.30 per share for restricted stock units that vested during the period. In accordance with the Silgan Holdings Inc. Amended and Restated 2004 Stock Incentive Plan, or the 2004 Stock Incentive Plan, we repurchased 50,841 shares of our common stock at an average cost of \$56.88 to satisfy minimum employee withholding tax requirements resulting from the vesting of such restricted stock units.

We account for treasury shares using the first-in, first-out (FIFO) cost method. As of September 30, 2015, 27,163,343 shares of our common stock were held in treasury.

Note 11. 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. During the first nine months of 2015, 167,946 restricted stock units were granted to certain of our officers, other key employees and outside directors. The fair value of these restricted stock units at the grant date was \$9.6 million, which is being amortized ratably over the respective vesting period from the grant date.

At our annual meeting of stockholders held on May 26, 2015, our stockholders approved the 2004 Stock Incentive Plan, which, among other things, increased the number of shares of our common stock available for awards under the 2004 Stock Incentive Plan by an additional 3,000,000 shares. The total number of shares of our common stock available for issuance under the 2004 Stock Incentive Plan as of September 30, 2015 was 3,647,406.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2015 and 2014 and for the three and nine months then ended is unaudited)

Note 12. Business Segment Information

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

| | Metal Containers | Closures | Plastic Containers | Corporate | Total |
|---|------------------------|-----------|-----------------------|-----------|-------------|
| | (Dollars in thousands) | | | | |
| Three Months Ended September 30, 2015 | | | | | |
| Net sales | \$845,408 | \$215,713 | \$142,404 | \$— | \$1,203,525 |
| Depreciation and amortization ⁽¹⁾ | 17,746 | 9,399 | 8,531 | 30 | 35,706 |
| Rationalization charges | — | 205 | 8,865 | — | 9,070 |
| Segment income from operations | 106,024 | 27,066 | (7,293) | (3,874) | 121,923 |
| Three Months Ended September 30, 2014 | | | | | |
| Net sales | \$827,675 | \$241,021 | \$159,748 | \$— | \$1,228,444 |
| Depreciation and amortization ⁽¹⁾ | 17,550 | 9,930 | 9,146 | 32 | 36,658 |
| Rationalization charges | — | 1,218 | 1,310 | — | 2,528 |
| Segment income from operations ⁽²⁾ | 112,229 | 27,645 | 13,129 | (5,368) | 147,635 |
| Nine Months Ended September 30, 2015 | | | | | |
| Net sales | \$1,858,004 | \$620,949 | \$455,402 | \$— | \$2,934,355 |
| Depreciation and amortization ⁽¹⁾ | 52,400 | 28,302 | 25,881 | 93 | 106,676 |
| Rationalization charges | — | 1,351 | 9,403 | — | 10,754 |
| Segment income from operations | 194,992 | 73,226 | 11,332 | (12,273) | 267,277 |
| Nine Months Ended September 30, 2014 | | | | | |
| Net sales | \$1,814,764 | \$687,050 | \$499,812 | \$— | \$3,001,626 |
| Depreciation and amortization ⁽¹⁾ | 52,121 | 31,482 | | | |