

SILGAN HOLDINGS INC
Form 10-Q
August 08, 2013

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 June 30, 2013
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 July 31, 2013, the number of shares outstanding of the Registrant’s common stock, \$0.01 par value, was 63,400,783.

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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)

	June 30, 2013 (unaudited)	June 30, 2012 (unaudited)	Dec. 31, 2012
Assets			
Current assets:			
Cash and cash equivalents	\$113,195	\$368,882	\$465,608
Trade accounts receivable, net	448,579	408,595	326,691
Inventories	721,005	741,380	515,927
Prepaid expenses and other current assets	63,600	53,484	70,261
Total current assets	1,346,379	1,572,341	1,378,487
Property, plant and equipment, net	1,051,675	1,036,819	1,098,809
Goodwill	508,835	384,064	510,836
Other intangible assets, net	167,652	93,104	171,917
Other assets, net	134,564	134,662	133,494
	\$3,209,105	\$3,220,990	\$3,293,543
Liabilities and Stockholders' Equity			
Current liabilities:			
Revolving loans and current portion of long-term debt	\$619,469	\$236,640	\$255,349
Trade accounts payable	271,498	263,125	318,669
Accrued payroll and related costs	61,808	63,890	62,144
Accrued liabilities	60,379	59,341	66,397
Total current liabilities	1,013,154	622,996	702,559
Long-term debt	1,258,765	1,544,889	1,415,967
Other liabilities	389,288	393,605	421,374
Stockholders' equity:			
Common stock	876	876	876
Paid-in capital	208,517	200,924	204,449
Retained earnings	1,087,361	929,370	1,020,543
Accumulated other comprehensive loss	(119,882)	(121,478)	(109,913)
Treasury stock	(628,974)	(350,192)	(362,312)
Total stockholders' equity	547,898	659,500	753,643
	\$3,209,105	\$3,220,990	\$3,293,543

See accompanying notes.

SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

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

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net sales	\$880,029	\$821,611	\$1,675,770	\$1,589,968
Cost of goods sold	751,869	706,282	1,436,337	1,360,594
Gross profit	128,160	115,329	239,433	229,374
Selling, general and administrative expenses	52,322	46,532	104,120	91,211
Rationalization charges	933	158	2,284	3,761
Income from operations	74,905	68,639	133,029	134,402
Interest and other debt expense before loss on early extinguishment of debt	15,445	16,028	30,794	31,618
Loss on early extinguishment of debt	—	38,704	2,068	38,704
Interest and other debt expense	15,445	54,732	32,862	70,322
Income before income taxes	59,460	13,907	100,167	64,080
Provision for income taxes	(69	) 3,327	15,205	20,750
Net income	\$59,529	\$10,580	\$84,962	\$43,330
Earnings per share:				
Basic net income per share	\$0.93	\$0.15	\$1.31	\$0.62
Diluted net income per share	\$0.93	\$0.15	\$1.30	\$0.62
Dividends per share				
	\$0.14	\$0.12	\$0.28	\$0.24
Weighted average number of shares:				
Basic	63,710	69,719	65,068	69,834
Effect of dilutive securities	381	281	374	303
Diluted	64,091	70,000	65,442	70,137

See accompanying notes.

SILGAN HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net income	\$59,529	\$10,580	\$84,962	\$43,330
Other comprehensive income (loss), net of tax:				
Changes in net prior service credit and actuarial losses	1,718	1,851	3,759	3,702
Change in fair value of derivatives	1,398	(222)	2,861	(378)
Foreign currency translation	(4,544)	(23,219)	(16,589)	(9,520)
Other comprehensive loss	(1,428)	(21,590)	(9,969)	(6,196)
Comprehensive income (loss)	\$58,101	\$(11,010)	\$74,993	\$37,134

See accompanying notes.

SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2013 and 2012
(Dollars in thousands)
(Unaudited)

	2013	2012
Cash flows provided by (used in) operating activities:		
Net income	\$84,962	\$43,330
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	85,636	83,373
Rationalization charges	2,284	3,761
Loss on early extinguishment of debt	2,068	38,704
Excess tax benefit from stock-based compensation	(552)	(1,367)
Other changes that provided (used) cash, net of effects from acquisitions:		
Trade accounts receivable, net	(124,761)	(76,970)
Inventories	(207,040)	(193,695)
Trade accounts payable	28,058	14,579
Accrued liabilities	(7,972)	(16,116)
Contributions to domestic pension benefit plans	—	(76,000)
Other, net	(21,839)	(14,829)
Net cash used in operating activities	(159,156)	(195,230)
Cash flows provided by (used in) investing activities:		
Purchases of businesses, net of cash acquired	(6,000)	(50,975)
Capital expenditures	(53,048)	(59,448)
Proceeds from asset sales	6,411	335
Net cash used in investing activities	(52,637)	(110,088)
Cash flows provided by (used in) financing activities:		
Borrowings under revolving loans	593,424	174,300
Repayments under revolving loans	(70,720)	(25,596)
Proceeds from issuance of long-term debt	—	526,550
Repayments of long-term debt	(304,778)	(282,639)
Debt issuance costs	—	(9,749)
Changes in outstanding checks - principally vendors	(73,454)	(66,604)
Dividends paid on common stock	(18,144)	(16,947)
Proceeds from stock option exercises	—	195
Excess tax benefit from stock-based compensation	552	1,367
Repurchase of common stock under stock plan	(2,160)	(1,692)
Repurchase of common stock under share repurchase authorization	(265,340)	(22,086)
Net cash (used in) provided by financing activities	(140,620)	277,099
Cash and cash equivalents:		
Net decrease	(352,413)	(28,219)
Balance at beginning of year	465,608	397,101
Balance at end of period	\$113,195	\$368,882

