CROWN HOLDINGS INC
Form 10-Q/A
August 18, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q / A

(Amendment No. 1)

[X]	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003
[ ]	**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 is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes X No ___

There were 164,942,262 shares of Common Stock outstanding as of July 31, 2003.

Explanatory Note

This amendment to the Quarterly Report on Form 10-Q, filed by Crown Holdings, Inc. on August 8, 2003, amends Part I - Items 1 and 2, Financial Information and Management s Discussion and Analysis of Financial Condition and Results of Operations to reflect a goodwill impairment charge reported by Constar International Inc. (Constar) on August 15, 2003 for the second quarter of 2003. The impairment charge recorded by Constar affects Crown Holdings, Inc. s previously reported financial statements as Constar is accounted for by Crown Holdings, Inc. under the equity method. See Note B to the consolidated financial statements.

Crown Holdings, Inc.

FORM 10-Q
FOR QUARTER ENDED JUNE 30, 2003

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Crown Holdings, Inc.

PART I - FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions except share and per share data)
(Unaudited)

Three months ended June 30,	**2003**	**2002**
Net sales	$ 1,726	$ 1,789
Cost of products sold, excluding depreciation and amortization	1,422	1,455
Depreciation and amortization	85	94
Gross profit	219	240
Selling and administrative expense	81	76
Provision for asset impairments and (gain) / loss on sale of assets	(3)	
Gain from early extinguishment of debt	(2)	(25)
Interest expense	101	86
Interest income	(3)	(2)
Translation and exchange adjustments	(56)	9
Income before income taxes and minority interests	101	96

Three months ended June 30,	**2003**	**2002**
Provision for income taxes	20	26
Minority interests, net of equity earnings	(31)	(6)
Net income	$ 50	$ 64
Earnings per average common share:		
Basic	$ .30	$ .49
Diluted	$ .30	$ .48
Weighted average common shares outstanding:		
Basic	164,910,274	131,160,900
Diluted	165,843,258	133,238,280

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

Certain prior year amounts have been reclassified to improve comparability. See Note A.

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Crown Holdings, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions except share and per share data)

(Unaudited)

Six months ended June 30,	2003	2002
Net sales	$ 3,186	$ 3,356
Cost of products sold, excluding depreciation and amortization	2,656	2,760
Depreciation and amortization	163	185
Gross profit	367	411
Selling and administrative expense	162	152
Provision for restructuring		2
Provision for asset impairments and (gain) / loss on sale of assets	(3)	24
(Gain) / loss from early extinguishment of debt	9	(25)
Interest expense	180	179
Interest income	(5)	(5)
Translation and exchange adjustments	(69)	18
Income before income taxes, minority interests and cumulative effect of a change in accounting	93	66
Provision for income taxes	39	46
Minority interests, net of equity earnings	(38)	(10)
Income before cumulative effect of a change in accounting	16	10
Cumulative effect of a change in accounting		(1,014)
Net income / (loss)	$ 16	($ 1,004)
Basic earnings / (loss) per share:		
Income before cumulative effect of a change in accounting	$ .10	$ .08
Cumulative effect of a change in accounting		(7.89)
Net income / (loss)	$ .10	($ 7.82)
Diluted earnings per share:		
Income before cumulative effect of a change in accounting	$ .10	$ .08
Cumulative effect of a change in accounting		(7.81)
Net income / (loss)	$ .10	($ 7.73)
Weighted average common shares outstanding:		
Basic	164,379,638	128,461,067
Diluted	165,312,801	129,836,316

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

Certain prior year amounts have been reclassified to improve comparability. See Note A.

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Crown Holdings, Inc.

