WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORP
Form 10-Q
November 07, 2016

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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: 033-90866

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	25-1615902 (I.R.S. Employer Identification No.)
1001 Air Brake Avenue Wilmerding, PA (Address of principal executive offices)	15148 (Zip code)

412-825-1000
(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 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 x No ¨

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 4, 2016
Common Stock, $.01 par value per share	89,073,431 shares

WESTINGHOUSE AIR BRAKE
TECHNOLOGIES CORPORATION
September 30, 2016
FORM 10-Q
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PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

In thousands, except shares and par value	Unaudited September 30, 2016	December 31, 2015
Assets		
Current Assets		
Cash and cash equivalents	$ 250,382	$ 226,191
Accounts receivable	477,500	494,975
Unbilled accounts receivable	146,726	103,814
Inventories	495,998	478,574
Deposit in escrow	210,025	202,942
Deferred income taxes	75,741	71,658
Other current assets	38,760	33,524
Total current assets	1,695,132	1,611,678
Property, plant and equipment	750,547	717,295
Accumulated depreciation	(392,577)	(364,102)
Property, plant and equipment, net	357,970	353,193
Other Assets		
Goodwill	877,054	858,532
Other intangibles, net	457,262	440,534
Other noncurrent assets	40,739	32,909
Total other assets	1,375,055	1,331,975
Total Assets	$ 3,428,157	$ 3,296,846
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 276,539	$ 319,525
Customer deposits	108,718	106,127
Accrued compensation	54,984	69,892
Accrued warranty	76,465	72,678
Current portion of long-term debt	134	433
Other accrued liabilities	108,095	96,121
Total current liabilities	624,935	664,776
Long-term debt	819,770	691,805
Accrued postretirement and pension benefits	55,609	55,765
Deferred income taxes	156,900	139,852
Accrued warranty	17,645	19,386
Other long-term liabilities	22,807	23,923
Total liabilities	1,697,666	1,595,507
Commitments and contingent liabilities (Note15)		
Shareholders' Equity		
Preferred stock, 1,000,000 shares authorized, no shares issued	—	—
Common stock, $0.01 par value; 200,000,000 shares authorized: 132,349,534 shares issued and 89,065,387 and 91,836,106 outstanding at September 30, 2016 and December 31, 2015, respectively	1,323	1,323
Additional paid-in capital	470,908	469,326
Treasury stock, at cost, 43,284,147 and 40,513,428 shares,		

at September 30, 2016 and December 31, 2015, respectively	(983,456)	(775,124)
Retained earnings	2,524,354	2,280,801
Accumulated other comprehensive loss	(286,055)	(276,719)
Total Westinghouse Air Brake Technologies Corporation shareholders' equity	1,727,074	1,699,607
Non-controlling interest (minority interest)	3,417	1,732
Total shareholders’ equity	1,730,491	1,701,339
Total Liabilities and Shareholders’ Equity	$ 3,428,157	$ 3,296,846

The accompanying notes are an integral part of these statements.

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WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
In thousands, except per share data	2016	2015	2016	2015
Net sales	$675,574	$809,527	$2,171,206	$2,475,149
Cost of sales	(463,093)	(552,458)	(1,466,156)	(1,694,961)
Gross profit	212,481	257,069	705,050	780,188
Selling, general and administrative expenses	(70,757)	(82,206)	(241,118)	(255,969)
Engineering expenses	(16,289)	(17,239)	(52,271)	(51,852)
Amortization expense	(5,339)	(5,546)	(16,100)	(16,009)
Total operating expenses	(92,385)	(104,991)	(309,489)	(323,830)
Income from operations	120,096	152,078	395,561	456,358
Other income and expenses				
Interest expense, net	(6,057)	(4,351)	(15,897)	(12,698)
Other income (expense), net	1,188	(2,937)	113	(7,690)
Income from operations before income taxes	115,227	144,790	379,777	435,970
Income tax expense	(32,799)	(45,609)	(112,701)	(139,121)
Net income attributable to Wabtec shareholders	$82,428	$99,181	$267,076	$296,849
Earnings Per Common Share				
Basic				
Net income attributable to Wabtec shareholders	$0.92	$1.03	$2.94	$3.08
Diluted				
Net income attributable to Wabtec shareholders	$0.91	$1.02	$2.92	$3.05
Weighted average shares outstanding				
Basic	89,589	96,369	90,546	96,135
Diluted	90,293	97,368	91,316	97,162

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
In thousands	2016	2015	2016	2015
Net income attributable to Wabtec shareholders	$82,428	$99,181	$267,076	$296,849
Foreign currency translation gain (loss)	2,734	(48,474)	(7,385)	(100,323)
Unrealized gain (loss) on derivative contracts	1,169	(1,788)	(1,740)	(2,544)
Unrealized gain (loss) on pension benefit plans and post-retirement benefit plans	982	2,586	(652)	5,586
Other comprehensive income (loss) before tax	4,885	(47,676)	(9,777)	(97,281)
Income tax (expense) benefit related to components of other comprehensive income (loss)	(594)	164	441	(441)
Other comprehensive income (loss), net of tax	4,291	(47,512)	(9,336)	(97,722)
Comprehensive income attributable to Wabtec shareholders	$86,719	$51,669	$257,740	$199,127

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Unaudited Nine Months Ended September 30,	
In thousands, except per share data	2016	2015
Operating Activities		
Net income attributable to Wabtec shareholders	$267,076	$296,849
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	49,375	48,167
Stock-based compensation expense	14,788	20,092
Loss on disposal of property, plant and equipment	151	1,804
Excess income tax benefits from exercise of stock options	(446)	(2,683)
Changes in operating assets and liabilities, net of acquisitions		
Accounts receivable and unbilled accounts receivable	(38,362)	(881)
Inventories	2,301	(15,847)
Accounts payable	(43,777)	(80,701)
Accrued income taxes	5,952	20,964
Accrued liabilities and customer deposits	(8,353)	(12,911)
Other assets and liabilities	(1,812)	(19,547)
Net cash provided by operating activities	246,893	255,306
Investing Activities		
Purchase of property, plant and equipment	(31,676)	(33,079)
Proceeds from disposal of property, plant and equipment	140	354
Acquisitions of businesses, net of cash acquired	(84,355)	(100,108)
Deposit in escrow	—	(209,128)
Net cash used for investing activities	(115,891)	(341,961)
Financing Activities		
Proceeds from debt	346,000	390,300
Payments of debt	(215,850)	(460,308)
Purchase of treasury stock	(212,176)	(22,336)
Proceeds from exercise of stock options and other benefit plans	1,773	2,708
Excess income tax benefits from exercise of equity options	446	2,683
Payment of income tax withholding on share-based compensation	(9,006)	(14,565)
Cash dividends ($0.26 and $0.20 per share for the nine months ended September 30, 2016 and 2015, respectively)	(23,523)	(19,315)
Net cash used for financing activities	(112,336)	(120,833)
Effect of changes in currency exchange rates	5,525	(10,120)
Increase (Decrease) in cash	24,191	(217,608)
Cash, beginning of period	226,191	425,849
Cash, end of period	$250,382	$208,241

The accompanying notes are an integral part of these statements.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016 (UNAUDITED)

1. BUSINESS

Westinghouse Air Brake Technologies Corporation (“Wabtec”) is one of the world’s largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 21 countries. In the first nine months of 2016, about 52% of the Company’s revenues came from customers outside the U.S.

2. PROPOSED TRANSACTION WITH FAIVELEY TRANSPORT S.A.

On July 27, 2015, the Company announced plans to acquire all of the issued and outstanding shares of Faiveley Transport S.A. ("Faiveley Transport") under the terms of the Share Purchase Agreement and the Tender Offer Agreement. On October 24, 2016, the Company entered into amendments to the Share Purchase Agreement and the Tender Offer Agreement. Faiveley Transport is a leading global provider of value-added, integrated systems and services for the railway industry with annual sales of about $1.2 billion and more than 5,700 employees in 24 countries. Faiveley Transport supplies railway manufacturers, operators and maintenance providers with a range of valued-added, technology-based systems and services in Energy & Comfort (air conditioning, power collectors and converters, and passenger information), Access & Mobility (passenger access systems and platform doors), and Brakes & Safety (braking systems and couplers). Upon completion of the Acquisition, Faiveley Transport will become a subsidiary of Wabtec. The Acquisition has not yet been consummated and may not close on these terms, if at all:

The transaction has been structured in three steps:

- Wabtec has made an irrevocable offer to the owners of approximately 51% of Faiveley Transport’s shares for a purchase price of €100 per share, payable between 25% and 45% in cash at the election of those shareholders with the remainder in common stock.
- Upon completion of required labor group consultations, on October 6, 2015, the 51% shareholders entered into a definitive share purchase agreement, which was amended on October 24, 2016, and Faiveley Transport entered into the Tender Offer Agreement with Wabtec.
- Upon completing the share purchase under the Share Purchase Agreement, Wabtec will commence a tender offer for the remaining publicly traded Faiveley Transport shares. The public shareholders will have the option to elect to receive €100 per share in cash or Wabtec common stock. The common stock portion of the consideration is subject to a cap on issuance of Faiveley common shares that will be equivalent to the rates of cash and stock elected by the 51% owners. Wabtec intends to delist Faiveley Transport from Euronext after the tender offer if minority interests represent less than 5%.

The total purchase price offered is about $1.7 billion, including assumed debt, net of cash acquired. Wabtec plans to fund the cash portion of the transaction with cash on hand (including cash held in escrow), existing credit facilities and new credit arrangements. Prior to December 31, 2015, Wabtec set aside €186.9 million as an escrow deposit for the Faiveley Transport purchase. The combination of Wabtec and Faiveley Transport would create one of the world’s largest public rail equipment companies, with revenues of over $4.3 billion and a presence in all key freight rail and passenger transit geographies worldwide.

Closing of the transaction is subject to various conditions, including completion of regulatory requirements. These steps are currently on-going and the timing of completion is unknown.

