

PRAXAIR INC
Form 10-Q
July 26, 2006

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006

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)

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 No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

At June 30, 2006, 322,358,375 shares of common stock (\$0.01 par value) of the Registrant were outstanding.

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PART I - FINANCIAL INFORMATION*Praxair, Inc. and Subsidiaries***Item 1. Financial Statements**

PRAXAIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Millions of dollars, except per share data)
(UNAUDITED)

		Quarter Ended June 30,		
		2006		2005
SALES	\$	2,076	\$	1,919
Cost of sales, exclusive of depreciation and amortization		1,238		1,167
Selling, general and administrative		271		247
Depreciation and amortization		174		163
Research and development		22		19
Other income (expense) - net		11		(1)
OPERATING PROFIT		382		322
Interest expense - net		41		41
INCOME BEFORE INCOME TAXES		341		281
Income taxes		90		64
		251		217
Minority interests		(7)		(13)
Income from equity investments		3		5
NET INCOME	\$	247	\$	209
PER SHARE DATA:				
Basic earnings per share	\$	0.76	\$	0.65
Diluted earnings per share	\$	0.75	\$	0.63
Cash dividends per share	\$	0.25	\$	0.18
WEIGHTED AVERAGE SHARES OUTSTANDING (000's):				
Basic shares outstanding		323,519		323,898
Diluted shares outstanding		329,880		329,818

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

PRAXAIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Millions of dollars, except per share data)
(UNAUDITED)

	Six Months Ended June 30,			
	2006		2005	
SALES	\$	4,102	\$	3,746
Cost of sales, exclusive of depreciation and amortization		2,445		2,276
Selling, general and administrative		544		492
Depreciation and amortization		345		325
Research and development		43		39
Other income (expense) - net		9		17
OPERATING PROFIT		734		631
Interest expense - net		79		83
INCOME BEFORE INCOME TAXES		655		548
Income taxes		173		133
		482		415
Minority interests		(15)		(20)
Income from equity investments		5		9
NET INCOME	\$	472	\$	404
 PER SHARE DATA:				
Basic earnings per share	\$	1.46	\$	1.25
Diluted earnings per share	\$	1.43	\$	1.23
Cash dividends per share	\$	0.50	\$	0.36
 WEIGHTED AVERAGE SHARES OUTSTANDING (000's):				
Basic shares outstanding		323,661		323,858
Diluted shares outstanding		329,624		329,756

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

PRAXAIR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Millions of dollars)
(UNAUDITED)

	June 30, 2006		December 31, 2005
ASSETS			
Cash and cash equivalents	\$ 21	\$	173
Accounts receivable - net	1,453		1,386
Inventories	396		373
Prepaid and other current assets	216		201
TOTAL CURRENT ASSETS	2,086		2,133
Property, plant and equipment (less accumulated depreciation of \$6,965 at June 30, 2006 and \$6,553 at December 31, 2005)	6,417		6,108
Goodwill	1,590		1,545
Other intangible assets - net	74		81
Other long-term assets	672		624
TOTAL ASSETS	\$ 10,839	\$	10,491
LIABILITIES AND EQUITY			
Accounts payable	\$ 576	\$	639
Short-term debt	587		231
Current portion of long-term debt	288		290
Other current liabilities	882		841
TOTAL CURRENT LIABILITIES	2,333		2,001
Long-term debt	2,579		2,926
Other long-term obligations	1,455		1,460
TOTAL LIABILITIES	6,367		6,387
Commitments and contingencies (Note 10)			
Minority interests	203		202
Shareholders' equity	4,269		3,902
TOTAL LIABILITIES AND EQUITY	\$ 10,839	\$	10,491

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

PRAXAIR, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Millions of dollars)
(UNAUDITED)