CONSOLIDATED BALANCE SHEETS (Condensed)
(In millions)
(Unaudited)

	June 30, 2003	December 31, 2002
Assets		
Current assets		
Cash and cash equivalents	$ 276	$ 363
Receivables	1,023	782
Inventories	975	779
Restricted cash	162	
Prepaid expenses and other current assets	94	100
Total current assets	2,530	2,024
Long-term notes and receivables	27	24
Investments	93	111
Goodwill	2,362	2,269
Property, plant and equipment, net	2,176	2,212
Other non-current assets	1,019	865

	June 30,	December 31,
Total	$ 8,207	$ 7,505
Liabilities and shareholders' equity		
Current liabilities		
Short-term debt	$ 62	$ 54
Current maturities of long-term debt	190	612
Accounts payable and accrued liabilities	1,762	1,541
Income taxes payable	58	63
Total current liabilities	2,072	2,270
Long-term debt, excluding current maturities	4,112	3,388
Postretirement and pension liabilities	1,029	982
Other non-current liabilities	722	756
Minority interests	216	196
Commitments and contingent liabiities *(Note J)*		
Shareholders' equity / (deficit)	56	(87)
Total	$ 8,207	$ 7,505

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

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Crown Holdings, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Condensed)
(In millions)
(Unaudited)

Six months ended June 30,	2003	2002
Cash flows from operating activities		
Net income / (loss)	$ 16	($ 1,004)

Six months ended June 30,	2003	2002
Depreciation and amortization	163	185
Provision for restructuring		2
Provision for asset impairments and (gain) / loss on sale of assets	(3)	24
(Gain) / loss from early extinguishment of debt	9	(25)
Translation and foreign exchange (gain) / loss	(69)	18
Cumulative effect of a change in accounting		1,014
Change in assets and liabilities	(201)	(216)
Net cash used for operating activities	(85)	(2)
Cash flows from investing activities		
Capital expenditures	(54)	(56)
Proceeds from sale of property, plant and equipment	16	7
Change in restricted cash	(162)	
Proceeds from sale of businesses		181
Other, net	1	(3)
Net cash provided by / (used for) investing activities	(199)	129
Cash flows from financing activities		
Proceeds from long-term debt	2,622	14
Payments of long-term debt	(798)	(18)
Net change in short-term debt	(1,522)	(237)
Debt issue costs	(131)	
Proceeds from termination of currency swap	13	
Common stock issued	2	1
Minority contributions, net of dividends paid	(6)	(15)
Net cash provided by / (used for) financing activities	180	(255)
Effect of exchange rate changes on cash and cash equivalents	17	(20)
Net change in cash and cash equivalents	(87)	(148)
Cash and cash equivalents at beginning of period	363	456
Cash and cash equivalents at end of period	$ 276	$ 308

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

Certain prior year amounts have been reclassified to improve comparability.

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Crown Holdings, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS) AND CHANGES IN SHAREHOLDERS EQUITY / (DEFICIT)

(In millions)
(Unaudited)

	Comprehensive Income / (Loss) Quarter	Comprehensive Income / (Loss) Year-To-Date	Common Stock	Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income / (Loss)	Total
Balance at January 1, 2002			$780	$1,600	$ 22	($151)	($1,447)	$ 804
Net income / (loss)	$ 64	($1,004)			(1,004)			(1,004)
Translation adjustments	149	114					114	114
Derivatives qualifying as hedges	6	4					4	4
Comprehensive income / (loss)	$219	($ 886)						
Stock issued in debt-for-equity exchanges			122	68				190
Stock issued - benefit plans						1		1
Balance at June 30, 2002			$902	$1,668	($ 982)	($150)	($1,329)	$ 109

	Comprehensive Income / (Loss) Quarter	Comprehensive Income / (Loss) Year-To-Date	Common Stock	Paid-In Capital	Retained Earnings / (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income / (Loss)	Total
Balance at January 1, 2003			$902	$1,684	($1,183)	($104)	($1,386)	($87)
Net income	$ 50	$16			16			16
Translation adjustments	59	89					89	89
Derivatives qualifying as hedges	(3)	(5)					(5)	(5)
Comprehensive income	$106	$100						
Stock issued in debt-for-equity exchanges			27	14				41
Stock issued - benefit plans				1		1		2