3. ACCOUNTING POLICIES

Basis of Presentation The unaudited condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules and regulations of the Securities and Exchange Commission and include the accounts of Wabtec and its majority owned subsidiaries. These condensed consolidated interim financial statements do not include all of the information and footnotes required for complete financial statements. In management’s opinion, these financial statements reflect all adjustments of a normal, recurring nature necessary for a fair

presentation of the results for the interim periods presented. Results for these interim periods are not necessarily indicative of results to be expected for the full year.
The Company operates on a four-four-five week accounting quarter, and the quarters end on or about March 31, June 30, September 30, and December 31.
The notes included herein should be read in conjunction with the audited consolidated financial statements included in Wabtec's Annual Report on Form 10-K for the year ended December 31, 2015. The December 31, 2015 information has been derived from the Company's Annual Report on Form 10-K for the year ended December 31, 2015.
Revenue Recognition Revenue is recognized in accordance with Accounting Standards Codification ("ASC") 605 "Revenue Recognition." Revenue is recognized when products have been shipped to the respective customers, title has passed and the price for the product has been determined.
In general, the Company recognizes revenues on long-term contracts based on the percentage of completion method of accounting. The units-of-delivery method or other input-based or output-based measures, as appropriate, are used to measure the progress toward completion of individual contracts. Contract revenues and cost estimates are reviewed and revised at a minimum quarterly and adjustments are reflected in the accounting period as such amounts are determined. Provisions are made currently for estimated losses on uncompleted contracts. Unbilled accounts receivables were $146.7 million and $103.8 million, customer deposits were $108.7 million and $106.1 million, and provisions for loss contracts were $13.9 million and $11.8 million at September 30, 2016 and December 31, 2015, respectively.
Pre-Production Costs Certain pre-production costs relating to long-term production and supply contracts have been deferred and will be recognized over the life of the contracts. Deferred pre-production costs were $28.1 million and $30.3 million at September 30, 2016 and December 31, 2015, respectively.
Reclassifications Certain prior year amounts have been reclassified, where necessary, to conform to the current year presentation. Refer to Recent Accounting Pronouncements below.
Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from the estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.
Financial Derivatives and Hedging Activities As part of its risk management strategy, the Company utilizes derivative financial instruments to manage its exposure due to changes in foreign currencies and interest rates. For further information regarding financial derivatives and hedging activities, refer to Footnotes 13 and 14.
Foreign Currency Translation Assets and liabilities of foreign subsidiaries, except for the Company's Mexican operations whose functional currency is the U.S. Dollar, are translated at the rate of exchange in effect on the balance sheet date while income and expenses are translated at the average rates of exchange prevailing during the period. Foreign currency gains and losses resulting from transactions and the translation of financial statements are recorded in the Company's consolidated financial statements based upon the provisions of ASC 830 "Foreign Currency Matters." The effects of currency exchange rate changes on intercompany transactions and balances of a long-term investment nature are accumulated and carried as a component of accumulated other comprehensive loss. The effects of currency exchange rate changes on intercompany transactions that are denominated in a currency other than an entity's functional currency are charged or credited to earnings.
Non-controlling Interests In accordance with ASC 810 "Consolidation", the Company has classified non-controlling interests as equity on our condensed consolidated balance sheets as of September 30, 2016 and December 31, 2015. Net income attributable to non-controlling interests for the three and nine months ended September 30, 2016 and 2015 was not material.
Recent Accounting Pronouncements In April 2015, the FASB issued Accounting Standards Update No. 2015-3, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-3") which changes the presentation of debt issuance costs in financial statements to present such costs as a direct deduction from the related debt liability rather than as an asset. ASU 2015-3 became effective for public companies during interim and annual reporting periods beginning after December 15, 2015. The Company retrospectively adopted this ASU on January 1, 2016. The adoption of this

ASU did not have a material impact to its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-9, "Revenue from Contract with Customers." The ASU will supersede most of the existing revenue recognition requirements in U.S. GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Company expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Board voted to propose that the standard would take effect for reporting periods beginning after December 15, 2017 and that early adoption would be allowed as of the original effective date. The Company is currently evaluating the impact the pronouncement will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" (ASU 2016-09"). The ASU simplifies several aspects for the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU is effective for public companies in the fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the potential impact of adopting this guidance on its consolidated financial statements.

Other Comprehensive Income Comprehensive income is defined as net income and all other non-owner changes in shareholders' equity.

The changes in accumulated other comprehensive loss by component, net of tax, for the nine months ended September 30, 2016 are as follows:

In thousands	Foreign currency translation	Derivative contracts	Pension and post retirement benefit plans	Total
Balance at December 31, 2015	$(227,349)	$(2,987)	$(46,383)	$(276,719)
Other comprehensive (loss) before reclassifications	(7,385)	(2,192)	(1,969)	(11,546)
Amounts reclassified from accumulated other comprehensive income	—	883	1,327	2,210
Net current period other comprehensive (loss)	(7,385)	(1,309)	(642)	(9,336)
Balance at September 30, 2016	$(234,734)	$(4,296)	$(47,025)	$(286,055)

Reclassifications out of accumulated other comprehensive loss for the three months ended September 30, 2016 are as follows:

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	$ 6	Cost of sales
Amortization of net loss	611	Cost of sales
	617	Income from Operations
	(175)	Income tax expense
	$ 442	Net income
Derivative contracts		
Realized loss on derivative contracts	$ 338	Interest expense, net

(96	)	Income tax expense
$ 242		Net income

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Reclassifications out of accumulated other comprehensive loss for the nine months ended September 30, 2016 are as follows:

In thousands	Amount reclassified from accumulated other comprehensive income	Affected line item in the Condensed Consolidated Statements of Income
Amortization of defined pension and post retirement items		
Amortization of initial net obligation and prior service cost	$ (801)	Cost of sales
Amortization of net loss	2,702	Cost of sales
	1,901	Income from Operations
	(574)	Income tax expense
	$ 1,327	Net income
Derivative contracts		
Realized loss on derivative contracts	$ 1,265	Interest expense, net
	(382)	Income tax expense
	$ 883	Net income

4. ACQUISITIONS

The Company has made the following acquisitions operating as a business unit or component of a business unit in the Freight Segment:

- On May 5, 2016, the Company acquired Unitrac Railroad Materials ("Unitrac"), a leading designer and manufacturer of railroad products and track work services for a purchase price of approximately $14.4 million, net of cash acquired, resulting in preliminary goodwill of $1.0 million, all of which will be deductible for tax purposes.
- On October 30, 2015, the Company acquired Relay Monitoring Systems PTY Ltd. ("RMS"), an Australian based manufacturer of electrical protection and control products for a purchase price of approximately $18.7 million, net of cash acquired, resulting in preliminary goodwill of $8.8 million, none of which will be deductible for tax purposes.
- On October 8, 2015, the Company acquired Track IQ, an Australian based manufacturer of wayside sensor systems for the global rail industry for a purchase price of approximately $9.3 million, net of cash acquired, resulting in preliminary goodwill of $6.3 million, all of which will be deductible for tax purposes.
- On February 4, 2015, the Company acquired Railroad Controls L.P. ("RCL"), a provider of railway signal construction services, for a purchase price of approximately $78.0 million, net of cash acquired, resulting in goodwill of $14.8 million, all of which will be deductible for tax purposes.

The Company has made the following acquisitions operating as a business unit or component of a business unit in the Transit Segment:

- On August 1, 2016, the Company acquired Gerken Group SA ("Gerken"), a manufacturer of specialty carbon and graphite products for rail and other industrial applications, for a purchase price of approximately $62.8 million, net of cash acquired, resulting in preliminary goodwill of $16.2 million, none of which will be deductible for tax purposes.
- On June 17, 2015, the Company acquired Metalocaucho (“MTC”), a manufacturer of transit products, primarily rubber components for suspension and vibration control systems, for a purchase price of approximately $23.4 million, net of cash acquired, resulting in goodwill of $13.2 million, none of which will be deductible for tax purposes.

The acquisitions listed above include escrow deposits of $34.9 million, which act as security for indemnity and other claims in accordance with the purchase and related escrow agreements.

For the Gerken, Unitrac, RMS, and Track IQ acquisitions, the following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition. For the MTC and RCL acquisitions, the following table summarizes the final fair value of the assets acquired and liabilities assumed at the date of acquisition.

In thousands	Gerken August 1, 2016	Unitrac May 5, 2016	RMS October 30, 2015	Track IQ October 8, 2015	MTC June 17, 2015	RCL February 4, 2015
Current assets	$ 33,003	$ 12,526	$ 3,605	$ 660	$ 10,348	$ 16,421
Property, plant & equipment	7,667	1,768	1,378	172	1,450	12,136
Goodwill	16,191	998	8,847	6,333	13,198	14,787
Other intangible assets	32,098	1,230	8,621	3,246	7,650	40,403
Other assets	1,706	—	—	—	114	—
Total assets acquired	90,665	16,522	22,451	10,411	32,760	83,747
Total liabilities assumed	(27,818)	(2,144)	(3,741)	(1,099)	(9,400)	(5,736)
Net assets acquired	$ 62,847	$ 14,378	$ 18,710	$ 9,312	$ 23,360	$ 78,011

Of the $93.2 million of total acquired other intangible assets, $70.4 million was assigned to customer relationships, $15.8 million was assigned to trade names, $0.4 million was assigned to non-compete agreements, $1.4 million was assigned to customer backlog, and $5.2 million was assigned to intellectual property. The trade names were determined to have indefinite useful lives, while the intellectual property and customer relationships' average useful lives are 20 years, and the non-compete useful life is five years.

The Company also made smaller acquisitions not listed above.

