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CROWN CORK & SEAL CO INC (CCK) Quarterly Report (SEC form 10-Q)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(in millions, except share, per share, employee, shareholder and statistical data)

INTRODUCTION

The following discussion presents management's analysis of the results of operations for the three and nine months ended September 30, 1999, compared to the corresponding periods in 1998 and the changes in financial condition and liquidity from December 31, 1998. This discussion 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, 1998, along with the consolidated financial statements and related notes included in and referred to within this report.

All per share information is computed using average common shares outstanding, assuming dilution.

RESTRUCTURING

During the third quarter of 1999, the Company provided \$7.7 (\$5.0 after-tax or \$.04 per share) for the costs associated with closing one plant in Europe and the reorganization of certain research and development functions worldwide. Included in the restructuring charge were costs of \$6.0 to provide for employee severance and related benefits, and \$1.7 for other exit costs, primarily dismantlement costs security costs and utility costs. The Company successfully completed the restructuring program announced in September 1998. With the conclusion of the program in 1999, the Company reversed \$14.8 (\$9.7 after-tax or \$.08 per share) of the amount provided in 1998. Overall in the quarter, the Company recorded a net pre-tax credit of \$7.1 (\$4.7 after-tax or \$.04 per share).

Additional details about the restructuring activities are provided in Note D to the Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q.

RESULTS OF OPERATIONS

NET INCOME AND EARNINGS PER SHARE

Net income available to common shareholders for the quarter ended September 30, 1999 was \$114.0, an increase of \$139.2 when compared to the prior year loss of \$25.2. Earnings per common share increased to \$.91 from a loss of \$.20

per share a year earlier. Included within cost of sales were two charges of a non-recurring nature in the third quarter of 1999. A charge of \$3.5 pre-tax (\$2.1 net of tax or \$.02 per share) was recorded for the earthquake damage sustained at our Izmit, Turkey beverage can plant. This charge represents the portion of damage costs not expected to be recovered through our insurance carriers. Additionally, in the third quarter we incurred a charge of \$6.0 pre-tax (\$3.9 net of tax or \$.03 per share) related to the disposition of Golden Aluminum Company. The charge relates to working capital amounts not expected to be recovered in the liquidation process. Excluding the two charges noted above and also excluding the gain on sale of assets and the provision (credit) for restructuring, the Company's net income from continuing operations was \$108.5 in the third quarter of 1999 and represents an increase of \$6.8 or 6.7% over net income from continuing operations in the third quarter of 1998. Earnings per share, when adjusted to a continuing operations basis, was \$.87 in the third quarter of 1999, an increase of \$.07 or 8.8% compared to the same period in 1998.

For the nine months ended September 30, 1999, net income available to common shareholders was \$235.3 or \$1.90 per common share compared with net income of \$133.0 or \$1.06 per common share for the same period in 1998. Excluding the effects of non-recurring items in 1999 and 1998, net income available to common shareholders was \$227.1 or \$1.84 per common share as compared with \$259.9 or \$2.04 per common share for the same period in 1998, a decrease of \$32.8 or 12.6%. Earnings per common share reflects a 3% decline in average common shares outstanding, resulting primarily from the March 1998 repurchase of shares from Compagnie Generale d'Industrie et de Participations (CGIP).

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

NET SALES

Net sales in the third quarter decreased \$151.0 or 6.6% to \$2,140.0 from \$2,291.0 in 1998 due primarily to the pass-through of lower raw material costs, business divestitures, foreign currency translation, and lower worldwide beverage can volumes. Net sales for the nine months ended September 30, 1999 decreased \$497.4 or 7.7% to \$5,931.0 from \$6,428.4 for the same period in 1998. Excluding the effects of lower raw material costs, business divestitures and foreign currency translation, net sales in the third quarter of 1999 would have been 2.7% lower than in the third quarter of 1998. Sales from U.S. operations decreased by 5.6% and 7.7% and those in non-U.S. markets decreased 7.2% and 7.8% for the quarter and nine months ended September 30, 1999, respectively. U.S. sales accounted for approximately 40.9% and 40.4% of consolidated net sales in the third quarter of 1999 and 1998, respectively. U.S. sales represented 40.5% of consolidated sales for both nine month periods ended September 30, 1999 and 1998. Sales of beverage cans and ends as a percentage of consolidated net sales represented 28.9% in the third quarter of 1999 compared to 30.2% in the third quarter of 1998 while sales of food cans and ends decreased in the third quarter to 34.0% from 34.6% in the third quarter of 1998. Sales of plastic closures and plastic containers represented 14.6% of consolidated net sales in the third quarter of 1999 versus 14.2% for the same period of 1998.