Balance at June 30, 2003	$929	$1,699	($1,167)	($103)	($1,302)	$56

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

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Crown Holdings, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions, except per share data)
(Unaudited)

A. Statement of Information Furnished

Crown Holdings, Inc. (the Company) was formed as a new public holding company in February, 2003 and shares of Crown Cork & Seal Company, Inc. were converted into an equal number of shares of Crown Holdings, Inc. Crown Cork & Seal Company, Inc. is now a wholly-owned subsidiary of Crown Holdings, Inc. This conversion had no effect on the results of operations, financial position or cash flow of 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 to fairly present the financial position, the results of operations and cash flows of Crown Holdings, Inc. for the periods ended June 30, 2003 and 2002, respectively. 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, 2002 balance sheet data was derived from the audited consolidated financial statements as of December 31, 2002. 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, 2002.

The Consolidated Statements of Operations for the three and six months ended June 30, 2002 have been restated to report gains or losses from the extinguishment of debt within income/(loss) from continuing operations rather than as an extraordinary item, consistent with the guidelines of SFAS 145 (FAS 145), Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections. The Company adopted FAS 145 in the fourth quarter of 2002, effective January 1, 2002.

B. Amended Financial Information

Subsequent to the filing on August 8, 2003 of the Company s condensed consolidated financial statements as of and for the periods ended June 30, 2003, Constar International Inc. (Constar) reported on August 15, 2003 that it had recorded a goodwill impairment charge for the second quarter of 2003. The Company accounts for its 10.5% ownership interest in Constar using the equity method of accounting and the Company amended certain financial information to reflect the impact of Constar's impairment charge. Listed below are the financial statement items that are affected by the amendment.

	Three Months Ended June 30, 2003		Six Months Ended June 30, 2003	
	As Reported	Amended	As Reported	Amended
Consolidated Statements of Operations				
Minority interests, net of equity earnings	($9)	($31)	($16)	($38)
Net income	72	50	38	16
Earnings/(loss) per share:				
Basic	.44	.30	.23	.10
Diluted	.43	.30	.23	.10

Consolidated Balance Sheets	As Reported	Amended
Investments	$ 115	$ 93
Shareholders' equity/(deficit)	78	56

Also amended were the financial disclosures in Note C, Stock-Based Compensation and Note M, Condensed Combining Financial Information.

C. Stock-Based Compensation

At June 30, 2003, the Company had four active stock option plans. The Company accounts for those plans under the recognition and measurement principles of APB 25 and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the Company s common stock at the date of grant.

Crown Holdings, Inc.

The following table illustrates the effect on net income/(loss) and income/(loss) per share if the Company had applied the fair value recognition provisions of FAS 123 to stock-based employee compensation:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	**2002**	**2003**	**2002**
Net income / (loss) as reported	$50	$64	$16	($1,004)
Deduct:				
Total stock-based employee compensation expense determined under fair value-based method, net of related tax effects	(3)	(3)	(5)	(5)
Pro forma net income / (loss)	$47	$61	$11	($1,009)
Earnings / (loss) per share:				
Basic - as reported	$.30	$.49	$.10	($7.82)
Basic - pro forma	$.29	$.47	$.07	($7.85)
Diluted - as reported	$.30	$.48	$.10	($7.73)
Diluted - pro forma	$.28	$.46	$.07	($7.77)

D. Goodwill

The changes in the carrying amount of goodwill by reportable segment for the six months ended June 30, 2002 and 2003, respectively, were as follows:

	Americas	**Europe**	**Asia-Pacific**	**Consolidated Total**
Balance as of January 1, 2002	$1,156	$2,463	$6	$3,625
Transitional impairment charge	(120)	(888)	(6)	(1,014)

	Americas	Europe	Asia-Pacific	Consolidated Total
Divestitures	(75)	(56)		(131)
Foreign currency translation and other	13	70		83
Balance as of June 30, 2002	$ 974	$1,589	$0	$2,563
Balance as of January 1, 2003	$ 639	$1,630		$2,269
Foreign currency translation and other	14	79		93
Balance as of June 30, 2003	$ 653	$1,709	$0	$2,362

During the second quarter of 2002, the Company completed its transitional impairment review and recognized a noncash, non-tax deductible impairment charge of $1,014 reported as the cumulative effect of a change in accounting, effective January 1, 2002. In evaluating and measuring the impairment charge, estimated fair values were calculated for each reporting unit within each reportable segment using a combination of market values for comparable businesses and discounted cash flow projections.

E. Inventories

	June 30, 2003	December 31, 2002
Finished goods	$ 439	$ 314
Work in process	116	89
Raw material and supplies	420	376
	$ 975	$ 779

Crown Holdings, Inc.

F. Debt and Liquidity

On February 26, 2003, Crown Cork & Seal Company, Inc. completed a refinancing and formed Crown Holdings, Inc. (Crown or the Company) as a new public holding company, as discussed in Note A.

The proceeds from the refinancing consisted of the sale of $1,085 of 9.5% second priority senior secured notes due in 2011, 285 ($306 equivalent at February 26, 2003) of 10.25% second priority senior secured notes due in 2011, $725 of 10.875% third priority senior secured notes due in 2013, and $504 of first priority term loans due in 2008 (which are accelerated to 2006 in the event that Crown s unsecured public debt that matures in 2006 is not repaid, or funds are not set aside in a designated account to repay such debt, by September 15, 2006) and a new $550 first priority revolving credit facility due in 2006.

The proceeds of $2,620 from the senior secured notes and term loans, and $198 of borrowings under the new $550 credit facility, were used to repay the existing credit facility, to repurchase outstanding unsecured notes, and to pay fees and expenses associated with the refinancing. The remaining proceeds were placed in restricted cash accounts as collateral for the senior secured notes, the term loans and the revolving credit facility, and may only be used to repurchase or retire certain existing unsecured notes. As of June 30, 2003, the remaining balance of $162 in the collateral accounts was reported as restricted cash in the Consolidated Balance Sheet. The Company expects to use the remaining restricted cash balance to repay the remaining notes due in 2003.

During the first six months of 2003, the Company repurchased or retired $784 of unsecured notes. The Company also exchanged 5.4 million shares of its common stock for debt with a face value of $43 in privately negotiated debt-for-equity exchanges. In connection with the repurchases and exchanges and the write-off of unamortized financing fees and expenses from its previous credit facility, the Company recognized a pretax loss of $9 from the early extinguishment of debt for the six months ended June 30, 2003.

During the second quarter of 2002, the Company exchanged 24.4 million shares of its common stock with a market value of $190 for debt with face value of $210 and accrued interest of $5. In connection with the exchanges, the Company recorded a pretax gain of $25 from the early extinguishment of debt.

During the first six months of 2003, the Company recognized unrealized foreign exchange gains of $64 due to the net U.S. dollar exposure in certain European subsidiaries arising from the sale of the senior secured notes as described above.

In July, 2003, the Company refinanced the $450 first priority term loan with the proceeds from a new first priority term loan on substantially the same terms except that the new term loan bears interest at LIBOR plus 3.00%, compared to LIBOR plus 4.25% for the refinanced term loan, and includes a prepayment premium of 1.00% if the new term loan is paid back in full within one year.

G. Derivative Financial Instruments

During the first quarter of 2003, two cross-currency swaps that had effectively converted U.S. dollar-denominated fixed rate debt into variable rate euro-denominated debt and fixed rate sterling-denominated debt were deemed ineffective due to the repurchase of a significant portion of the hedged debt. As such, hedge accounting for these derivatives was discontinued prospectively. The debt and related swaps had original maturity dates of December 2003 and notional values of $200 each. In April 2003, the sterling swap was settled prior to maturity at its fair value of $13.