The following unaudited pro forma consolidated financial information presents income statement results as if the acquisitions listed above had occurred on January 1, 2015:

In thousands	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net sales	$ 679,114	$ 833,138	$ 2,205,757	$ 2,562,576
Gross profit	213,755	267,377	715,080	816,828
Net income attributable to Wabtec shareholders	82,848	101,766	270,368	304,568
Diluted earnings per share				
As Reported	$ 0.91	$ 1.02	$ 2.92	$ 3.05
Pro forma	$ 0.91	$ 1.04	$ 2.95	$ 3.13

5. INVENTORIES

The components of inventory, net of reserves, were:

In thousands	September 30, 2016	December 31, 2015
Raw materials	$ 200,020	$ 180,128
Work-in-progress	174,570	171,217
Finished goods	121,408	127,229
Total inventories	$ 495,998	$ 478,574

6. INTANGIBLES

The change in the carrying amount of goodwill by segment for the nine months ended September 30, 2016 is as follows:

In thousands	Freight Segment	Transit Segment	Total
Balance at December 31, 2015	$531,965	$326,567	$858,532
Adjustment to preliminary purchase allocation	1,091	1,038	2,129
Acquisitions	2,956	16,191	19,147
Foreign currency impact	(6,782)	4,028	(2,754)
Balance at September 30, 2016	$529,230	$347,824	$877,054

As of September 30, 2016 and December 31, 2015, the Company’s trade names had a net carrying amount of $178.2 million and $167.4 million, respectively, and the Company believes these intangibles have indefinite lives.
Intangible assets of the Company, other than goodwill and trade names, consist of the following:

In thousands	September 30, 2016	December 31, 2015
Patents, non-compete and other intangibles, net of accumulated amortization of $42,771 and $40,936	$ 13,850	$ 11,403
Customer relationships, net of accumulated amortization of $82,462 and $70,493	265,208	261,751
Total	$ 279,058	$ 273,154

The weighted average remaining useful life of patents, customer relationships and other intangibles were 10 years, 16 years and 17 years, respectively. Amortization expense for intangible assets was $5.3 million and $16.1 million for three and nine months ended September 30, 2016, and $5.5 million and $16.0 million for the three and nine months ended September 30, 2015.
Amortization expense for the five succeeding years is estimated to be as follows:

Remainder of 2016	$5,410
2017	20,424
2018	19,721
2019	19,016
2020	17,838

7. LONG-TERM DEBT
Long-term debt consisted of the following:

In thousands	September 30, 2016	December 31, 2015
4.375% Senior Notes, due 2023, net of unamortized discount and debt issuance costs of $1,755 and $1,947	$ 248,245	$ 248,053
Revolving Credit Facility, net of unamortized debt issuance costs of $3,711 and $1,542	571,289	443,458
Capital Leases	370	727
Total	819,904	692,238
Less - current portion	134	433
Long-term portion	$ 819,770	$ 691,805

2016 Refinancing Credit Agreement

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On June 22, 2016, the Company amended its existing revolving credit facility with a consortium of commercial banks. This “2016 Refinancing Credit Agreement” provides the Company with a $1.2 billion, 5 year revolving credit facility and a $400.0 million delayed draw term loan (the “Term Loan”). The Company incurred approximately $2.9 million of deferred financing cost related to the 2016 Refinancing Credit Agreement. The facility expires on June 22, 2021. The 2016 Refinancing Credit Agreement borrowings bear variable interest rates indexed as described below. At September 30, 2016, the Company had available bank borrowing capacity, net of $22.5 million of letters of credit, of approximately $602.5 million, subject to certain financial covenant restrictions.

The Term Loan is available for advance on or after June 22, 2016 until December 31, 2016. The Company will incur a 10 basis point commitment fee from June 22, 2016 until the initial draw or cancellation of the Term Loan.

Under the 2016 Refinancing Credit Agreement, the Company may elect a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the London Interbank Offered Rate (“LIBOR”) of interest, or other rates appropriate for such currencies (in any case, “the Alternate Rate”). The Base Rate adjusts on a daily basis and is the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate plus 100 basis points, plus a margin that ranges from 0 to 75 basis points. The Alternate Rate is based on the quoted rates specific to the applicable currency, plus a margin that ranges from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins are dependent on the Company’s consolidated total indebtedness to cash flow ratios. The initial Base Rate margin is 0 basis points and the Alternate Rate margin is 100 basis points.

At September 30, 2016, the weighted average interest rate on the Company’s variable rate debt was 1.53%. On January 12, 2012, the Company entered into a forward starting interest rate swap agreement with a notional value of $150.0 million. The effective date of the interest rate swap agreement is July 31, 2013, and the termination date is November 7, 2016. The impact of the interest rate swap agreement converts a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 1.415% plus the Alternate Rate margin. On June 5, 2014, the Company entered into a forward starting interest rate swap agreement with a notional value of $150.0 million. The effective date of the interest rate swap agreement is November 7, 2016, and the termination date is December 19, 2018. The impact of the interest rate swap agreement converts a portion of the Company’s outstanding debt from a variable rate to a fixed-rate borrowing. During the term of the interest rate swap agreement the interest rate on the notional value will be fixed at 2.56% plus the Alternate Rate margin. As for these agreements, the Company is exposed to credit risk in the event of nonperformance by the counterparties. However, since only the cash interest payments are exchanged, exposure is significantly less than the notional amount. The counterparties are large financial institutions with excellent credit ratings and history of performance. The Company currently believes the risk of nonperformance is negligible.

The 2016 Refinancing Credit Agreement limits the Company’s ability to declare or pay cash dividends and prohibits the Company from declaring or making other distributions, subject to certain exceptions. The 2016 Refinancing Credit Agreement contains various other covenants and restrictions including the following limitations: incurrence of additional indebtedness; mergers, consolidations, sales of assets and acquisitions; additional liens; sale and leasebacks; permissible investments, loans and advances; certain debt payments; and imposes a minimum interest expense coverage ratio of 3.0 and a maximum debt to cash flow ratio of 3.25. The Company is in compliance with the restrictions and covenants of the 2016 Refinancing Credit Agreement and does not expect that these measurements will limit the Company in executing our operating activities.

2013 Refinancing Credit Agreement

On December 19, 2013, the Company amended its then existing revolving credit facility with a consortium of commercial banks. This “2013 Refinancing Credit Agreement” provided the Company with an $800.0 million, five-year revolving credit facility. The Company incurred approximately $1.0 million of deferred financing cost related to the 2013 Refinancing Credit Agreement. The 2013 Refinancing Credit Agreement was replaced by the 2016 Refinancing Credit Agreement.

Under the 2013 Refinancing Credit Agreement, the Company could have elected a Base Rate of interest for U.S. Dollar denominated loans or, for certain currencies, an interest rate based on the LIBOR of interest, or other rates appropriate for such currencies (in any case, “the Alternate Rate”). The Base Rate adjusted on a daily basis and was the greater of the Federal Funds Effective Rate plus 0.5% per annum, the PNC, N.A. prime rate or the Daily LIBOR Rate

plus 100 basis points, plus a margin that ranged from 0 to 75 basis points. The Alternate Rate was based on the quoted rates specific to the applicable currency, plus a margin that ranged from 75 to 175 basis points. Both the Base Rate and Alternate Rate margins were dependent on the Company's consolidated total indebtedness to cash flow ratios.

4.375% Senior Notes Due August 2023

In August 2013, the Company issued $250.0 million of Senior Notes due in 2023 (the “2013 Notes”). The 2013 Notes were issued at 99.879% of face value. Interest on the 2013 Notes accrues at a rate of 4.375% per annum and is payable semi-annually on February 15 and August 15 of each year. The proceeds were used to repay debt outstanding under the Company’s existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity. The Company incurred $2.6 million of deferred financing costs related to the issuance of the 2013 Notes.

The 2013 Notes are senior unsecured obligations of the Company and rank pari passu with all existing and future senior debt and senior to all existing and future subordinated indebtedness of the Company. The indenture under which the 2013 Notes were issued contains covenants and restrictions which limit among other things, the following: the incurrence of indebtedness, payment of dividends and certain distributions, sale of assets, change in control, mergers and consolidations and the incurrence of liens.

The Company is in compliance with the restrictions and covenants in the indenture under which the 2013 Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities.

8. EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

The Company sponsors defined benefit pension plans that cover certain U.S., Canadian, German and United Kingdom employees and which provide benefits of stated amounts for each year of service of the employee.

The Company uses a December 31 measurement date for the plans.

The following tables provide information regarding the Company’s defined benefit pension plans summarized by U.S. and international components.

	U.S.		International	
	Three Months Ended September 30,		Three Months Ended September 30,	
In thousands, except percentages	2016	2015	2016	2015
Net periodic benefit cost				
Service cost	$84	$95	$258	$506
Interest cost	369	479	1,257	1,801
Expected return on plan assets	(519)	(542)	(2,437)	(2,434)
Net amortization/deferrals	229	266	397	655
Net periodic benefit (credit) cost	$163	$298	$(525)	$528
Assumptions				
Discount Rate	4.21%	3.95%	3.56%	3.48%
Expected long-term rate of return	5.70%	5.70%	5.81%	5.79%
Rate of compensation increase	3.00%	3.00%	3.10%	3.10%

	U.S.		International	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
In thousands, except percentages	2016	2015	2016	2015
Net periodic benefit cost				
Service cost	$252	$285	$986	$1,518
Interest cost	1,107	1,437	4,193	5,391
Expected return on plan assets	(1,557)	(1,626)	(7,723)	(7,284)

Net amortization/deferrals	687	798	1,452	1,962
Curtailment loss recognized	—	—	240	—
Net periodic benefit (credit) cost	$489	$894	$(852)	$1,587

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Assumptions				
Discount Rate	4.21 %	3.95 %	3.56 %	3.48 %
Expected long-term rate of return	5.70 %	5.70 %	5.81 %	5.79 %
Rate of compensation increase	3.00 %	3.00 %	3.10 %	3.10 %

The Company's funding methods are based on governmental requirements and differ from those methods used to recognize pension expense. The Company expects to contribute $6.6 million to the international plans and does not expect to make a contribution to the U.S. plans during 2016.