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Interest paid, net	\$28,753	\$29,743
Income taxes paid, net	51,787	41,543

See accompanying notes.

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SILGAN HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF
STOCKHOLDERS' EQUITY

For the six months ended June 30, 2013 and 2012

(Dollars and shares in thousands)

(Unaudited)

	Common Stock Shares Outstanding	Par Value	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
Balance at December 31, 2011	69,884	\$875	\$196,626	\$902,987	\$(115,282)	\$(327,212)	\$657,994
Net income	—	—	—	43,330	—	—	43,330
Other comprehensive loss	—	—	—	—	(6,196)	—	(6,196)
Dividends declared on common stock	—	—	—	(16,947)	—	—	(16,947)
Stock compensation expense	—	—	3,479	—	—	—	3,479
Stock option exercises, including tax benefit of \$580	36	1	774	—	—	—	775
Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$843	81	—	45	—	—	(894)	(849)
Repurchases of common stock	(511)	—	—	—	—	(22,086)	(22,086)
Balance at June 30, 2012	69,490	\$876	\$200,924	\$929,370	\$(121,478)	\$(350,192)	\$659,500
Balance at December 31, 2012	69,204	\$876	\$204,449	\$1,020,543	\$(109,913)	\$(362,312)	\$753,643
Net income	—	—	—	84,962	—	—	84,962
Other comprehensive loss	—	—	—	—	(9,969)	—	(9,969)
Dividends declared on common stock	—	—	—	(18,144)	—	—	(18,144)
Stock compensation expense	—	—	4,354	—	—	—	4,354
Net issuance of treasury stock for vested restricted stock units, including tax benefit of \$552	76	—	(286)	—	—	(1,322)	(1,608)
Repurchases of common stock	(5,831)	—	—	—	—	(265,340)	(265,340)
Balance at June 30, 2013	63,449	\$876	\$208,517	\$1,087,361	\$(119,882)	\$(628,974)	\$547,898

See accompanying notes.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2013 and 2012 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 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, 2012 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, 2012.

Recently Adopted Accounting Pronouncement. In February 2013, the Financial Accounting Standards Board issued an accounting standards update which amends the guidance for reporting reclassification adjustments from accumulated other comprehensive income to net income. This amendment requires us to present information that is significant about reclassification adjustments from accumulated other comprehensive income to net income in one footnote and, in some cases, cross-reference to related footnote disclosures. This amendment was effective for us on January 1, 2013. Our adoption of this amendment did not have an effect on our financial position, results of operations or cash flows. See Note 3 for the required disclosures.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2013 and 2012 and for the three and six months then ended is unaudited)

Note 2. Rationalization Charges

As part of our plans to rationalize certain facilities, we have established reserves for employee severance and benefits and plant exit costs. Activity in our rationalization reserves since December 31, 2012 is summarized as follows:

	Employee Severance and Benefits (Dollars in thousands)	Plant Exit Costs	Non-Cash Asset Write-Down	Total
Balance at December 31, 2012	\$3,231	\$1,698	\$—	\$4,929
Activity for the six months ended June 30, 2013				
Prior years' rationalization plan reserves established	(138	) 829	178	869
Prior years' rationalization plan reserves utilized	(1,494	) (781	) (178	) (2,453
2013 rationalization plan reserves established	1,057	257	101	1,415
2013 rationalization plan reserves utilized	(675	) (257	) (101	) (1,033
Total activity	(1,250	) 48	—	(1,202
Balance at June 30, 2013	\$1,981	\$1,746	\$—	\$3,727

Rationalization reserves as of June 30, 2013 and December 31, 2012 are included in the Condensed Consolidated Balance Sheets as accrued liabilities. Total future cash spending of \$6.8 million is expected for our outstanding rationalization plans in the current year and thereafter.