In July, 2003, the Company entered into three interest rate swaps with a combined notional value of $800. The swaps effectively convert $800 of 9.5% fixed rate debt into variable rate debt at LIBOR plus 5.48%. The swaps will be accounted for as fair value hedges of the second priority U. S. dollar notes due 2011.

H. Restructuring

During the first quarter of 2002, the Company provided $2 for severance costs in connection with the closing of a crown plant and the elimination of a crown operation in Europe.

The balance in the restructuring reserve represents contracts or agreements whereby payments are extended over time. This includes agreements with unions and governmental agencies related to employees as well as with landlords in lease arrangements. The balance of the restructuring reserve (excluding write-down of assets which is reflected as a reduction of the related asset account) is included within accounts payable and accrued liabilities in the Consolidated Balance Sheets.

The components of the restructuring reserve and movements within these components during the first six months of 2002 and 2003 were as follows:

	Termination Benefits	Other Exit Costs	Total

	Termination	Other Exit	
Balance as of January 1, 2002	$ 8	$14	$22
Provision	2		2
Payments made	(7)	(2)	(9)
Foreign currency translation and other		(2)	(2)
Balance as of June 30, 2002	$ 3	$10	$13
Balance as of January 1, 2003	$ 9	$ 5	$14
Payments made	(3)	(1)	(4)
Foreign currency translation and other		(1)	(1)
Balance as of June 30, 2003	$ 6	$ 3	$ 9

I. <u>Asset Impairments and (Gain) / Loss on Sale of Assets</u>

During the first six months of 2003, the Company sold various assets for $16 and recorded a net gain of $3 before tax.

During the first six months of 2002, the Company completed the sales of its U.S. fragrance pumps business, its European pharmaceutical packaging business, and its 15% shareholding in Crown Nampak (Pty) Ltd. for total net proceeds of $181. A net loss of $32 was recognized in connection with these sales, including a tax charge of $8. The loss was primarily in Europe from the sale of the pharmaceutical packaging business. During the first six months of 2002, the Company sold various other assets for $7 with no net gain or loss.

During the second half of 2002, the Company completed the sale of its businesses in Central and East Africa and an initial public offering of Constar International Inc. (Constar). The divested businesses other than Constar were not presented as discontinued operations because their sale was initiated prior to the initial application of Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Constar was not presented as a discontinued operation because the Company retained a 10.5% ownership interest and accounts for its investment in Constar under the equity method of accounting.

Crown Holdings, Inc.

J. Commitments and Contingent Liabilities

Crown Cork & Seal Company, Inc. (Crown Cork) is one of many defendants in a substantial number of lawsuits filed throughout the United States by persons alleging bodily injury as a result of exposure to asbestos. These claims arose from the insulation operations of a U.S. company, the majority of whose stock Crown Cork purchased in 1963. Approximately ninety days after the stock purchase, this U.S. company sold its insulation operations and was later merged into Crown Cork.

In December 2001, the Commonwealth of Pennsylvania enacted legislation that limits the asbestos-related liabilities of Pennsylvania corporations that are successors by corporate merger to companies involved with asbestos. The legislation limits the successor's liability for asbestos to the acquired company s asset value adjusted for inflation. Crown Cork has already paid significantly more for asbestos claims than the acquired company s adjusted asset value. On June 12, 2002, Crown Cork received a favorable ruling from the Philadelphia Court of Common Pleas on its motion for summary judgment regarding the 376 asbestos-related cases pending against it in that court (in re Asbestos Litigation, October Term 1986, Number 001). The plaintiffs claimed that the legislation was procedurally inapplicable and that, if applicable, it violated due process and other clauses of the United States and Pennsylvania constitutions. The plaintiffs appeal of that ruling was heard by the Supreme Court of Pennsylvania on October 22, 2002, and a decision could come at any time. An unfavorable decision may require the Company to increase its accrual for pending and future asbestos-related claims.

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