An analysis of comparative net sales by operating division follows:

	Net Sales				Perce
	Third Quarter 1999	Third Quarter 1998	Nine Months 1999	Nine Months 1998	Third Quarte
Divisions:					
Americas	\$1,054.6	\$1,120.4	\$2,906.6	\$3,146.3	(5.9%
European	1,012.7	1,083.6	2,777.5	3,028.1	(6.5%
Asia-Pacific	72.7	87.0	246.9	253.8	(16.4%
Other				.2	
	-----	-----	-----	-----	
	\$2,140.0	\$2,291.0	\$5,931.0	\$6,428.4	(6.6%
	=====	=====	=====	=====	

Net sales in the Americas Division decreased by \$65.8 and \$239.7 for the three and nine months ended September 30, 1999 as compared with the same periods in 1998. The decrease in the third quarter was primarily due to (i) the pass-through of certain lower raw material costs which amounted to \$25, (ii) unfavorable foreign currency translation and (iii) sales unit volume decreases in beverage cans and food cans partially offset by sales unit volume increases in plastic closures and plastic containers. Beverage can volumes were down 3.1% throughout the division as a result of the Company's decision to selectively prune its account base following restructuring activities and weak economic conditions in South America following Brazil's January currency devaluation.

Net sales in the European Division decreased \$70.9 and \$250.6 for the three and nine months ended September, 1999. The decrease in the third quarter was due to (i) the general weakening of most European currencies against the U.S. dollar with the impact of translation reducing net sales by \$43 in the quarter, (ii) the sale of the majority of our South African operations which accounted for \$18 of third quarter 1998 net sales, (iii) the pass-through of certain lower raw material costs amounting to \$8 and (iv) decreased sales unit volumes in aerosol cans and non-beverage plastic closures. Food can sales unit volumes increased 11.6% in the quarter on the back of an exceptional tomato pack in Italy and a strong vegetable pack in France. Strong beverage can (up 5.0% overall in the division) demand in Spain and Greece coupled with increased sales unit volumes of beer cans in the UK and Germany offset beverage can disruptions in Turkey due to the earthquake.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Net sales in the Asia-Pacific Division decreased \$14.3 and \$6.9 for the three and nine months ended September 30, 1999 compared to the prior year. The decrease in the third quarter sales is primarily the result of decreased beverage can sales in China as all Chinese operations suffered from anti-American sentiment resulting from the Chinese embassy bombing in Kosovo as well as the lingering effects from the European health scare crisis affecting one of our major customers. Our operations in Thailand continued to experience strong demand for seafood cans, plastic beverage closures and beverage cans. Increased beverage can volume was also reported in Singapore.

COST OF PRODUCTS SOLD

Cost of products sold, excluding depreciation and amortization, was \$1,672.8 for the quarter ended September 30, 1999, a decrease of \$130.9 or 7.3% compared to \$1,803.7 for the same period in 1998. For the nine months ended September 30, 1998, cost of products sold amounted to \$4,619.8, a decrease of \$413.3 or 8.2% compared to \$5,033.1 for the same period in 1998. The decrease reflects (i) lower raw material costs, (ii) the effect of foreign currency translation, (iii) cost savings from restructuring programs and (iv) lower sales unit volumes of food cans and beverage cans in North America offset by increased sales unit volumes of food cans and beverage cans in Europe.