Post Retirement Benefit Plans

In addition to providing pension benefits, the Company has provided certain unfunded postretirement health care and life insurance benefits for a portion of North American employees. The Company is not obligated to pay health care and life insurance benefits to individuals who had retired prior to 1990.

The Company uses a December 31 measurement date for all post retirement plans.

The following tables provide information regarding the Company's postretirement benefit plans summarized by U.S. and international components.

	U.S. Three Months Ended September 30,		International Three Months Ended September 30,	
In thousands, except percentages	2016	2015	2016	2015
Net periodic benefit cost				
Service cost	$ 1	$ 2	$ 7	$ 11
Interest cost	97	308	25	35
Net amortization/deferrals	(105)	(234)	(9)	(10)
Net periodic (credit) benefit cost	$ (7)	$ 76	$ 23	$ 36
Assumptions				
Discount Rate	3.95 %	3.95 %	3.90 %	3.96 %

	U.S. Nine Months Ended September 30,		International Nine Months Ended September 30,	
In thousands, except percentages	2016	2015	2016	2015
Net periodic benefit cost				
Service cost	$ 3	$ 6	$ 21	$ 33
Interest cost	291	924	75	105
Net amortization/deferrals	(315)	(702)	(27)	(29)
Net periodic (credit) benefit cost	$ (21)	$ 228	$ 69	$ 109
Assumptions				
Discount Rate	3.95 %	3.95 %	3.90 %	3.96 %

At December 31, 2015, the Company changed the method it uses to estimate the service and interest cost components of net periodic benefit cost for pension and other postretirement benefit costs for all of its U.S. and International plans. Historically, the service and interest cost components were estimated using a single weighted-average discount rate derived from the yield curve used to measure the projected benefit obligation at the beginning of the period. The

Company has elected to utilize an approach that discounts the individual expected cash flows underlying the service and interest cost using the applicable spot rates derived from the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. The Company made this change to improve the correlation between projected benefit cash flows and the

corresponding yield curve spot rates and to provide a more precise measurement of service and interest costs. The Company estimates the service and interest cost of the pension and OPEB plans will be reduced by approximately $1.6 million in 2016 as a result of this change. The Company has accounted for this change as a change in accounting estimate that is inseparable from a change in accounting principle and accordingly has accounted for it prospectively.

9. STOCK-BASED COMPENSATION

As of September 30, 2016, the Company maintains employee stock-based compensation plans for stock options, restricted stock, and incentive stock units as governed by the 2011 Stock Incentive Compensation Plan (the "2011 Plan") and the 2000 Stock Incentive Plan, as amended (the "2000 Plan"). The 2011 Plan has a 10-year term through March 27, 2021 and provides a maximum of 3,800,000 shares for grants or awards. The 2011 Plan was approved by stockholders of Wabtec on May 11, 2011. The Company also maintains a Non-Employee Directors' Fee and Stock Option Plan ("the Directors Plan").

Stock-based compensation expense was $14.8 million and $20.1 million for the nine months ended September 30, 2016 and 2015, respectively. Included in stock-based compensation expense for the nine months ended September 30, 2016 is $1.3 million of expense related to stock options, $4.5 million related to non-vested restricted stock, $2.2 million related to restricted stock units, $5.9 million related to incentive stock units and $0.9 million related to units issued for Directors' fees. At September 30, 2016, unamortized compensation expense related to those stock options, non-vested restricted shares units and incentive stock units expected to vest totaled $25.8 million and will be recognized over a weighted average period of 1.4 years.

Stock Options Stock options are granted to eligible employees and directors at the fair market value, which is the average of the high and low Wabtec stock price on the date of grant. Under the 2011 Plan and the 2000 Plan, options become exercisable over a four-year vesting period and expire 10 years from the date of grant.

The following table summarizes the Company's stock option activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan for the nine months ended September 30, 2016:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic value (in thousands)
Outstanding at December 31, 2015	1,097,323	$ 32.70	4.8	$ 42,154
Granted	94,115	61.39		1,906
Exercised	(72,746)	26.57		4,007
Canceled	(8,825)	71.47		90
Outstanding at September 30, 2016	1,109,867	35.23	4.5	51,518
Exercisable at September 30, 2016	896,486	27.22	3.7	48,799

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2016	2015
Dividend yield	0.26%	0.14%
Risk-free interest rate	1.47%	1.82%
Stock price volatility	26.9%	27.3%
Expected life (years)	5.0	5.0

The dividend yield is based on the Company's dividend rate and the current market price of the underlying common stock at the date of grant. Expected life in years is determined from historical stock option exercise data. Expected volatility is based on the historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury bond rates for the expected life of the option.

Restricted Stock, Restricted Units and Incentive Stock Beginning in 2006, the Company adopted a restricted stock program. As provided for under the 2011 and 2000 Plans, eligible employees are granted restricted stock that generally vests over four years from the date of grant. Under the Directors Plan, restricted stock units vest one year from the date of grant.

In addition, the Company has issued incentive stock units to eligible employees that vest upon attainment of certain cumulative three year performance goals. Based on the Company's performance for each three-year period then ended, the incentive stock units can vest and be awarded ranging from 0% to 200% of the initial incentive stock units granted. The incentive stock units included in the table below represent the number of shares that are expected to vest based on the Company's estimate for meeting those established performance targets. As of September 30, 2016, the Company estimates that it will achieve 119%, 92% and 92% for the incentive stock awards expected to vest based on performance for the three-year periods ending December 31, 2016, 2017, and 2018, respectively, and has recorded incentive compensation expense accordingly. If our estimate of the number of these stock units expected to vest changes in a future accounting period, cumulative compensation expense could increase or decrease and will be recognized in the current period for the elapsed portion of the vesting period and would change future expense for the remaining vesting period.

Compensation expense for the non-vested restricted stock and incentive stock units is based on the average of the high and low Wabtec stock price on the date of grant and recognized over the applicable vesting period.

The following table summarizes the restricted stock activity and related information for the 2011 Plan, the 2000 Plan and the Directors Plan, and incentive stock units activity for the 2011 Plan and the 2000 Plan with related information for the nine months ended September 30, 2016:

	Restricted Stock and Units	Incentive Stock 2010		
	(Dollars in thousands, except per share data)			
Net sales	$ 1,148,008	$1,098,794	$2,718,839	$2,593,033
Net income	$ 78,966	$72,341	$160,591	$135,901
Earnings per share:				
Basic net income per share	$ 1.13	$0.94	$2.29	$1.77
Diluted net income per share	$ 1.12	$0.93	$2.28	$1.76

DGS

On March 1, 2011, we acquired the twist-off metal closure business of DGS S.A. in Poland, or DGS. The purchase price of $20.7 million, net of cash acquired, was primarily funded with foreign bank revolving loan borrowings. We applied the acquisition method of accounting and recognized assets acquired and liabilities assumed at fair value as of the acquisition date. We recognized goodwill of $8.1 million and a customer relationship intangible asset of $2.9 million. DGS's results of operations were included in our closures business since the acquisition date and were not significant since such date.

SILGAN HOLDINGS INC.
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Note 3. 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, 2010 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, 2010	$11,056	$ -	$217	$ -	$11,273
Activity for the Nine Months Ended September 30, 2011					
Prior Years' Rationalization Plan Reserves Established	2,903	(449)	776	1,552	4,782
Prior Years' Rationalization Plan Reserves Utilized	(10,166)	449	(659)	(1,552)	(11,928)
Currency Translation	608	-	-	-	608
Total Activity	(6,655)	-	117	-	(6,538)
Balance at September 30, 2011	$4,401	$ -	$334	$ -	$4,735

In the third quarter of 2011, we recognized a curtailment gain for our pension benefits related to our 2010 plan to reduce costs in our closures manufacturing facility in Germany.

Rationalization reserves as of September 30, 2011 and December 31, 2010 are included in the Condensed Consolidated Balance Sheets as accrued liabilities.

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Note 4. Accumulated Other Comprehensive (Loss) Income

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

	Sept. 30, 2011	Sept. 30, 2010	Dec. 31, 2010
	(Dollars in thousands)		
Foreign currency translation	$4,903	$19,763	$17,276
Change in fair value of derivatives	(6,757)	(8,951)	(6,695)
Unrecognized net periodic pension and other postretirement benefit costs:			
Net prior service credit	6,156	6,573	6,391
Net actuarial loss	(76,182)	(72,641)	(79,998)
Accumulated other comprehensive loss	$(71,880)	$(55,256)	$(63,026)

Note 5. Inventories

Inventories consisted of the following:

	Sept. 30, 2011	Sept. 30, 2010	Dec. 31, 2010
	(Dollars in thousands)		
Raw materials	$174,895	$108,355	$133,594
Work-in-process	114,306	84,068	83,375
Finished goods	346,594	301,051	276,578
Other	13,579	13,071	13,938
	649,374	506,545	507,485
Adjustment to value inventory at cost on the LIFO method	(68,949)	(78,904)	(68,949)
	$580,425	$427,641	$438,536

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Note 6. Long-Term Debt

Long-term debt consisted of the following:

	Sept. 30, 2011	Sept. 30, 2010	Dec. 31, 2010
	(Dollars in thousands)		
Bank debt			
Bank revolving loans	$15,000	$-	$ -
U.S. term loans	520,000	400,000	400,000
Canadian term loans	79,194	78,505	81,000
Euro term loans	456,035	169,625	165,313
Other foreign bank revolving and term loans	115,696	13,158	13,949
Total bank debt	1,185,925	661,288	660,262
7¼% Senior Notes, net of unamortized discount	245,025	244,216	244,412
6¾% Senior Subordinated Notes	-	200,000	-
Total debt	1,430,950	1,105,504	904,674
Less current portion	118,155	213,158	13,949
	$1,312,795	$892,346	$890,725

At September 30, 2011, amounts expected to be repaid within one year consisted of $15.0 million of bank revolving loans under our Credit Agreement and $103.2 million of foreign bank revolving term loans.

Bank Credit Agreement

On July 28, 2011, we completed the refinancing of our previous senior secured credit facility by entering into a new $1.9 billion senior secured credit facility, or the Credit Agreement. Our Credit Agreement provides us with term loans and revolving loans. The term loans, or the Term Loans, provided under the Credit Agreement refinanced the term loans under our previous senior secured credit facility and certain Euro revolving loan borrowings used to finance the Vogel & Noot acquisition in March 2011 and certain U.S. dollar revolving loan borrowings under our previous senior secured credit facility. The Term Loans consist of $520 million of U.S. term loans, €335 million of Euro term loans and Cdn $81 million of Canadian term loans. The revolving loans, or the Revolving Loans, consist of a $790 million multicurrency revolving loan facility and a Cdn $10 million Canadian revolving loan facility. Our Credit Agreement also provides us with an uncommitted multicurrency incremental loan facility for up to an additional U.S. $750 million, which may be used to finance acquisitions and for other permitted purposes.

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Note 6. Long-Term Debt (continued)

Bank Credit Agreement (continued)

We may use Revolving Loans under the Credit Agreement for working capital and other general corporate purposes, including acquisitions, dividends, stock repurchases and refinancing of other debt. Revolving Loans may be borrowed, repaid and reborrowed until their final maturity on July 28, 2016. The Term Loans mature on July 28, 2017 and are payable in installments as follows (amounts in thousands):

Year	U.S. Term Loans	Euro Term Loans	Canadian Term Loans
2013	$78,000	€50,250	Cdn $12,150
2014	$78,000	€50,250	Cdn $12,150
2015	$104,000	€67,000	Cdn $16,200
2016	$104,000	€67,000	Cdn $16,200
2017	$156,000	€100,500	Cdn $24,300

The final maturity date for the Revolving Loans and Term Loans will be July 7, 2016 if our 7¼% Senior Notes have not been refinanced in full on or before July 7, 2016.

The Credit Agreement requires us to prepay the Term Loans with proceeds received from certain assets sales and, under certain circumstances, with 50 percent of our excess cash flow. The mandatory repayment provisions are no more restrictive in the aggregate than under our previous senior secured credit facility. Generally, mandatory repayments of Term Loans are allocated pro rata to each of the 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. Amounts repaid under the Term Loans may not be reborrowed.

The uncommitted multicurrency incremental 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 Term Loans; and be used for working capital and general corporate purposes, including to finance acquisitions, to refinance any indebtedness assumed as part of such acquisitions, to pay dividends, to repurchase common stock, to refinance or repurchase debt as permitted and to repay outstanding Revolving Loans.

Under the Credit Agreement, the interest rate for U.S. term loans will be either LIBOR or the base rate under the Credit Agreement plus a margin, the interest rate for Euro term loans will be the Euribor rate under the Credit Agreement plus a margin and the interest rate for Canadian term loans will be either the Bankers' Acceptance discount rate or the Canadian prime rate under the Credit Agreement plus a margin. Initially, for Term Loans and Revolving Loans maintained as LIBOR, Euribor or Bankers' Acceptance loans the margin was 1.75 percent, and for Term Loans and Revolving Loans maintained as base rate or Canadian prime rate loans the margin was 0.75 percent. The Credit

Agreement provides for the payment of a commitment fee ranging from 0.25 percent to 0.375 percent per annum on the daily average unused portion of commitments available under the Revolving Loans. Initially, the commitment fee was 0.375 percent per annum. The margins for Term Loans and Revolving Loans and the commitment fee are subject to adjustment quarterly based upon our Total Leverage Ratio as provided in the Credit Agreement.

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Note 6. Long-Term Debt (continued)

Bank Credit Agreement (continued)

We may utilize up to a maximum of $200 million of our multicurrency 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 under such multicurrency revolving loan facility do not exceed the amount of the commitment under such multicurrency 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 the greater of (x) $500 per annum and (y) 0.25 percent per annum, calculated on the aggregate stated amount of all letters of credit for their stated duration.

The indebtedness under the Credit Agreement is guaranteed by Silgan and certain of its U.S. and Canadian subsidiaries. The stock of certain of our 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, subject to certain exceptions, among other things, our ability to incur additional indebtedness; create liens; consolidate, merge or sell assets; make certain advances, investments or loans; enter into certain transactions with affiliates; engage in any business other than the packaging business; pay dividends; and repurchase 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.

All amounts owed under our previous senior secured credit facility were repaid on July 28, 2011 with proceeds from the Credit Agreement. As a result of this refinancing, we recorded a pre-tax charge of $1.0 million for the loss on early extinguishment of debt during the quarter ending September 30, 2011.

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Note 7. 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, 2011:

	Carrying Amount	Fair Value
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$ 140,465	$ 140,465
Liabilities:		
Bank debt	1,185,925	1,185,925
7¼% Senior Notes	245,025	263,750
Interest rate swap agreements	11,593	11,593
Natural gas swap agreements	328	328

Fair Value Measurements

Financial Instruments Measured at Fair Value

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.

The financial assets and liabilities that are measured on a recurring basis at September 30, 2011 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 these agreements reflects the estimated amounts that we would pay 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.

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Note 7. Financial Instruments (continued)

Financial Instruments Not Measured at Fair Value

Our bank debt and 7¼% Senior Notes are recorded at historical amounts in our Condensed Consolidated Balance Sheets as we have not elected to record them at fair value. The carrying amounts of our variable rate bank debt approximate their fair values. Fair values of our 7¼% Senior Notes are estimated based on quoted market prices.

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.

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 2011, our hedges were fully effective. The fair value of our outstanding swap agreements in effect at September 30, 2011 was recorded in our Condensed Consolidated Balance Sheet as a liability of $11.9 million, of which $4.3 million was included in accrued liabilities and $7.6 million was included in other liabilities.

The amount reclassified to earnings from the change in fair value of derivatives component of accumulated other comprehensive (loss) income for the nine months ended September 30, 2011 was a loss of $2.3 million, net of income taxes. We estimate that we will reclassify losses of $2.3 million, net of income taxes, from the change in fair value of derivatives component of accumulated other comprehensive (loss) income 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.

SILGAN HOLDINGS INC.
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Note 7. Financial Instruments (continued)

Interest Rate Swap Agreements

We have entered into Euro interest rate swap agreements to manage a portion of our exposure to interest rate fluctuations. At September 30, 2011, the aggregate notional principal amount of our outstanding interest rate swap agreements was €125.0 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 nine months ended September 30, 2011, net payments under our interest rate swap agreements were $3.7 million. These agreements are with a financial institution which is 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, 2011, the aggregate notional principal amount of our natural gas swap agreements was 653,000 MMBtu of natural gas with fixed prices ranging from $4.210 to $4.985 per MMBtu, which hedges approximately 20 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 nine months ended September 30, 2011, net payments under our natural gas swap agreements were $0.3 million. 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 term and revolving loans 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 Euro denominated borrowings totaling €320.0 million as net investment hedges. Foreign currency losses related to our net investment hedges included in accumulated other comprehensive (loss) income for the nine months ended September 30, 2011 were $5.9 million, net of a deferred tax benefit of $2.4 million.

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(Information at September 30, 2011 and 2010 and for the
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Note 8. Retirement Benefits

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
	(Dollars in thousands)			
Service cost	$ 2,925	$3,293	$10,435	$10,078
Interest cost	7,162	7,151	21,477	21,171
Expected return on plan assets	(10,213)	(9,375)	(30,613)	(26,168)
Amortization of prior service cost	512	516	1,533	1,549
Amortization of actuarial losses	2,105	2,100	6,090	6,299
Curtailment gain	(449)	-	(449)	-
Net periodic benefit cost	$ 2,042	$3,685	$8,473	$12,929

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
	(Dollars in thousands)			
Service cost	$129	$225	$647	$ 691
Interest cost	514	685	1,829	2,088
Amortization of prior service credit	(650)	(643)	(1,935)	(1,926)
Amortization of actuarial losses	(191)	72	93	215
Net periodic benefit (credit) cost	$(198)	$339	$634	$1,068

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, 2010, there are no significant minimum required contributions to our pension plans in 2011.

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 commenced an examination of Silgan's income tax return for the periods ended December 31, 2004 through December 31, 2007. It is reasonably possible that this IRS audit and IRS audits for prior periods will be concluded within the next twelve months, and that the conclusion of these audits may result in a significant change to our reported unrecognized tax benefits. Due to the ongoing nature of these audits, we are unable to estimate the amount of this potential impact.

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Note 10. Dividends

In each of March, June and September of 2011, we paid a quarterly cash dividend on our common stock of $0.11 per share, as approved by our Board of Directors. The aggregate cash payments related to these dividends totaled $23.4 million.

On November 4, 2011, our Board of Directors declared a quarterly cash dividend on our common stock of $0.11 per share, payable on December 15, 2011 to holders of record of our common stock on December 1, 2011. The cash payment related to this dividend is expected to be $7.8 million.

Note 11. Treasury Stock

On August 5, 2011, our Board of Directors authorized the repurchase of up to $300 million of our common stock, inclusive of prior authorizations, from time to time through and including December 31, 2014. Pursuant to this authorization, we repurchased 441,416 shares of our common stock at an average price per share of $35.79, for a total purchase price of $15.8 million, during the quarter ended September 30, 2011.

During the first nine months of 2011, we issued 370,071 treasury shares which had an average cost of $6.63 per share for restricted stock units that vested during the period. In accordance with the Silgan Holdings Inc. 2004 Stock Incentive Plan, we repurchased 140,233 shares of our common stock at an average cost of $36.57 to satisfy minimum 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, 2011, 17,638,060 shares were held in treasury.

Note 12. 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 2011, 37,900 restricted stock units were granted to certain of our officers and key employees. The fair value of these restricted stock units at the grant date was $1.4 million, which is being amortized ratably over the five-year vesting period from the grant date. In addition, in the first quarter of 2011, a performance award for 120,000 restricted stock units was granted to one of our officers, which award is subject to forfeiture unless certain performance criteria for the year ended December 31, 2011 is achieved. These restricted stock units vest at the conclusion of the three-year period from the grant date. The fair value of these restricted stock units at the grant date was $4.4 million, which is being amortized ratably over the three-year vesting period from the grant date.

In June 2011, we granted 6,738 restricted stock units to non-employee members of our Board of Directors, which vest in full one year from the date of grant. The fair value of these restricted stock units at the date of grant was $0.3 million.

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Note 13. Business Segment Information

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

	Metal Containers(1)	Closures	Plastic Containers	Corporate	Total
			(Dollars in thousands)		
Three Months Ended September 30, 2011					
Net sales	$798,663	$189,554	$159,791	$ -	$1,148,008
Depreciation and amortization(2)	20,498	8,353	11,269	417	40,537
Rationalization charges	-	339	343	-	682
Segment income from operations	111,745	24,369	3,802	(3,865)	136,051
Three Months Ended September 30, 2010					
Net sales	$688,901	$162,769	$150,386	$ -	$1,002,056
Depreciation and amortization(2)	16,697	7,055	11,408	420	35,580
Rationalization charges	381	-	590	-	971
Segment income from operations(3)	95,274	22,028	8,206	(4,554)	120,954
Nine Months Ended September 30, 2011					
Net sales	$1,671,404	$534,133	$467,781	$-	$2,673,318
Depreciation and amortization(2)	58,481	25,074	33,576	1,264	118,395
Rationalization charges	1,378	1,731	1,673	-	4,782
Segment income from operations(4) (5)	192,984	62,866	14,629	13,677	284,156
Nine Months Ended September 30, 2010					
Net sales	$1,442,015	$472,588	$445,337	$-	$2,359,940
Depreciation and amortization(2)	50,299	21,114	34,146	1,259	106,818
Rationalization charges	694	-	3,039	-	3,733
Segment income from operations(3) (6)	185,698	57,078	15,080	(13,138)	244,718

(1) Our metal containers segment includes the operations formerly categorized as metal food containers and the VN operations acquired in March 2011.
(2) Depreciation and amortization excludes amortization of debt discount and issuance costs of $0.9 million and $0.8 million for the three months ended September 30, 2011 and 2010, respectively, and $2.5 million and $2.1 million for the nine months ended September 30, 2011 and 2010, respectively.
(3) Income from operations for corporate includes costs attributable to announced acquisitions of $0.5 million for the three and nine months ended September 30, 2010.
(4)

Income from operations for corporate includes income of $25.2 million for proceeds received as a result of the termination of the Graham Packaging merger agreement, net of costs associated with certain corporate development activities.

(5) Income from operations of the metal containers segment includes a charge for the resolution of a past product liability dispute of $3.3 million.

(6) Income from operations for the closures segment includes a charge of $3.2 million for the remeasurement of net assets in the Venezuela operations to the devalued official Bolivar exchange rate.

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Note 13. Business Segment Information (continued)

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

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
	(Dollars in thousands)			
Total segment income from operations	$136,051	$120,954	$284,156	$244,718
Interest and other debt expense	17,268	20,477	47,654	44,983
Income before income taxes	$118,783	$100,477	$236,502	$199,735

Sales and income from operations of our metal container business are dependent, in part, upon the vegetable and fruit harvests in the midwest and western regions of the United States and, to a lesser degree, various geographies in Central and Eastern Europe. Our closures business is also dependent, in part, upon vegetable and fruit harvests. The size and quality of these harvests varies from year to year, depending in large part upon the weather conditions in applicable regions. Because of the seasonality of the harvests, we have historically experienced higher unit sales volume in the third quarter of our fiscal year and generated a disproportionate amount of our annual income from operations during that quarter.

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, 2010 and in 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 supplier of rigid packaging for consumer goods products. We currently produce steel and aluminum containers for human and pet food and general line products; metal, composite and plastic vacuum closures for food and beverage products and plastic closures for the dairy and juice markets; 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 a leading manufacturer of metal containers in North America and Europe, a leading worldwide manufacturer of metal, composite and plastic vacuum closures for food and beverage products and 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 food markets.

Our objective is to increase shareholder value by efficiently deploying capital and management resources to grow our business, reduce operating costs and 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. If acquisition opportunities are not identified over a longer period of time, we may use our cash flow to repay debt, repurchase shares of our common stock or increase dividends to our stockholders or for other permitted purposes.

On March 1, 2011, we acquired the metal container operations of Vogel & Noot which is headquartered in Vienna, Austria. VN manufactures metal food and general line containers, with manufacturing facilities in Central and Eastern Europe and several new facilities in other developing Eastern countries scheduled to be opened in the near term. We acquired these operations for a total purchase price of €212.4 million ($292.7 million translated at the U.S. dollar exchange rate at the date of acquisition), net of cash acquired.

In June 2011, Graham Packaging terminated our definitive merger agreement and paid us a termination fee of $39.5 million in accordance with the terms of such merger agreement. The proceeds from the termination fee and costs associated with corporate development activities have been recorded in selling, general and administrative expenses in the Condensed Consolidated Statement of Income for the nine months ended September 30, 2011.

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 Months Ended			
	Sept. 30, 2011		Sept. 30, 2010		Sept. 30, 2011		Sept. 30, 2010	
Net sales								
Metal containers(1)	69.6	%	68.8	%	62.5	%	61.1	%
Closures	16.5		16.2		20.0		20.0	
Plastic containers	13.9		15.0		17.5		18.9	
Consolidated	100.0		100.0		100.0		100.0	
Cost of goods sold	84.0		83.8		85.0		84.1	
Gross profit	16.0		16.2		15.0		15.9	
Selling, general and administrative expenses	4.0		4.0		4.2		5.3	
Rationalization charges	0.1		0.1		0.2		0.2	
Income from operations	11.9		12.1		10.6		10.4	
Interest and other debt expense	1.5		2.1		1.8		2.0	
Income before income taxes	10.4		10.0		8.8		8.4	
Provision for income taxes	3.5		3.5		3.0		3.0	
Net income	6.9	%	6.5	%	5.8	%	5.4	%

(1) Our metal containers segment includes the operations formerly categorized as metal food containers and the VN operations acquired in March 2011.

Summary unaudited results of operations for the three and nine months ended September 30, 2011 and 2010 are provided below.

	Three Months Ended		Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
	(Dollars in millions)			
Net sales				
Metal containers(1)	$798.7	$688.9	$1,671.4	$1,442.0
Closures	189.5	162.8	534.1	472.6
Plastic containers	159.8	150.4	467.8	445.3
Consolidated	$1,148.0	$1,002.1	$2,673.3	$2,359.9
Income from operations				
Metal containers (1) (2)	$111.7	$95.3	$193.0	$185.7
Closures (3)	24.4	22.0	62.9	57.1
Plastic containers (4)	3.8	8.2	14.6	15.1
Corporate(5)	(3.8)	(4.5)	13.7	(13.2)
Consolidated	$136.1	$121.0	$284.2	$244.7

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(1) Our metal containers segment includes the operations formerly categorized as metal food containers and the VN operations acquired in March 2011.

(2) Includes rationalization charges of $0.4 million for the three months ended September 30, 2010, and $1.4 million and $0.7 million for the nine months ended September 30, 2011 and September 30, 2010, respectively, and a charge for the resolution of a past product liability dispute of $3.3 million for the nine months ended September 30, 2011.

(3) Includes rationalization charges of $0.3 million and $1.7 million for the three and nine months ended September 30, 2011, respectively, and a charge of $3.2 million for the remeasurement of net assets in the Venezuela operations for the nine months ended September 30, 2010.

(4) Includes rationalization charges of $0.3 million and $0.6 million for the three months ended September 30, 2011 and 2010, respectively, and $1.7 million and $3.0 million for the nine months ended September 30, 2011 and 2010, respectively.

(5) Includes income of $25.2 million for the nine months ended September 30, 2011 for proceeds received as a result of the termination of the Graham Packaging merger agreement, net of costs associated with certain corporate development activities. Includes costs attributable to announced acquisitions of $0.5 million for the three and nine months ended September 30, 2010.

Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010

Overview. Consolidated net sales were $1,148.0 million in the third quarter of 2011, representing a 14.6 percent increase as compared to the third quarter of 2010 primarily as a result of higher net sales across all businesses principally due to the inclusion of the VN, IPEC Global Inc., or IPEC, and DGS acquired operations, higher average selling prices largely attributable to the pass through of higher raw material costs and the impact of favorable foreign currency translation, partially offset by lower unit volumes across all businesses, excluding the impact from acquisitions, and a less favorable mix of products sold in the plastic container business. Income from operations for the third quarter of 2011 of $136.1 million increased by $15.1 million, or 12.5 percent, as compared to the same period in 2010 primarily due to the inclusion of VN, IPEC and DGS, the favorable year-over-year comparison resulting from the timing of certain contractual pass throughs of changes in manufacturing costs in the metal container business, ongoing cost control and improved manufacturing efficiencies and lower rationalization charges, partially offset by lower unit volumes across all businesses, excluding the impact from acquisitions and a less favorable mix of products sold in the plastic container business. Results for 2011 included a loss on early extinguishment of debt of $1.0 million and rationalization charges of $0.6 million. Results for 2010 included a loss on early extinguishment of debt of $4.5 million and rationalization charges of $1.0 million. Net income for the third quarter of 2011 was $78.8 million, or $1.12 per diluted share, as compared to $65.2 million, or $0.84 per diluted share, for the same period in 2010.

Net Sales. The $145.9 million increase in consolidated net sales in the third quarter of 2011 as compared to the third quarter of 2010 was the result of higher net sales across all businesses.

Net sales for the metal container business increased $109.8 million, or 15.9 percent, in the third quarter of 2011 as compared to the same period in 2010. This increase was primarily due to the inclusion of net sales from VN, which had net sales of $103.2 million in the third quarter of 2011, and higher average selling prices as a result of the pass through of higher raw material and other manufacturing costs, partially offset by lower unit volumes in the U.S. as a result of a weaker fruit and vegetable pack in 2011 as compared to 2010 and inventory reductions by certain customers.

Net sales for the closures business increased $26.7 million, or 16.4 percent, in the third quarter of 2011 as compared to the same period in 2010. This increase was primarily the result of higher unit volumes due to the inclusion of net sales from IPEC and DGS, which had aggregate net sales of $11.6 million in the third quarter of 2011, the impact of favorable foreign currency translation of approximately $7.4 million and higher average selling prices due to the pass through of higher raw material costs, partially offset by lower unit volumes in the single-serve beverage market.

Net sales for the plastic container business in the third quarter of 2011 increased $9.4 million, or 6.3 percent, as compared to the same period in 2010. This increase was principally due to higher average selling prices as a result of the pass through of higher resin costs and the impact of favorable foreign currency translation of approximately $1.9 million, partially offset by a decrease in unit volumes and a less favorable mix of products sold.

Gross Profit. Gross profit margin decreased 0.2 percentage points to 16.0 percent in the third quarter of 2011 as compared to the same period in 2010 for the reasons discussed below in “Income from Operations.”

Selling, General and Administrative Expenses. Selling, general and administrative expenses as a percentage of consolidated net sales remained flat at 4.0 percent for the third quarter of 2011 as compared to the same period in 2010. Selling, general and administrative expenses increased $5.9 million to $46.3 million in the third quarter of 2011 as compared to $40.4 million for the same period last year. This increase was primarily due to our recent acquisitions.

Income from Operations. Income from operations for the third quarter of 2011 increased by $15.1 million as compared to the third quarter of 2010, while operating margin decreased to 11.9 percent from 12.1 percent over the same periods.

Income from operations of the metal container business for the third quarter of 2011 increased $16.4 million, or 17.2 percent, as compared to the same period in 2010, and operating margin increased to 14.0 percent from 13.8 percent over the same periods. These increases were primarily the result of the inclusion of VN, the favorable year-over-year comparison resulting from the timing of certain contractual pass throughs of changes in manufacturing costs, ongoing cost control and improved manufacturing efficiencies and a decrease in rationalization charges, partially offset by lower unit volumes in the U.S. Rationalization charges of $0.4 million were recognized in the third quarter of 2010.

Income from operations of the closures business for the third quarter of 2011 increased $2.4 million, or 10.9 percent, as compared to the same period in 2010, while operating margin decreased to 12.9 percent from 13.5 percent over the same periods. The increase in income from operations was primarily attributable to the inclusion of IPEC and DGS, the benefits of our prior year restructuring in Germany and improved manufacturing efficiencies, partially offset by the negative impact of the lagged pass through of significant increases in polypropylene resin costs, lower unit volumes in the single-serve beverage market and an increase in rationalization charges in the third quarter of 2011. Rationalization charges of $0.3 million were recognized in the third quarter of 2011.

Income from operations of the plastic container business for the third quarter of 2011 decreased $4.4 million, or 53.7 percent, as compared to the same period in 2010, and operating margin decreased to 2.4 percent from 5.5 percent over the same periods. These decreases were primarily attributable to a decrease in unit volumes and a less favorable mix of products sold, partially offset by lower rationalization charges. Rationalization charges of $0.3 million and $0.6 million were recognized in the third quarters of 2011 and 2010, respectively.

Interest and Other Debt Expense. Interest and other debt expense for the third quarter of 2011 increased $0.3 million to $16.3 million as compared to the same period in 2010. Loss on early extinguishment of debt of $1.0 million and $4.5 million in the third quarter of 2011 and 2010, respectively, was the result of the refinancing of the senior secured credit facility in each of those periods.

Provision for Income Taxes. The effective tax rate for the third quarter of 2011 was 33.7 percent as compared to 35.1 percent in the same period of 2010. The decrease was primarily attributable to the reassessment of tax positions that arose in prior years and more foreign sourced income due to VN for which the effective tax rate is lower than domestic sourced income.

Nine Months Ended September 30, 2011 Compared with Nine Months Ended September 30, 2010

Overview. Consolidated net sales were $2.67 billion in the first nine months of 2011, representing a 13.3 percent increase as compared to the first nine months of 2010 primarily due to the inclusion of sales from the VN, IPEC and DGS operations, higher average selling prices in each of the businesses due to the pass through of higher raw material and other manufacturing costs and the impact of favorable foreign currency translation, partially offset by lower unit volumes in each of our businesses, excluding the impact from acquisitions, and a less favorable mix of products sold in the plastic container business. Income from operations for the first nine months of 2011 increased by $39.5 million, or 16.1 percent, as compared to the same period in 2010 primarily as a result of income of $25.2 million from proceeds received as a result of the termination of the Graham Packaging merger agreement, net of costs attributable to certain corporate development activities. This increase was also attributable to the inclusion of the VN, IPEC and DGS operations, improved manufacturing efficiencies and ongoing cost controls, the favorable year-over-year comparison resulting from the timing of certain contractual pass throughs of changes in manufacturing costs in the metal container business and a $3.2 million charge recognized in 2010 for the remeasurement of net assets in the Venezuela operations. These increases were partially offset by lower unit volumes in each of our businesses, excluding the impact of acquisitions, a less favorable mix of products sold in the plastic container business, a $3.3 million charge for the resolution of a past product liability dispute in the metal container business and higher rationalization charges in 2011. Results for the first nine months of 2011 and 2010 included rationalization charges of $4.8 million and $3.7 million, respectively, and a loss on early extinguishment of debt of $1.0 million and $4.5 million, respectively. Net income for the first nine months of 2011 was $156.1 million, or $2.22 per diluted share, as compared to $128.3 million, or $1.66 per diluted share, for the same period in 2010.

Net Sales. The $313.4 million increase in consolidated net sales in the first nine months of 2011 as compared to the first nine months of 2010 was due to higher net sales across all businesses.

Net sales for the metal container business increased $229.4 million, or 15.9 percent, in the first nine months of 2011 as compared to the same period in 2010. This increase was primarily attributable to the inclusion of net sales of $203.7 million from VN and higher average selling prices as a result of the pass through of higher raw material costs, partially offset by lower unit volumes in the U.S. as a result of a weaker fruit and vegetable pack in 2011, inventory reductions by certain customers and the impact of the customer buy-ahead at the end of 2010.

Net sales for the closures business in the first nine months of 2011 increased $61.5 million, or 13.0 percent, as compared to the same period in 2010. This increase was primarily the result of the inclusion of net sales of $33.8 million in the aggregate from IPEC and DGS, higher average selling prices as a result of the pass through of higher raw material costs and the impact of favorable foreign currency translation of approximately $16.5 million, partially offset by lower unit volumes in the single-serve beverage market.

Net sales for the plastic container business in the first nine months of 2011 increased $22.5 million, or 5.1 percent, as compared to the same period in 2010. This increase was primarily the result of the impact of higher average selling prices as a result of the pass through of higher raw material costs and favorable foreign currency translation of approximately $5.6 million, partially offset by a decrease in unit volumes and a less favorable mix of products sold.

Gross Profit. Gross Profit margin decreased 0.9 percentage points to 15.0 percent for the first nine months of 2011 as compared to the same period in 2010 for the reasons discussed below in “Income from Operations.”

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $13.1 million to $112.8 million for the nine months ended September 30, 2011 as compared to $125.9 million for the same period in 2010. Selling, general and administrative expenses as a percentage of consolidated net sales decreased to 4.2 percent for the first nine months of 2011 as compared to 5.3 percent for the same period in 2010. These decreases were primarily due to $25.2 million of income from proceeds received as a result of the termination of the Graham Packaging merger agreement, net of costs attributable to certain corporate development activities, and a $3.2 million charge recognized in 2010 for the remeasurement of net assets in the Venezuela operations, partially offset by the inclusion of selling, general and administrative expenses from recent acquisitions and a charge of $3.3 million for the resolution of a past product liability dispute.

Income from Operations. Income from operations for the first nine months of 2011 increased by $39.5 million, or 16.1 percent, as compared to the first nine months of 2010, and operating margin increased to 10.6 percent from 10.4 percent over the same periods.

Income from operations of the metal container business for the first nine months of 2011 increased $7.3 million, or 3.9 percent, as compared to the same period in 2010, while operating margin decreased to 11.5 percent from 12.9 percent over the same periods. The increase in income from operations was due to the inclusion of the VN operations, ongoing cost control and improved manufacturing efficiencies and the favorable year-over-year comparison resulting from the timing of certain contractual pass throughs of changes in manufacturing costs, partially offset by lower unit volumes in the U.S., a $3.3 million charge related to the resolution of a past product liability dispute and higher rationalization charges. Rationalization charges of $1.4 million and $0.7 million were recognized in the first nine months of 2011 and 2010, respectively. The decrease in operating margin was primarily due to the pre-tax negative impact of $5.5 million of expense related to the inventory write-up for VN as a result of purchase accounting in connection with the acquisition.

Income from operations of the closures business for the first nine months of 2011 increased $5.8 million, or 10.2 percent, as compared to the same period in 2010, while operating margin decreased to 11.8 percent from 12.1 percent over the same periods. The increase in income from operations was primarily attributable to the inclusion of IPEC and DGS, the benefits of ongoing cost reduction initiatives and improved manufacturing efficiencies and a $3.2 million charge recognized in 2010 for the remeasurement of net assets in the Venezuela operations, partially offset by the negative impact of the lagged pass through of significant increases in polypropylene resin costs and higher rationalization charges. Rationalization charges of $1.7 million were recognized in the first nine months of 2011 for a reduction in workforce at the operating facility in Germany.

Income from operations of the plastic container business for the first nine months of 2011 decreased $0.5 million, or 3.3 percent, as compared to the same period in 2010, and operating margin decreased to 3.1 percent from 3.4 percent over the same periods. These decreases were primarily attributable to lower unit volumes and a less favorable mix of products sold, partially offset by benefits from cost reduction initiatives and lower rationalization charges. Rationalization charges of $1.7 million and $3.0 million were recognized in the first nine months of 2011 and 2010, respectively.

Interest and Other Debt Expense. Interest and other debt expense before loss on early extinguishment of debt for the first nine months of 2011 increased $6.2 million to $46.7 million as compared to the same period in 2010. This increase was primarily due to higher average outstanding borrowings principally as a result of additional borrowings in connection with the refinancing of our senior secured credit facility in July 2010 and borrowings to fund acquisitions. Loss on early extinguishment of debt of $1.0 million and $4.5 million in the first nine months of 2011 and 2010, respectively, was a result of the refinancing of the senior secured credit facility in each of those periods.

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Provision for Income Taxes. The effective tax rate for the first nine months of 2011 was 34.0 percent as compared to 35.8 percent in the same period of 2010. The effective tax rate for the first nine months of 2010 was negatively impacted by the non-deductible portion of the charge for the remeasurement of net assets in the Venezuela operations.

CAPITAL RESOURCES AND LIQUIDITY

Our principal sources of liquidity have been net cash from operating activities and borrowings under our debt instruments, including our senior secured credit facility. 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 July 28, 2011, we completed the refinancing of our previous senior secured credit facility by entering into a new $1.9 billion senior secured credit facility, or the Credit Agreement. Our Credit Agreement provides us with Term Loans and Revolving Loans. The Term Loans provided under the Credit Agreement refinanced the term loans under our previous senior secured credit facility and certain Euro revolving loan borrowings used to finance the VN acquisition in March 2011 and certain U.S. dollar revolving loan borrowings under our previous senior secured credit facility. The Term Loans consist of $520 million of U.S. term loans, €335 million of Euro term loans and Cdn $81 million of Canadian term loans. The Revolving Loans consist of a $790 million multicurrency revolving loan facility and a Cdn $10 million Canadian revolving loan facility. Our Credit Agreement also provides us with an uncommitted multicurrency incremental loan facility for up to an additional U.S. $750 million, which may be used to finance acquisitions and for other permitted purposes.

Under the Credit Agreement, total Term Loans of $1.055 billion are payable as follows: $158.3 million in each of 2013 and 2014, $211.0 million in each of 2015 and 2016, and $316.6 million in 2017 (non-U.S. dollar debt has been translated into U.S. dollars at exchange rates in effect at the balance sheet date).

Under the Credit Agreement, the interest rate for U.S. term loans will be either LIBOR or the base rate under the Credit Agreement plus a margin, the interest rate for Euro term loans will be the Euribor rate under the Credit Agreement plus a margin and the interest rate for Canadian term loans will be either the Bankers' Acceptance discount rate or the Canadian prime rate under the Credit Agreement plus a margin. Initially, for Term Loans and Revolving Loans maintained as LIBOR, Euribor or Bankers' Acceptance loans, the margin was 1.75 percent, and for Term Loans and Revolving Loans maintained as base rate or Canadian prime rate loans the margin was 0.75 percent. The Credit Agreement provides for the payment of a commitment fee ranging from 0.25 percent to 0.375 percent per annum on the daily average unused portion of commitments available under the Revolving Loans. Initially, the commitment fee was 0.375 percent per annum. The margins for Term Loans, Revolving Loans and the commitment fee are subject to adjustment quarterly based upon our Total Leverage Ratio as provided in the Credit Agreement.

All amounts owed under our previous senior secured credit facility were repaid on July 28, 2011 with proceeds from the Credit Agreement. As a result of this refinancing, we recorded a pre-tax charge of $1.0 million for the loss on early extinguishment of debt during the quarter ending September 30, 2011.

You should also read Note 6 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011 included elsewhere in this Quarterly Report.

For the nine months ended September 30, 2011, we used proceeds from long-term debt of $1,088.8 million, net borrowings of revolving loans of $46.3 million, cash provided by operating activities of $76.2 million (which includes the benefit of $25.2 million of proceeds received as a result of the termination of the Graham

Packaging merger agreement, net of costs attributable to certain corporate development activities) and cash and cash equivalents of $34.8 million to fund the repayment of long-term debt of $689.6 million, the acquisitions of VN, DGS and NPPC for $289.4 million, decreases in outstanding checks of $92.9 million, net capital expenditures of $119.9 million, repurchases of our common stock of $15.8 million, debt issuance costs of $12.9 million related to the Credit Agreement, dividends paid on our common stock of $23.4 million and net payments for stock based compensation issuances of $2.2 million. The increase in net capital expenditures in 2011 as compared to 2010 was the result of our decision to take advantage of certain domestic tax benefits available in 2011 and capital expenditures related to the expansion of our metal container business into several developing Eastern countries.

For the nine months ended September 30, 2010, we used proceeds from our senior secured credit facility of $634.4 million and net proceeds from stock-based compensation issuances of $0.7 million to fund the repayment of term loans under our previous senior secured credit facility of $318.5 million, cash used in operations of $27.6 million (which included $92.3 million of contributions to our pension benefit plans), decreases in outstanding checks of $89.8 million, net capital expenditures of $75.3 million, net payments of revolving loans of $0.3 million, debt issuance costs of $11.7 million related to the refinancing of our senior secured credit facility and dividends paid on our common stock of $24.5 million and to increase our cash and cash equivalents by $87.4 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, which generally peak sometime in the summer or early fall, we may incur short-term indebtedness to finance our working capital requirements. In recent years, our seasonal working capital requirements have peaked at approximately $300 million, which were funded through a combination of revolving loans under our senior secured credit facility and cash on hand. We may use the available portion of revolving loans, after taking into account our seasonal needs and outstanding letters of credit, for other general corporate purposes including acquisitions, dividends, stock repurchases and to refinance or repurchase other debt.

At September 30, 2011, we had $15.0 million of Revolving Loans outstanding under the Credit Agreement. After taking into account outstanding letters of credit, the available portion of Revolving Loans under the Credit Agreement at September 30, 2011 was $753.2 million.

On August 5, 2011, our Board of Directors authorized the repurchase of up to $300 million of our common stock, inclusive of prior authorizations, from time to time through and including December 31, 2014. Pursuant to this authorization, we repurchased 441,416 shares of our common stock at an average price per share of $35.79, for a total purchase price of $15.8 million, during the quarter ended September 30, 2011.

On November 4, 2011, our Board of Directors declared a quarterly cash dividend on our common stock of $0.11 per share, payable on December 15, 2011 to holders of record of our common stock on December 1, 2011. The cash payment related to this dividend is expected to be $7.8 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, pension benefit plan contributions, share repurchases 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.

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 2011 with all of these covenants.

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Rationalization Charges

Under our rationalization plans, we made cash payments of $10.8 million and $4.4 million for the nine months ended September 30, 2011 and 2010, respectively. Total future cash spending of $12.4 million is expected for our outstanding rationalization plans in the current year and thereafter.

You should also read Note 3 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011 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.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in interest rates and, with respect to our international metal container and closures operations and our Canadian plastic container operations, from foreign currency exchange rates. In the normal course of business, we also have 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, 2010. Since such filing, other than the changes discussed in Notes 2 and 6 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011 included elsewhere in this Quarterly Report, 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.

You should also read Notes 2, 6 and 7 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011 included elsewhere in this Quarterly Report.

Item 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(e) of the Securities Exchange Act of 1934, or the Exchange Act, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based upon that evaluation, as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including the Principal Executive Officer and the Principal Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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.

During March 2011, we acquired the metal container operations of VN. You should read Note 2 to our Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2011 included elsewhere in this Quarterly Report for further information on our acquisition of VN. We are currently in the process of integrating the internal controls and procedures of VN into our internal controls over financial reporting. As provided under the Sarbanes-Oxley Act of 2002 and the applicable rules and regulations of the Securities and Exchange Commission, we will include the internal controls and procedures of VN in our annual assessment of the effectiveness of our internal control over financial reporting for our 2012 fiscal year.

Part II. Other Information

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(c) Purchases of Equity Securities By the Issuer and Affiliated Purchasers

The following table provides information about shares of our common stock that we repurchased during the third quarter of 2011 pursuant to the authorization of our Board of Directors on August 5, 2011 to repurchase up to $300 million of our common stock, inclusive of prior authorizations, from time to time through and including December 31, 2014:

ISSUER PURCHASES OF EQUITY SECURITIES (i)

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
July 1-31, 2011	-	-	-	$ 53.0
August 1-31, 2011	441,416	$ 35.79	441,416	$ 284.2
September 1-30, 2011	-	-	-	$ 284.2
Total	441,416	$ 35.79	441,416	$ 284.2

(i) On August 5, 2011, our Board of Directors authorized the repurchase of up to $300 million of our common stock, inclusive of prior authorizations, from time to time through and including December 31, 2014. We announced this repurchase authorization in a press release dated August 8, 2011. Previously, on June 2, 2010 our Board of Directors had authorized the repurchase of up to $300 million of our common stock over a period of three years. We announced this repurchase authorization in a press release dated June 2, 2010. In November 2010, we repurchased $247 million of our common stock pursuant to such authorization, leaving $53 million yet to be repurchased under such authorization which amount was included in the August 5, 2011 repurchase authorization.

Item 6. Exhibits

Exhibit Number	Description
12	Ratio of Earnings to Fixed Charges for the three and nine months ended September 30, 2011 and 2010.
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.
32.1	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
32.2	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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* XBRL information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement or prospectus to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.

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, 2011

/s/ Robert B. Lewis
Robert B. Lewis
Executive Vice
President and
Chief Financial
Officer

EXHIBIT INDEX

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