

PRAXAIR INC
Form 10-Q
July 29, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 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 June 30, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

PRAXAIR, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation)

1-11037
(Commission File Number)

06-1249050
(IRS Employer Identification No.)

39 OLD RIDGEBURY ROAD, DANBURY, CT
(Address of principal executive offices)

06810-5113
(Zip Code)

(203) 837-2000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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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 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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer 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**

At June 30, 2009, 306,796,799 shares of common stock (\$0.01 par value) of the Registrant were outstanding.

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Table of Contents**PRAXAIR, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(Millions of dollars, except per share data)

(UNAUDITED)

	Quarter Ended June 30,	
	2009	2008
SALES	\$ 2,138	\$ 2,878
Cost of sales, exclusive of depreciation and amortization	1,190	1,748
Selling, general and administrative	265	341
Depreciation and amortization	207	216
Research and development	18	24
Other income (expense) - net	(11)	(6)
OPERATING PROFIT	447	543
Interest expense - net	33	52
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	414	491
Income taxes	109	137
INCOME BEFORE EQUITY INVESTMENTS	305	354
Income from equity investments	6	8
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	311	362
Less: noncontrolling interests	(12)	(13)
NET INCOME - PRAXAIR, INC.	\$ 299	\$ 349
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	\$ 0.97	\$ 1.11
Diluted earnings per share	\$ 0.96	\$ 1.08
Cash dividends per share	\$ 0.40	\$ 0.375
WEIGHTED AVERAGE SHARES OUTSTANDING (000 s):		
Basic shares outstanding	307,957	315,312
Diluted shares outstanding	312,429	322,088

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

Table of Contents**PRAXAIR, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

(Millions of dollars, except per share data)

(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
SALES	\$ 4,261	\$ 5,541
Cost of sales, exclusive of depreciation and amortization	2,385	3,343
Selling, general and administrative	530	676
Depreciation and amortization	406	426
Research and development	36	48
Pension settlement charge		17
Other income (expense) - net	(15)	(6)
OPERATING PROFIT	889	1,025
Interest expense - net	68	99
INCOME BEFORE INCOME TAXES AND EQUITY INVESTMENTS	821	926
Income taxes	223	259
INCOME BEFORE EQUITY INVESTMENTS	598	667
Income from equity investments	11	17
NET INCOME (INCLUDING NONCONTROLLING INTERESTS)	609	684
Less: noncontrolling interests	(20)	(28)
NET INCOME - PRAXAIR, INC.	\$ 589	\$ 656
PER SHARE DATA - PRAXAIR, INC. SHAREHOLDERS		
Basic earnings per share	\$ 1.91	\$ 2.09
Diluted earnings per share	\$ 1.89	\$ 2.04
Cash dividends per share	\$ 0.80	\$ 0.75
WEIGHTED AVERAGE SHARES OUTSTANDING (000 s):		
Basic shares outstanding	307,887	314,624
Diluted shares outstanding	312,021	321,245

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

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PRAXAIR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Millions of dollars)

(UNAUDITED)

	June 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 33	\$ 32
Accounts receivable - net	1,555	1,604
Inventories	423	445
Prepaid and other current assets	181	220
TOTAL CURRENT ASSETS	2,192	2,301
Property, plant and equipment (less accumulated depreciation of \$8,864 at June 30, 2009 and \$8,341 at December 31, 2008)	8,435	7,922
Goodwill	1,953	1,909
Other intangible assets - net	119	121
Other long-term assets	887	801
TOTAL ASSETS	\$ 13,586	\$ 13,054
LIABILITIES AND EQUITY		
Accounts payable	\$ 721	\$ 820
Short-term debt	393	642
Current portion of long-term debt	692	674
Other current liabilities	670	843
TOTAL CURRENT LIABILITIES	2,476	2,979
Long-term debt	4,022	3,709
Other long-term obligations	2,142	2,055
TOTAL LIABILITIES	8,640	8,743
Commitments and contingencies (Note 10)		
EQUITY		
Praxair, Inc. Shareholders' equity	4,638	4,009
Noncontrolling interests	308	302
TOTAL EQUITY	4,946	4,311
TOTAL LIABILITIES AND EQUITY	\$ 13,586	\$ 13,054

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

Table of Contents**PRAXAIR, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Millions of dollars)

(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
OPERATIONS		
Net income - Praxair, Inc.	\$ 589	\$ 656
Noncontrolling interests	20	28
Net income (including noncontrolling interests)	\$ 609	\$ 684
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	406	426
2008 Cost reduction program, payments	(28)	
Deferred income taxes	29	11
Share-based compensation	19	22
Accounts receivable	47	(269)
Inventory	19	(33)
Prepaid and other current assets	14	(25)
Payables and accruals	(246)	95
Pension contributions	(9)	(13)
Other	52	(130)
Net cash provided by operating activities	912	768
INVESTING		
Capital expenditures	(663)	(724)
Acquisitions	(11)	(70)
Divestitures and asset sales	13	46
Net cash used for investing activities	(661)	(748)
FINANCING		
Short-term debt borrowings - net	(272)	108
Long-term debt borrowings	833	918
Long-term debt repayments	(504)	(670)
Issuances of common stock	37	154
Purchases of common stock	(85)	(332)
Cash dividends - Praxair, Inc. shareholders	(246)	(236)
Excess tax benefit on stock option exercises	6	44
Noncontrolling interest transactions and other	(22)	
Net cash used for financing activities	(253)	(14)
Effect of exchange rate changes on cash and cash equivalents	3	4
Change in cash and cash equivalents	1	10
Cash and cash equivalents, beginning-of-period	32	17

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Cash and cash equivalents, end-of-period	\$ 33	\$ 27
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The accompanying notes are an integral part of these financial statements.

Table of Contents**PRAXAIR, INC AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF EQUITY**

(Millions of dollars, except per share data, shares in thousands)

(UNAUDITED)

Activity	Common Stock			Praxair, Inc. Shareholders' Equity		Treasury Stock		Praxair, Inc. Shareholders' Equity		Noncontrolling Interests	Total Equity
	Shares	Amounts	Additional Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Shares	Amounts	Shareholders' Equity	Interests		
Balance, January 1, 2009	377,026	\$ 4	\$ 3,328	\$ 6,068	\$ (1,768)	70,165	\$ (3,623)	\$ 4,009	\$ 302	\$ 4,311	
Net Income				589				589	20	609	
Translation Adjustments					307			307		307	
Derivative Instruments, net of \$3 million taxes					7			7		7	
Funded Status - retirement obligations, net of \$1 million taxes					(2)			(2)		(2)	
Comprehensive income (a)								901	20	921	
Dividends to Praxair, Inc common stock (\$0.80 per share)				(246)				(246)		(246)	
Dividends to noncontrolling interests									(16)	(16)	
Contributions from noncontrolling interests									5	5	
Purchases of noncontrolling interests				(8)				(8)	(5)	(13)	
Sales of noncontrolling interests									2	2	
Issuances of common stock:											
For the dividend reinvestment and stock purchase plan	54		4					4		4	
For employee savings and incentive plans	895		25			(233)	15	40		40	
Purchases of common stock						1,246	(88)	(88)		(88)	
Tax benefit from stock options			7					7		7	
Share-based compensation			19					19		19	
Balance, June 30, 2009	377,975	\$ 4	\$ 3,375	\$ 6,411	\$ (1,456)	71,178	\$ (3,696)	\$ 4,638	\$ 308	\$ 4,946	

(a) The components of comprehensive income are as follows:

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	Quarter ended June 30, 2009
Net income (including noncontrolling interests)	\$ 311
Cumulative translation adjustments	461
Derivative instruments	1
Pension/OPEB funded status obligation	(8)
	765
Less: noncontrolling interests	21
Comprehensive income - Praxair, Inc.	\$ 744

(b) The components of accumulated other comprehensive income (loss) are as follows:

	June 30, 2009	December 31, 2008
Cumulative translation adjustments (CTA)	\$ (988)	\$ (1,295)
Derivative instruments	4	(3)
Pension/OPEB funded status obligation	(459)	(457)
	(1,443)	(1,755)
Less: noncontrolling interests (CTA)	13	13
AOCI - Praxair, Inc.	\$ (1,456)	\$ (1,768)

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

Table of Contents**PRAXAIR, INC AND SUBSIDIARIES****CONSOLIDATED STATEMENT OF EQUITY**

(Millions of dollars, except per share data, shares in thousands)

(UNAUDITED)

Activity	Common Stock		Praxair, Inc. Shareholders' Equity			Equity		Praxair, Inc.		Total Equity
	Shares	Amounts	Additional Paid-In Capital	Retained Earnings	Other Comprehensive Income (Loss) (b)	Treasury Stock Shares	Amounts	Shareholders' Equity	Noncontrolling Interests	
Balance, January 1, 2008	373,145	\$ 4	\$ 3,074	\$ 5,325	(\$672)	57,657	(\$2,589)	\$ 5,142	\$ 321	\$ 5,463
Net Income				656				656	28	684
Translation Adjustments					229			229	13	242
Derivative Instruments, net of \$2 million taxes					(5)			(5)		(5)
Funded Status - retirement obligations, net of \$9 million taxes					14			14		14
Comprehensive income (a)								894	41	935
Dividends to Praxair, Inc common stock (\$0.75 per share)				(236)				(236)		(236)
Dividends to noncontrolling interests									(19)	(19)
Purchases of noncontrolling interests									(9)	(9)
Sales of noncontrolling interests									(17)	(17)
Issuances of common stock:										
For the dividend reinvestment										
and stock purchase plan	42		4					4		4
For employee savings and incentive plans	3,085		114			(717)	40	154		154
Purchases of common stock						4,347	(359)	(359)		(359)
Tax benefit from stock options			50					50		50
Share-based compensation			22					22		22
Balance, June 30, 2008	376,272	\$ 4	\$ 3,264	\$ 5,745	(\$ 434)	61,287	(\$ 2,908)	\$ 5,671	\$ 317	\$ 5,988

(a) The components of comprehensive income are as follows:

Quarter ended
June 30,

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	2008
Net income (including noncontrolling interests)	\$ 362
Cumulative translation adjustments	140
Derivative instruments	1
Pension/OPEB funded status obligation	7
	510
Less: noncontrolling interests	13
Comprehensive income - Praxair, Inc.	\$ 497

(b) The components of accumulated other comprehensive income (loss) are as follows:

	June 30, 2008	December 31, 2007
Cumulative translation adjustments (CTA)	\$ (174)	\$ (416)
Derivative instruments	(5)	
Pension/OPEB funded status obligation	(221)	(235)
	(400)	(651)
Less: noncontrolling interests (CTA)	34	21
AOCI - Praxair, Inc.	\$ (434)	\$ (672)

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

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PRAXAIR, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Summary of Significant Accounting Policies

Presentation of Condensed Consolidated Financial Statements - In the opinion of Praxair, Inc. (Praxair) management, the accompanying condensed consolidated financial statements include all adjustments necessary for a fair presentation of the results for the interim periods presented and such adjustments are of a normal recurring nature. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the consolidated financial statements of Praxair, Inc. and subsidiaries in Praxair's 2008 Annual Report on Form 10-K. There have been no material changes to the company's significant accounting policies during 2009. Praxair evaluated subsequent events up to July 29, 2009, the date the financial statements are issued.

Accounting Standards Implemented in 2009

The following standards were all effective for Praxair in 2009:

SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* requires noncontrolling interests (previously referred to as minority interests) in subsidiaries to be classified as a separate component of equity in the consolidated financial statements. The new standard also requires the amounts of net income and comprehensive income attributable to the noncontrolling interests to be included in consolidated net income on the face of the statement of income and comprehensive income, respectively, and requires various additional disclosures related to noncontrolling interests. SFAS No. 160 requires changes in ownership interest that result either in consolidation or deconsolidation to be recorded at fair value through earnings, including the retained ownership interest, while changes that do not result in either consolidation or deconsolidation of a subsidiary are treated as equity transactions. Also, in accordance with the transition provisions, prior year's presentations and disclosures have been retrospectively adjusted to conform with SFAS No. 160. Effective in 2009, transactions with noncontrolling interests are accounted for and disclosed in accordance with SFAS No. 160.

SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133, requires enhanced disclosures on the effect of derivatives on a company's consolidated financial statements. See Note 5 for required disclosures.

FSP FAS 107-1, *Interim Disclosures about Fair Value of Financial Instruments* an amendment of FASB Statement No. 107, requires disclosures about fair value of financial instruments in interim financial information for periods ending after June 15, 2009. See Note 5 for required disclosures. At the time Praxair adopted FSP FAS 107-1, the following standards, which did not have an impact, were also required to be adopted: FSP FAS 157-4, *Determining Whether a Market Is Not Active and a Transaction Is Not Distressed*, and FSP FAS 115-2, FAS 124-2, and EITF 99-20-2, *Recognition and Presentation of Other-Than-Temporary Impairments*.

SFAS No. 165, *Subsequent Events* establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued and requires the disclosure of the date through which a company has evaluated subsequent events. This statement is effective for Praxair for the period ended June 30, 2009 and the adoption did not have an impact on the condensed consolidated financial statements. See the section captioned *Presentation of the Condensed Consolidated Financial Statements* for required disclosures.

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The following standards were also effective for Praxair in 2009 and their adoption did not have an impact on the condensed consolidated financial statements. Refer to Note 1 to the consolidated financial statements of Praxair's 2008 Annual Report on Form 10-K for a summary of these standards:

SFAS No. 157, Fair Value Measurements as it relates to non-financial assets and liabilities that are recognized at fair value in the financial statements on a non-recurring basis.

SFAS No. 141(R), Business Combinations,

EITF 07-1, Accounting for Collaborative Arrangements, and;

EITF 08-6, Equity Method Investment Accounting Considerations.

Accounting Standards to Be Implemented

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, which changes the way entities account for securitizations. The new standard is effective for Praxair on January 1, 2010 and the adoption is not expected to have a significant impact on the consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R), which changes the way entities account for special-purpose entities. The new standard is effective for Praxair on January 1, 2010 and the adoption is not expected to have a significant impact on the consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. The Codification is effective July 1, 2009 at which point all then-existing non-SEC accounting and reporting standards will be superseded. The references to the Codification will be reflected in Praxair's third quarter 2009 consolidated financial statements. This will not have an impact to the consolidated financial statements.

Reclassifications Certain prior years' amounts have been reclassified to conform to the current year's presentation. Such reclassifications relate primarily to the presentation of noncontrolling interests in the condensed consolidated financial statements, as required by SFAS No. 160.

2. 2008 Cost Reduction Program

In the fourth quarter 2008, Praxair recorded pre-tax charges totaling \$118 million relating to severance for approximately 1,675 employees and other exit costs associated with a global cost reduction program which was initiated in response to the continuing economic downturn. At June 30, 2009, 1,486 of these positions have been eliminated. The remaining actions are planned to be completed in 2009 primarily as businesses are sold or shut down.

The following table summarizes the activity related to the company's cost reduction program accrual for the six months ended June 30, 2009:

<i>(Millions of dollars)</i>	Severance Costs	Costs associated with Exit or Disposal Activities	Total Cost Reduction Program
Balance, January 1, 2009	\$ 42	\$ 7	\$ 49
Less: Cash payments	(26)	(2)	(28)
Foreign currency translation & other	(1)	(1)	(2)

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Balance, June 30, 2009	\$	15	\$	4	\$	19
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For further details regarding the cost reduction program, refer to Note 2 to the consolidated financial statements of Praxair's 2008 Annual Report on Form 10-K.

Table of Contents**3. Inventories**

The following is a summary of Praxair's consolidated inventories:

<i>(Millions of dollars)</i>	June 30, 2009	December 31, 2008
Raw materials and supplies	\$ 152	\$ 141
Work in process	57	54
Finished goods	214	250