As a percentage of net sales, cost of products sold was 78.2% and 77.9% in the three months and nine months ended September 30, 1999 as compared to 78.7% and 78.3% in the same periods of 1998. Excluding the two non-recurring charges totaling \$9.5 noted above, cost of products sold as a percentage to net sales would have been 77.7% in both the three and nine month periods ended September 30, 1999. The improvement in gross margin as a percentage of net sales is due primarily to the benefits derived from the Company's continuing cost containment and restructuring programs, offset to some extent by competitive influences on selling prices across many product lines.

SELLING AND ADMINISTRATIVE

Selling and administrative expenses for the quarter ended September 30, 1999 were \$85.3, a decrease of \$5.8 or 6.4% from the third quarter of 1998. As a percentage of net sales, selling and administrative expenses, excluding depreciation, was 4.0% in both the third quarter of 1999 and the third quarter of 1998. The decrease in 1999 costs, primarily administrative expenses, is directly related to the continuing rationalization of these costs throughout the Company and to a lesser extent, the effects of foreign currency translation.

OPERATING INCOME

For the quarter ended September 30, 1999, consolidated operating income increased 239.5% to \$257.0 from \$75.7 at September 30, 1998. For the nine months ended September 30, 1999, consolidated operating income increased 25.9% to \$655.0 from \$520.2 for the same period a year earlier. Consolidated operating income for the quarter and nine months ended September 30, 1999 included a net pre-tax restructuring credit of \$7.1 as compared to a pre-tax restructuring charge of \$186.6 for the same period in 1998.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

An analysis of operating income, excluding restructuring charges (credits), by operating division follows:

	Operating Income				Percentage Chan	
	Third Quarter		Nine Months Ended		Third	Ni
	1999	1998	1999	1998	Quarter	Mon
	-----	-----	-----	-----	-----	---
Divisions:						
Americas	\$105.5	\$104.3	\$284.5	\$281.9	1.2%	
European	159.8	174.3	399.8	484.0	(8.3%)	(17
Asia-Pacific	5.5	1.9	24.8	3.6	189.5%	
Other	(20.9)	(18.2)	(61.2)	(62.7)	(14.8%)	2
	-----	-----	-----	-----		
	\$249.9	\$262.3	\$647.9	\$706.8	(4.7%)	(8
	=====	=====	=====	=====		

As a percentage of net sales, Americas Division operating income was 10.0% in the third quarter of 1999 as compared to 9.3% for the same period in 1998. The increase in third quarter 1999 operating margins was primarily due to (i) cost savings from the 1998 restructuring program and (ii) unit volume gains in plastic bottles and plastic closures, which offset sales unit volume declines of food cans and beverage cans.

European Division operating income as a percentage of net sales was 15.8% in the third quarter of 1999 as compared to 16.1% for the comparable period of 1998. The decrease in third quarter operating margins was primarily due to (i) sales unit volume decreases of aerosol cans and non-beverage plastic closures, (ii) continued weakness across several product lines in Eastern Europe, and (iii) the effect of competitive pricing across several product lines which offset sales unit volume increases of food cans and beverage cans. Weaker demand, particularly in the food can sector, has led to excess capacity within the industry, and the resulting price competition has adversely affected the Division's profitability. We have been able to partially offset this pricing situation through restructuring activities and production efficiencies gained from capital expenditure and other programs. Additional factors which have reduced reported profits this year include the stronger shipments of food cans in the more price competitive markets as well as the strengthening of U.S dollar against many European currencies. We expect the food can sector will remain challenging in the near term.

In the third quarter of 1999, operating income in the Asia-Pacific Division was 7.6% of net sales as compared to 2.2% for the same period in 1998. The increase in 1999 margins was due primarily to (i) sales unit volume increases of food cans, beverage cans and plastic beverage closures in Thailand and (ii) increased sales unit volumes of beverage cans in Singapore, which offset (i) sales unit volume decreases of beverage cans in China and (ii) competitive selling pressures across many product lines throughout the region.

NET INTEREST EXPENSE / INCOME

Net interest expense was \$86.1 in the third quarter, a decrease of \$3.7 or 4.1% compared to third quarter 1998 net interest expense of \$89.8. The decrease in net interest expense is due primarily to generally lower interest rates, debt reduction and lower raw material costs which have helped to reduce the early seasonal build-up of working capital.