2013 Rationalization Plans

In the first quarter of 2013, we announced plans to exit our Crystal City, Texas metal container manufacturing facility and to downsize our Sacramento, California metal container manufacturing facility. Our plans include the termination of approximately 40 employees and other related plant exit costs. The total estimated costs for these rationalizations of \$1.6 million consist of \$0.9 million for employee severance and benefits, \$0.6 million for plant exit costs and \$0.1 million for the non-cash write-down in carrying value of assets. Through June 30, 2013, we recognized a total of \$1.2 million of costs, which consisted of \$0.8 million of employee severance and benefits, \$0.3 million for plant exit costs and \$0.1 million for the non-cash write-down in carrying value of assets. Remaining expenses and cash expenditures of \$0.4 million and \$0.6 million, respectively, are expected in 2013.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2013 and 2012 and for the three and six months then ended is unaudited)

Note 3. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss is reported in our Consolidated Statements of Stockholders' Equity. Amounts included in accumulated other comprehensive loss, net of tax, are 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, 2012	\$(105,675)	\$(7,727)	\$3,489	\$(109,913)
Other comprehensive loss before reclassifications	318	1,144	(16,589)	(15,127)
Amounts reclassified from accumulated other comprehensive loss	3,441	1,717	—	5,158
Other comprehensive loss	3,759	2,861	(16,589)	(9,969)
Balance at June 30, 2013	\$(101,916)	\$(4,866)	\$(13,100)	\$(119,882)

The amounts reclassified to earnings from the unrecognized net defined benefit plan costs component of accumulated other comprehensive loss for the three and six months ended June 30, 2013 were losses of \$2.7 million and \$5.5 million, respectively, excluding an income tax benefit of \$1.0 million and \$2.1 million, respectively. Amortization of actuarial losses and prior service cost (credit) is a component of net periodic benefit cost. See Note 7 for further information.

The amount reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive loss for the three and six months ended June 30, 2013 were net losses of \$1.2 million and \$2.7 million, respectively, excluding an income tax benefit of \$0.4 million and \$1.0 million, respectively. These net losses included \$1.4 million and \$2.8 million of losses related to our interest rate swap agreements which were recorded in interest and other debt expense for the three and six months ended June 30, 2013, respectively, and gains of \$0.1 million related to our natural gas swap agreements which were recorded in cost of goods sold in our Condensed Consolidated Statements of Income for each of the three and six months ended June 30, 2013.

Foreign currency (losses) gains related to our net investment hedges included in the foreign currency translation component of accumulated other comprehensive loss for the three and six months ended June 30, 2013 were \$(4.8) million and \$4.7 million, respectively, excluding an income tax benefit (provision) of \$1.8 million and \$(1.8) million, respectively.

See Note 6 which includes a discussion of derivative instruments and hedging activities.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2013 and 2012 and for the three and six months then ended is unaudited)

Note 4. Inventories

Inventories consisted of the following:

	June 30, 2013 (Dollars in thousands)	June 30, 2012	Dec. 31, 2012
Raw materials	\$ 168,903	\$ 176,091	\$ 167,097
Work-in-process	133,126	120,758	108,385
Finished goods	508,170	527,103	330,077
Other	13,697	13,365	13,259
	823,896	837,317	618,818
Adjustment to value inventory at cost on the LIFO method	(102,891)	(95,937)	(102,891)
	\$ 721,005	\$ 741,380	\$ 515,927

Note 5. Long-Term Debt

Long-term debt consisted of the following:

	June 30, 2013 (Dollars in thousands)	June 30, 2012	Dec. 31, 2012
Bank debt			
Bank revolving loans	\$503,111	\$ 160,000	\$—
U.S. term loans	364,000	520,000	520,000
Canadian term loans	65,697	78,400	81,389
Euro term loans	305,647	416,874	443,406
Other foreign bank revolving and term loans	139,779	106,255	126,521
Total bank debt	1,378,234	1,281,529	1,171,316
5% Senior Notes	500,000	500,000	500,000
Total debt	1,878,234	1,781,529	1,671,316
Less current portion	619,469	236,640	255,349
	\$ 1,258,765	\$ 1,544,889	\$ 1,415,967

At June 30, 2013, amounts expected to be repaid within one year consisted of \$503.1 million of bank revolving loans and \$116.4 million of foreign bank revolving and term loans.

In the first quarter of 2013, we prepaid essentially all term loan amortization payments due in 2013 and 2014 under our senior secured credit facility, or the Credit Agreement, consisting of \$156.0 million of U.S. term loans, €100.5 million of Euro term loans and Cdn \$12.2 million of Canadian term loans, aggregating U.S. denominated \$300.9

million. In connection with these prepayments, we recorded a loss on early extinguishment of debt of \$2.1 million.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Information at June 30, 2013 and 2012 and for the three and six 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 June 30, 2013:

	Carrying Amount	Fair Value
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	\$ 113,195	\$ 113,195
Liabilities:		
Bank debt	\$ 1,378,234	\$ 1,378,234
5% Senior Notes	500,000	497,500
Interest rate swap agreements	8,466	8,466
Natural gas swap agreements	316	316

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 are measured on a recurring basis at June 30, 2013 consist 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 are classified within Level 2.

Financial Instruments Not Measured at Fair Value

Our bank debt and 5% Senior Notes are 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. The fair value of our 5% Senior Notes was estimated based on the quoted market price, a Level 1 input.

Derivative Instruments and Hedging Activities

Our derivative financial instruments are 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.

SILGAN HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS