CROWN HOLDINGS INC
Form 10-Q
May 05, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2009

¨ **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 0-50189

CROWN HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**75-3099507**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Crown Way, Philadelphia, PA	**19154-4599**
(Address of principal executive offices)	**(Zip Code)**

215-698-5100

(registrant s telephone number, including area code)

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 (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes ¨ 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. (Check one)

Large accelerated filer	**x**	**Accelerated filer**	**¨**
Non-accelerated filer	**¨ (Do not check if a smaller reporting company)**	**Smaller reporting company**	**¨**

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

There were 159,973,590 shares of Common Stock outstanding as of April 30, 2009.

Crown Holdings, Inc.

PART I FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions except share and per share data)

(Unaudited)

Three months ended March 31	**2009**	**2008**
Net sales	$ 1,684	$ 1,863
Cost of products sold, excluding depreciation and amortization	1,392	1,558
Depreciation and amortization	47	53
Gross profit	245	252
Selling and administrative expense	89	102
Provision for restructuring	1	
Loss from early extinguishments of debt		2
Interest expense	61	77
Interest income	(2)	(3)
Translation and foreign exchange	4	
Income before income taxes and equity earnings	92	74
Provision for income taxes	24	26
Equity (loss)/earnings in affiliates	(5)	
Net income	63	48
Net income attributable to noncontrolling interests	(23)	(21)
Net income attributable to Crown Holdings	$ 40	$ 27
Earnings per share attributable to Crown Holdings common shareholders:		
Basic	$ 0.25	$ 0.17
Diluted	$ 0.25	$ 0.17
Weighted average common shares outstanding:		
Basic	158,491,731	159,187,316
Diluted	161,286,880	162,776,273

The accompanying notes are an integral part of these consolidated financial statements.

Crown Holdings, Inc.

CONSOLIDATED BALANCE SHEETS (Condensed)

(In millions)

(Unaudited)

	March 31, 2009	December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 296	$ 596
Receivables, net	814	734
Inventories	1,154	979
Prepaid expenses and other current assets	146	148
Total current assets	2,410	2,457
Goodwill	1,904	1,956
Property, plant and equipment, net	1,421	1,473
Other non-current assets	845	888
Total	$ 6,580	$ 6,774
Liabilities and equity		
Current liabilities		
Short-term debt	$ 52	$ 59
Current maturities of long-term debt	28	31
Accounts payable and accrued liabilities	1,704	1,982
Total current liabilities	1,784	2,072
Long-term debt, excluding current maturities	3,318	3,247
Postretirement and pension liabilities	890	893
Other non-current liabilities	508	526
Commitments and contingent liabilities *(Note J)*		
Noncontrolling interests	354	353
Crown Holdings shareholders deficit	(274)	(317)
Total equity	80	36
Total	$ 6,580	$ 6,774

The accompanying notes are an integral part of these consolidated financial statements.

Crown Holdings, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Condensed)

(In millions)

(Unaudited)

Three months ended March 31	2009	2008
Net cash used for operating activities	$ (345)	$ (443)
Cash flows from investing activities		
Capital expenditures	(50)	(33)
Other		(7)
Net cash used for investing activities	(50)	(40)
Cash flows from financing activities		
Proceeds from long-term debt	1	
Payments of long-term debt	(3)	(55)
Net change in revolving credit facility and short-term debt	114	338
Common stock issued	3	2
Common stock repurchased	(3)	(3)
Dividends paid to noncontrolling interests	(17)	(8)
Other	19	18
Net cash provided by financing activities	114	292
Effect of exchange rate changes on cash and cash equivalents	(19)	16
Net change in cash and cash equivalents	(300)	(175)
Cash and cash equivalents at January 1	596	457
Cash and cash equivalents at March 31	$ 296	$ 282

The accompanying notes are an integral part of these consolidated financial statements.

Crown Holdings, Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME

(In millions) (Unaudited)

	2009	2008
Comprehensive income		
Net income	$ 63	$ 48
Net other adjustments:		
Attributable to Crown Holdings	(1)	23
Attributable to noncontrolling interests	(5)	13
Comprehensive income	57	84
Comprehensive income attributable to noncontrolling interests	(18)	(34)
Comprehensive income attributable to Crown Holdings	$ 39	$ 50
Common stock	$ 929	$ 929
Paid-in capital		
Balance January 1	$ 1,510	$ 1,516
Restricted stock awarded	(3)	(2)
Stock-based compensation	4	4
Stock issued benefit plans	1	1
Stock repurchased	(2)	(2)
Balance March 31	$ 1,510	$ 1,517
Accumulated deficit		
Balance January 1	$ (428)	$ (654)
Net income attributable to Crown Holdings	40	27
Balance March 31	$ (388)	$ (627)
Accumulated other comprehensive loss		
Balance January 1	$ (2,195)	$ (1,646)
Translation adjustments	(16)	(25)
Amortization of net loss and prior service cost included in pension and postretirement cost	16	11
Derivatives qualifying as hedges	(1)	39
Available for sale securities		(2)
Net other comprehensive income/(loss) adjustments	(1)	23
Balance March 31	$ (2,196)	$ (1,623)
Treasury stock		
Balance January 1	$ (133)	$ (130)
Restricted stock awarded	3	2
Stock issued benefit plans	2	1
Stock repurchased	(1)	(1)

Balance March 31	$ (129)	$ (128)
Noncontrolling interests		
Balance January 1	$ 353	$ 323
Net income attributable to noncontrolling interests	23	21
Translation adjustments (other comprehensive income)	(5)	13
Dividends paid to noncontrolling interests	(17)	(7)
Purchase of noncontrolling interests		(1)
Balance March 31	$ 354	$ 349
Total equity March 31	$ 80	$ 417

The accompanying notes are an integral part of these consolidated financial statements.

Crown Holdings, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share and statistical data)

(Unaudited)

A. Statement of Information Furnished

The consolidated financial statements include the accounts of Crown Holdings, Inc. and its consolidated subsidiaries (the Company). The accompanying unaudited interim consolidated financial statements have been prepared by the Company in accordance with Form 10-Q instructions. In the opinion of management, these consolidated financial statements contain all adjustments of a normal and recurring nature necessary for a fair statement of the financial position of Crown Holdings, Inc. as of March 31, 2009 and the results of its operations and its cash flows for the three month periods ended March 31, 2009 and 2008. These results have been determined on the basis of U.S. generally accepted accounting principles and practices consistently applied.

Certain information and footnote disclosures, normally included in financial statements presented in accordance with U.S. generally accepted accounting principles, have been condensed or omitted. The December 31, 2008 balance sheet data was derived from the audited consolidated financial statements as of December 31, 2008. The accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

B. Recent Accounting and Reporting Pronouncements

Effective January 1, 2009, the Company adopted SFAS No. 141 (revised 2007) (FAS 141(R)), Business Combinations, which replaces FAS 141. FAS 141(R) retains the requirement of FAS 141 that business combinations be accounted for at fair value using the acquisition method, but changes the accounting for acquisitions in certain areas. Under FAS 141(R) acquisition costs are expensed as incurred; noncontrolling (minority) interests are valued at fair value at the acquisition date; in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination are generally expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. FAS 141(R) is effective for the Company for all business combinations for which the acquisition date is on or after January 1, 2009, and its adoption had no impact on the Company s financial statements at the date of adoption.

Effective January 1, 2009, the Company adopted FASB Staff Position FAS 142-3 (FSP FAS 142-3), Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142 (FAS 142), Goodwill and Other Intangible Assets. The FSP attempts to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141(R) and other generally accepted accounting principles. The FSP requires disclosure of information that enables users of financial statements to assess the extent to which expected future cash flows associated with an asset are affected by the company s intent and/or ability to renew or extend the arrangement. The guidance for determining the useful life of a recognized intangible asset in the FSP is to be applied prospectively to intangible assets acquired after the effective date. The adoption of the FSP had no impact on the Company s consolidated financial statements at the date of adoption.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (FAS 157). FAS 157 establishes a common definition for fair value to be applied to U.S. GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. In February 2008, FSP 157-2, Partial Deferral of the Effective Date of Statement 157, deferred the effective date of FAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The adoption of the FSP on January 1, 2009 had no impact on the Company s consolidated financial statements at the date of adoption.

Effective January 1, 2009, the Company adopted SFAS No. 160 (FAS 160), Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51. FAS 160 requires the recognition of noncontrolling (minority) interests as equity in the consolidated financial statements, but separate from the parent s equity. The statement also requires that the amount of net income attributable to minority interests be included in consolidated net income on the face of the income statement. The financial statements included in this report are presented in accordance with FAS 160 and all prior period information has been retrospectively adjusted.

Effective January 1, 2009, the Company adopted SFAS No. 161 (FAS 161), Disclosures about Derivative Instruments and Hedging Activities, an amendment to FASB Statement 133. FAS 161 amends and expands the disclosure requirements of FAS 133 with the intent to provide users of financial statements with an enhanced understanding of how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations; and how derivative instruments and related hedged items affect a company s financial position, financial performance and cash flows. The Company has applied the requirements of FAS 161 on a prospective basis and disclosures related to interim periods prior to the date of adoption have not been presented. See Note G for the required disclosures.

Effective January 1, 2009, the Company adopted FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in FAS 128, Earnings per Share. The guidance in the FSP requires that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) be treated as participating securities and included in the computation of EPS pursuant to the two-class method. The adoption of the FSP had no impact on the Company s basic or diluted earnings per share in the first quarter of 2009.

C. Stock-Based Compensation

During the first quarter of 2009, the Company awarded 564,344 shares of restricted stock to certain senior executives, including 308,115 shares with time-vesting requirements and 256,229 shares containing a market performance feature. The time-vested awards vest ratably over three years on the anniversary date of the grant and had a grant-date fair value of $18.87 per share. The performance shares vest at the end of three years based on the results of a market performance criterion. The number of performance shares that will ultimately vest in 2012 is based on the level of performance achieved, ranging between 0% and 200% of the shares awarded, and will be settled in stock. The estimated fair value of each performance share was calculated as $23.10 using a Monte Carlo valuation model. During the first quarter, 254,528 shares of previously issued service-based awards were released from restriction and 145,144 shares of previously issued performance-based shares vested. The weighted average fair value of these shares on the date of release was $19.45 per share. Also during the first quarter, 51,495 performance-based shares were issued because the Company exceeded the level of performance established on the original date of the related awards in 2006 by approximately 35%. These shares were issued without restriction.

Unrecognized compensation cost related to unvested stock options and restricted stock was $20 and $16, respectively, at March 31, 2009. The weighted average period over which the expense is expected to be recognized is 3.9 years for stock options and 2.1 years for restricted stock.

As of March 31, 2009, outstanding stock options included 7,448,578 shares that were fully vested or expected to vest of which 4,937,285 were exercisable. The weighted average exercise price of the options that were fully vested or expected to vest was $16.18, the aggregate intrinsic value was $52, and the weighted average remaining contractual life was 5.3 years. The weighted average exercise price of options that were currently exercisable was $12.48, the aggregate intrinsic value was $52, and the weighted average remaining contractual life was 3.9 years.

The Company received cash proceeds of $2 from the exercise of stock options in the firs