TAXES ON INCOME

The effective tax rate for the nine months ended September 30, 1999 was 34.7% as compared to 37.3% for the same period in 1998. Excluding restructuring and other charges and gain on sale of assets, the effective tax rates were 34.5% and 35.0% for the nine months ended September 30, 1999 and 1998, respectively. The marginal decrease in the effective tax rate is primarily attributable to greater earnings in lower tax rate jurisdictions.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

MINORITY INTERESTS, NET OF EQUITY IN EARNINGS OF AFFILIATES

The charge for minority interests, net of equity earnings, increased by \$4.3 in the third quarter of 1999 over 1998. This increase was due to improved results in the Company's consolidated joint ventures in China, Greece and Thailand.

LIQUIDITY AND CAPITAL RESOURCES

CASH FROM OPERATIONS

Net cash of \$140.5 was provided by operating activities during the nine months ended September 30, 1999 as compared to cash provided of \$66.3 for the same period in 1998. Lower working capital was employed, a result of lower raw material costs in 1999 compared to 1998 as well as better working capital management which offset the decrease in net income from continuing operations.

INVESTING ACTIVITIES

Investing activities used cash of \$193.5 during the nine months ended September 30, 1999 compared with cash used of \$327.1 for the same period in 1998. Capital expenditures for the first nine months of 1999 were \$209.5, a decrease of \$132.6 as compared to capital expenditures of \$342.1 during the same period in 1998. The Company intends to limit 1999 capital spending to approximately \$300.0 in 1999 as compared to 1998 capital expenditures of \$487.0.

FINANCING ACTIVITIES

Financing activities provided cash of \$12.8 during the nine months ended September 30, 1999 compared with cash provided of \$300.3 during the same period of 1998. Lower raw material costs have held down the cost of pre-season working capital build-ups in 1999 and, as such, the increase in commercial paper borrowings in the first nine months of 1999 is lower than in the first nine months of 1998.

On August 25, 1999, the Company sold \$350 of public debt securities. The notes mature on September 1, 2002 and bear interest at 7.125%. The credit rating on the notes was reaffirmed by Standard & Poor's at BBB. Proceeds were used to refinance a portion of our outstanding commercial paper debt as the Company increases the mix of fixed to floating rate debt.

Total debt, net of cash and cash equivalents, at September 30, 1999 was \$5,542.0 and represents an increase of \$171.4 above the December 31, 1998 level of \$5,370.6 and a decrease of \$294.2 from the September 1998 level of 5,836.2. Total debt, net of cash and cash equivalents, as a percentage to total capitalization was 62.9% at September 30, 1999 as compared to 62.3% at December 31, 1998 and 62.6% at September 30, 1998. Total capitalization is defined by the Company as total debt (net of cash and cash equivalents), minority interests and shareholders' equity.

The increase in total debt, net of cash and cash equivalents, from December 31, 1998 is due primarily to the funding of working capital requirements on a short-term basis through the issuance of commercial paper. The increase in total debt as a percentage to total capitalization was also affected by a reduction in shareholders' equity due to negative currency translation adjustments for the nine months ended September 30, 1999.

RECENT ACCOUNTING DEVELOPMENTS

In June 1999, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 137, an amendment of SFAS No. 133-Accounting for Derivative Instruments and Hedging Activities. SFAS No. 137 has deferred the effective date of SFAS No. 133 from January 1, 2000 to January 1, 2001. SFAS No. 133 requires that the Company value all outstanding derivative instruments at fair value and record those instruments on the balance sheet. The standard also significantly changes the requirements for hedge accounting. The Company continues to evaluate the requirements of the standard and is preparing an implementation plan.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**MARKET RISK**

Since December 31, 1998, the notional value of outstanding foreign exchange contracts has been reduced by approximately 39%. This decrease is due primarily to the introduction of the Euro.

The following discussions related to the Year 2000 and Euro conversion are updated from the discussions included in the Company's annual report on Form 10-K for the year ended December 31, 1998.