	Six Months Ended June 30,	
	2006	2005
OPERATIONS		
Net income	\$ 472	\$ 404
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	345	325
Deferred income taxes	54	33
Stock option expense	22	-
Accounts receivable	(76)	(59)
Inventory	(20)	(23)
Prepaid and other current assets	(13)	(30)
Payables and accruals	(15)	74
Pension contributions	(118)	(72)
Other	(16)	27
Net cash provided by operating activities	635	679
INVESTING		
Capital expenditures	(526)	(363)
Acquisitions	(6)	(5)
Divestitures and asset sales	13	13
Net cash used for investing activities	(519)	(355)
FINANCING		
Short-term debt borrowings - net	128	33
Long-term debt borrowings	66	21
Long-term debt repayments	(248)	(185)
Excess tax benefit on stock option exercises	12	-
Minority interest transactions and other	(5)	(7)
Issuances of common stock	156	126
Purchases of common stock	(217)	(192)
Cash dividends	(161)	(116)
Net cash used for financing activities	(269)	(320)
Effect of exchange rate changes on cash and cash equivalents	1	(1)
Change in cash and cash equivalents	(152)	3
Cash and cash equivalents, beginning-of-period	173	25
Cash and cash equivalents, end-of-period	\$ 21	\$ 28

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

PRAXAIR, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Dollar amounts in millions, except share data, shares in thousands)
(UNAUDITED)

Activity	Common Stock		Additional	Treasury Stock		Retained	Accumulated	Total
	Shares	Amounts	Paid-In Capital	Shares	Amounts	Earnings	Other Comprehensive Income (Loss) ^(b)	
Balance, January 1, 2006	363,713	\$ 4	\$ 2,489	41,374	\$ (1,356)	\$ 4,022	(1,257)	\$ 3,902
Net income						472		472
Translation adjustments							94	94
Minimum pension liability, net of \$8 million of taxes							(11)	(11)
Comprehensive income ^(a)								555
Dividends on common stock (\$0.50 per share)						(161)		(161)
Issuances of common stock: For the dividend reinvestment and stock purchase plan	49		3					3
For employee savings and incentive plans	1,882		82	(2,063)	70			152
Purchases of common stock				3,975	(220)			(220)
Tax benefit from stock options			16					16

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Stock option expense			22				22
Balance, June 30, 2006	365,644 \$	4 \$	2,612	43,286 \$	(1,506) \$	4,333 \$	(1,174) \$ 4,269

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

	Quarter Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$ 247	\$ 209.	\$ 472	\$ 404.
Translation adjustments	21	47	94	(22)
Derivative instruments	-	(1)	-	-
Minimum pension liability	-	-	(11)	(2)
	\$ 268	\$ 255	\$ 555	\$ 380

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

	June 30, 2006	December 31, 2005
Accumulated translation adjustments	\$ (956)	\$ (1,050)
Accumulated minimum pension liability	(217)	(206)
Accumulated derivatives	(1)	(1)
	\$ (1,174)	\$ (1,257)

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

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 2005 Annual Report. There have been no material changes to the company's significant accounting policies during 2006 with the exception of the expensing of stock options as required by Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R).

Stock-Based Compensation - Effective January 1, 2006, the company adopted SFAS No. 123R and related interpretations which require the measurement and recognition of compensation expense for all share-based payments to employees and directors based on their fair value. Prior to 2006, the company accounted for stock options using the intrinsic value method under Accounting Principles Board Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees" as permitted under SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, stock option expense was not recognized in net income as the exercise price of options granted was equal to the market value of the stock at the date of grant. The company provided pro forma net income and earnings per share amounts in the footnotes as if stock option expense had been recognized based on fair value, as required.

The company has elected the modified prospective transition method as permitted by SFAS No. 123R. Prior periods have not been restated to reflect the impact of stock option expense. Stock option expense will be recorded for all new and unvested stock options that are expected to vest over the service period beginning on January 1, 2006.

Prior to the adoption of SFAS No. 123R, the company presented tax benefits resulting from the exercise of stock options as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123R requires that cash flows resulting from tax deductions in excess of recognized compensation cost be classified as financing cash flows. For the six months ended June 30, 2006, approximately \$12 million in excess tax benefits were classified as financing cash flows.

Stock option expense is generally recognized on a straight-line basis over the stated vesting period. For stock option awards granted to full-retirement-eligible employees, expense is recognized over the period from the grant date to the date retirement eligibility is achieved.

Refer to Note 3 to the condensed consolidated financial statements for further stock-based compensation disclosures.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. Recently Issued Accounting Standards

In July 2006, the FASB issued FASB Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109" which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 is a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. If an income tax position exceeds a more likely than not (greater than 50%) probability of success upon tax audit, the company will recognize an income tax benefit in its financial statements. Additionally, companies are required to accrue interest and related penalties, if applicable, on all tax exposures consistent with jurisdictional tax laws. This interpretation is effective on January 1, 2007 for Praxair and the company is currently in the process of evaluating the impact of this interpretation on the consolidated financial

statements.

3. Stock-Based Compensation

The company adopted SFAS No. 123R effective January 1, 2006, resulting in the recognition of stock option expense of \$11 million, \$7 million after tax, for the quarter ended June 30, 2006. Stock option expense recognized for the six months ended June 30, 2006 was \$22 million, \$14 million after tax. The impact to both basic and diluted earnings per share was \$0.02 and \$0.04 for the quarter and six months ended June 30, 2006, respectively. The expense for both periods was primarily recorded in selling, general and administrative expenses. There was no share-based compensation cost that was capitalized.

Summary of Plans

The company currently has two share-based compensation programs, the 2002 Praxair, Inc. Long-Term Incentive Plan (the 2002 Plan) and the 2005 Equity Compensation Plan for Non-Employee Directors of Praxair, Inc. (the 2005 Plan). Exercise prices for options granted under the 2002 and 2005 Plans may not be less than the closing market price of the company's common stock on the date of grant and granted options may not be repriced or exchanged without shareholder approval. Options granted under the 2002 and 2005 Plans become exercisable after a minimum of one year after the date of grant and have a maximum duration of ten years. The aggregate number of shares available for option and other equity grants is limited to 31,600,000 shares for the 2002 Plan and 500,000 shares for the 2005 Plan. As of June 30, 2006, 13,625,018 and 425,220 shares remained available for equity grants under the 2002 and 2005 Plans, respectively.

The company has the ability to repurchase shares on the open market to satisfy share option exercises and issues shares from treasury stock upon the exercise of certain stock options.

For further detail regarding the company's share-based compensation plans, refer to Note 17 to the consolidated financial statements included on page 58 of Praxair's 2005 Annual Report.

Fair Value

The company utilizes the Black-Scholes Options-Pricing Model to determine the fair value of stock options under SFAS No. 123R, consistent with that used for pro forma disclosures in prior years. Management is required to make certain assumptions with respect to selected model inputs, including anticipated changes in the underlying stock price (i.e., expected volatility) and option exercise activity (i.e., expected life). Expected volatility is based on the historical volatility of the company's stock over the most recent period commensurate with the estimated expected life of the company's stock options and other factors. The expected life of options granted, which represents the period of time that the options are expected to be outstanding, is based, primarily, on historical data. The expected dividend yield is based on the company's history and expectation of dividend payouts. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected life. If factors change and result in different assumptions in the application of SFAS No. 123R in future periods, the stock option expense that the company records for future grants may differ significantly from what the company has recorded in the current period.

The weighted-average fair value of options granted during the quarter and six months ended June 30, 2006 was \$11.57 and \$10.85, respectively, (\$11.32 and \$10.15 for the same time periods in 2005, respectively) based on the Black-Scholes Options-Pricing model. The following weighted-average assumptions were used for grants in 2006 and 2005:

Quarter Ended June 30,	Six Months Ended June 30,
---------------------------	------------------------------

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	2006	2005	2006	2005
Dividend yield	1.83%	1.51%	1.85%	1.63%
Volatility	17.67%	22.69%	17.64%	22.69%
Risk-free interest rate	5.07%	4.16%	4.65%	3.93%
Expected term years	5	5	5	5

Stock Option Activity

The following table summarizes option activity under the plans as of June 30, 2006 and changes during the six-month period then ended (options are expressed in thousands; averages are calculated on a weighted basis; life in years; intrinsic value expressed in thousands):

Activity	Number of Options	Average Exercise Price	Average	Aggregate
			Remaining Life	Intrinsic Value
Outstanding at December 31, 2005	21,644	\$ 30.04		
Granted	4,006	\$ 53.99		
Exercised	1,832	\$ 25.99		
Cancelled or expired	28	\$ 34.72		
Outstanding at June 30, 2006	23,790	\$ 34.38	6.7	\$ 466,747
Exercisable at June 30, 2006	15,820	\$ 27.56	5.5	\$ 418,338

The aggregate intrinsic value represents the difference between the company's closing stock price of \$54 as of June 30, 2006 and the exercise price multiplied by the number of options outstanding as of that date. The total intrinsic value of stock options exercised during the quarter and six months ended June 30, 2006 was \$15 million and \$53 million, respectively (\$22 million and \$49 million for the same time periods in 2005, respectively).