YEAR 2000

Computers and computer dependent equipment are used throughout the Company's operations. Certain computerized systems in use today were designed using two digits rather than four digits to define the applicable year, which could result in the systems recognizing a date containing "00" as the year 1900 rather than the year 2000. This could lead to miscalculations or system failures and is generally referred to as the "Year 2000" or "Y2K" issue.

In order to address the Y2K issue, the Company established a steering committee that reports to senior executive management and the Board of Directors of the Company. The steering committee is responsible for the formulation of the Company's Y2K global plan and oversight of strategy, risk assessment, coordination and reporting. Project offices have also been established within each division to roll out, monitor and manage implementation of the Company's global plan.

The Company's global plan is divided into several major phases: Inventory and Assessment, Remediation Analysis, Implementation, and Contingency Planning.

Inventory and Assessment - The inventory phase was substantially completed in June 1998 including the identification of internal mission-critical business systems and vendor and other third party relationships. The Company substantially completed its internal risk assessment of potentially Y2K impacted information technology ("IT") and non-IT equipment and facilities during October 1998. In that regard, the Company has identified Y2K issues with various mid-range IT systems, personal computers, servers, telephone systems and embedded systems in manufacturing and related equipment. The assessment of the Company's third-party risks involved the identification of critical vendors, Y2K confirmation correspondence, evaluations and selected vendor reviews. The Company has completed the identification of its vendor relationships and has received approximately 92% of its requested Y2K confirmation letters. Certain top-critical vendors are being subjected to follow-up including interviews, on-site visits and other available means. If, in the Company's judgement, a vendor presents a significant risk of Year 2000 business disruption, alternative vendors are qualified and secured. In addition, the Company currently has an inadequate Y2K survey response from utility suppliers and is in the process of evaluating its risk profile with respect to utility service. Accordingly, the Company has performed alternate follow-up procedures and strategies to support its risk evaluation and contingency planning efforts.

These assessments and reviews are expected to be ongoing through the remainder of the year. Despite these efforts, the Company can provide no assurance that critical suppliers of important goods and services (including, but not limited to, utility service and communications) will complete their Y2K compliance plans in a timely manner.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Remediation Analysis - The Company substantially completed this project phase in February 1999. During this stage of the project, remediation strategies were evaluated and planned to correct identified Y2K non-compliance. Correction strategies included vendor-supported upgrades, system or asset replacements, correction of non-compliant code and systems consolidation.

Implementation - This phase involves the correction and testing of identified internal Y2K risks in conjunction with the remediation analysis phase. The Company's implementation plan established priorities for remediation or replacement. The business systems considered most critical to ongoing operations have been given the highest priority. Such mission-critical systems include business and operating systems such as sales order billing, production planning, procurement and disbursements, logistics and embedded systems in manufacturing and related equipment that, if shutdown or interrupted, could have a material adverse impact on the Company. All other systems include business support systems such as personal computer technology, internal data transmission and voice communication that, if shutdown or interrupted, may have a less material impact on the Company's operations.

Mission Critical IT Systems - Approximately 90% of the Company's locations that contain mission-critical IT systems require some form of correction. Approximately 99% of mission-critical business systems have been completed with the remaining systems currently being made ready for Year 2000. The Company has achieved implementation of Y2K-capable mission-critical systems covering 98% of its operating revenues. The

Company plans to complete the remaining mission-critical implementations during the fourth quarter of 1999.

The Company's mission-critical system testing methods include obtaining hardware and software certifications from critical vendors and consultants and performing Y2K compliance tests including data exchange with critical vendors and customers. Testing of critical systems is expected to be completed on an ongoing basis throughout the remainder of the year.

Embedded Systems - During 1998, the Company performed a comprehensive evaluation of embedded systems within its manufacturing and facilities

infrastructure. This evaluation covered approximately 27,000 inventoried systems and over 1,000 machinery and systems manufacturers. Assessment results indicated a very low non-compliant rate. Accordingly, while the Company cannot rule out some potential impact, overall risk in this area is believed to be low. Unit replacements or reprogramming will occur as part of the Company's normal maintenance program in 1999. Such costs are not expected to be significant. The Company has conducted detailed testing of certain manufacturing processes. The results of these tests confirm the current risk assessment.

Personal Computer Technology - The Company is currently implementing replacement or correction methods to address Y2K non-compliance in both hardware and software. Modest portions of these corrections pertain to mission-critical systems. The Company considers its overall risk in this area to be low.

Telephone Exchange Systems - The Company has substantially completed its assessment of telephone exchange systems within its facilities. Approximately 20% of these systems will be upgraded during 1999. Notwithstanding these efforts, the Company believes that certain countries in which it operates may be subject to broader regional communication system failures. Accordingly, an extended assessment of this risk has been conducted to both evaluate the reliability of the initial assessment and identify contingency options. Contingency plans resulting from this assessment are being implemented.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Contingency Planning - The Company is developing contingency plans to address potential disruptions that may result from unresolved Y2K issues. Because Y2K is a date-driven risk, the Company has identified and is implementing prevention plans for its core operations to mitigate disruption, especially in January 2000. This contingency plan will also be used to address potential disruption caused by the leap year day (February 29, 2000). Prevention plans may include temporary deactivation of certain systems and equipment just prior to January 1, 2000, targeted supply-chain management measures to ensure supply of certain key commodities as well as customer supply initiatives. For instance, facility and manufacturing supplies may be procured in 1999 to support production requirements in early 2000. Additionally, in order to address any isolated or wide spread disruptions, the Company is implementing help-desk and supplemental manufacturing support through the critical rollover period. Risks of a less controllable nature, such as utility service outages and communication system failure are being addressed in contingency planning. The Company completed its prevention and contingency plan development and design in June 1999. The Company has substantially completed the rollout of the contingency plan. Implementation and testing of the contingency plan is underway.

The Company's Y2K global plan could be adversely affected if any of the Company's factors or assumptions are incorrect or if its ongoing review discovers unanticipated problems. The Company cannot give assurance that its global plan will be completed on schedule or that it will not uncover Y2K issues that could create a material impact on its performance.

The Company believes that the most reasonably likely worst-case scenario for the Company with respect to the Y2K problem is the failure of a critical vendor, such as a utility supplier, to provide required goods or services after December 31, 1999. Such a failure could result in temporary production outages and lost sales and profits. The Company believes that because of the high degree of geographic dispersion of its operations (with approximately 223 plants in 49 countries), it is unlikely that an isolated third-party failure would have a material adverse effect on the Company's results of operations, financial condition, or cash flow. The Company also believes that the formulation of contingency plans should reduce the severity and length of any such possible disruptions and losses. Nevertheless, because the Company's Y2K compliance is dependent upon key third party Y2K readiness, there can be no assurance that the Company's Y2K compliance efforts will prevent a Y2K problem outside its direct control from adversely affecting the results of its operations, financial condition or cash flow. In addition, although not anticipated, any failure by the Company to correct critical internal computer systems before Year 2000 could have such an adverse effect.

Year 2000 Project Expenditures - The Company estimates that it will spend approximately \$20-\$22 (pre-tax) for its Y2K

compliance efforts. To date, the Company has spent approximately \$16, of which \$8 has been expensed. The Company anticipates that funding for its Y2K compliance program will be from operating cash flows. These cost estimates do not include labor costs of employees allocated to the Y2K compliance effort, as it is not practicable to accumulate such costs. available information and does not necessarily include all potential costs related to ongoing assessment and remediation or any execution of contingency plans brought about by internal or external Y2K issues or cost estimate changes related to replacement systems or code remediation efforts. Actual results could differ from these estimates.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

EURO CONVERSION

On January 1, 1999, eleven of the fifteen member nations ("the participating countries") of the European Union ("EU") established fixed conversion rates between their existing sovereign currencies (the "legacy currencies") and the Euro. For a period of three years, the transition period, both the Euro and the individual participants' currencies will remain in circulation. Parties may pay for goods and services using either the Euro or the participating country's sovereign currency. Conversion rates will be computed through a "triangulation" process which will convert one sovereign currency into an amount denominated in the Euro and then convert the Euro-denominated amount into the second legacy currency. After January 1, 2002, the Euro will be the sole legal tender for these countries. During the transition period, the adoption of the Euro will affect a multitude of financial systems and business applications as the commerce of these nations will be transacted in the Euro as well as the legacy currencies.

The Company is currently addressing Euro-related issues and their impact on information systems, currency exchange rate risk, employment and benefits, taxation, contracts, competition and pricing. Under the action plan developed by the Company, teams have been formed to address selling prices and costs, personnel and communications, finance, administration and information technology. The Company has incurred and expects to continue to incur expenses for the internal technology and operations staff to implement its Euro conversion plan. These costs, although not expected to be material, will be incurred through 2003 to cover the costs of preparing for and making operational changes to accommodate the introduction of the Euro. The costs for this conversion involve updated technology and are being addressed in conjunction with Year 2000 remediation.

At September 30, 1999, approximately 64% of the contract notional value on outstanding foreign exchange contracts involve the Euro, primarily with sterling. Conversion to the Euro has reduced the amount of the Company's exposure to exchange rate risk, due to the netting effect of having assets and liabilities denominated in a single currency as opposed to the various legacy currencies. The number of contracts outstanding at the end of the quarter as compared to the end of 1998 has been reduced by approximately 20% with a corresponding reduction in notional value of approximately \$1,050. This reduction in outstanding foreign exchange contracts has generated approximately \$.7 of transaction savings. Because there will be less diversity in the Company's exposure to foreign currencies, movements of the Euro's value in U.S. dollars could have a more pronounced effect, whether positive or negative.

Although all key suppliers have committed that they will be Euro-compliant, the Company can give no assurance that third parties on whom it depends will have the systems necessary to process Euro-denominated transactions. Moreover, disruption of activity in the European markets because of the conversion could adversely affect the Company's businesses in those markets, resulting in lost revenues and increased costs.

As part of the conversion process the Company is developing contingency plans. The contingency plans will include assessing and communicating the impact of any delays. These plans will also address likely problems in the aftermath of conversion with a view to maximizing the Company's ability to avoid any disruption.

The Company does not expect the conversion to the Euro to have a material adverse effect upon its results of operations, financial condition or cash flow. However, the Company cannot guarantee that, with respect to the Euro conversion, all problems, including long-term competitive implications of the conversion, will be foreseen and corrected, that no material disruption of the Company's business will occur, or that there will be no delays in the dates targeted by the Company for the Euro conversion process.

Crown Cork & Seal Company, Inc.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FORWARD LOOKING STATEMENTS

Statements included herein in "Management's Discussion and Analysis of Financial Condition and Results of Operations", including, but not limited to, in the "Year 2000" and "Euro Conversion" sections, and in the discussion of the restructuring plans in Note D to the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q and also in Part I, Item 1: "Business" and Item 3: "Legal Proceedings" and in Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations", within the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1998, which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions related thereto), are "forward-looking statements" within the meaning of the federal securities laws. In addition, the Company and its representatives may from time to time make other oral or written statements which are also "forward-looking statements."

These forward-looking statements are made based upon management's expectations and beliefs concerning future events affecting the Company and therefore involve a number of risks and uncertainties. Management cautions that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

While the Company periodically reassesses material trends and uncertainties affecting the Company's results of operations and financial condition in connection with the preparation of Management's Discussion and Analysis of Financial Condition and Results of Operations and certain other sections contained in the Company's quarterly, annual or other reports filed with the Securities and Exchange Commission ("SEC"), the Company does not intend to review or revise any particular forward-looking statement in light of future events.

A discussion of important factors that could cause the actual results of operations or financial condition of the Company to differ from expectations has been set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 1998 within Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Forward Looking Statements" and is incorporated herein by reference. Some of the factors are also discussed elsewhere in this Form 10-Q and in prior Company filings with the SEC. In addition, other factors have been or may be discussed from time to time in the Company's SEC filings.

Crown Cork & Seal Company, Inc.

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