Cash received from option exercises under all share-based payment arrangements for the quarter and six months ended June 30, 2006 was \$14 million and \$48 million, respectively. The actual tax benefit realized from stock option exercises totaled \$5 million and \$17 million, respectively, for the quarter and six months ended June 30, 2006.

As of June 30, 2006, \$56 million of unrecognized compensation cost related to non-vested stock options is expected to be recognized over a weighted-average period of approximately 1.5 years.

In November 2005, the FASB issued FSP No. FAS 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards." This FSP provides an elective alternative simplified method for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS No. 123R and reported in the Condensed Consolidated Statements of Cash Flows. Companies may take up to one year from the effective date of the FSP to evaluate the available transition alternatives and make a one-time election as to which method to adopt. The company is currently in the process of evaluating the alternative methods.

Pro Forma Information Under SFAS 123 for Periods Prior to 2006

The following table, which addresses the disclosure requirements of SFAS No. 148, illustrates the effect on net income and earnings per share as if the fair value recognition provisions of SFAS No. 123 had been applied to all outstanding and unvested awards in the prior year comparable periods:

<i>(Millions of dollars, except per share data)</i>	Quarter Ended June 30, 2005 ^(a)	Six Months Ended June 30, 2005 ^(a)
NET INCOME:		
As reported	\$ 209	\$ 404
Less: total stock-based employee compensation expense determined under fair value based method for all awards, net of \$4 million and \$7 million of income taxes in the quarter and six months, respectively	(7)	(13)
Pro forma net income	\$ 202	\$ 391
BASIC EARNINGS PER SHARE:		
As reported	\$ 0.65	\$ 1.25
Pro forma	\$ 0.63	\$ 1.21
DILUTED EARNINGS PER SHARE:		
As reported	\$ 0.63	\$ 1.23
Pro forma	\$ 0.61	\$ 1.19

(a) Pro forma net income amounts for the quarter and six months ended June 30, 2005 have been reduced by \$1 million (\$0.00 per diluted share) from amounts previously reported, reflecting a change in expense recognition methodology related to full-retirement eligible employees. See Note 1 on page 47 of the 2005 Annual Report.

4. Inventories

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

<i>(Millions of dollars)</i>	June 30, 2006	December 31, 2005
Raw materials and supplies	\$ 111	\$ 90
Work in process	54	67
Finished goods	231	216
	\$ 396	\$ 373

5. Debt

The following is a summary of Praxair's outstanding debt at June 30, 2006 and December 31, 2005:

<i>(Millions of dollars)</i>	June 30, 2006	December 31, 2005
SHORT-TERM		
Commercial paper and U.S. borrowings	\$ 107	\$ -
Canadian borrowings	174	91
South American borrowings	36	32
Asian borrowings	88	95
European borrowings	163	9
Other international borrowings	19	4
Total short-term debt	587	231
LONG-TERM		
U.S. borrowings		
6.90% Notes due 2006	250	250
4.75% Notes due 2007	250	250
6.625% Notes due 2007	250	250
6.50% Notes due 2008	250	250
2.75% Notes due 2008 ^(a)	299	299
6.375% Notes due 2012 ^(a, b)	527	529
3.95% Notes due 2013 ^(a)	349	349
Other	8	9
European borrowings ^(c)	565	786
Canadian borrowings ^(c)	-	140
South American borrowings	76	54
Asian borrowings	26	34
Other international borrowings	5	4
Obligations under capital leases	12	12
	2,867	3,216
Less: current portion of long-term debt	(288)	(290)
Total long-term debt	2,579	2,926
Total debt	\$ 3,454	\$ 3,447

(a) Amounts are net of unamortized discounts.

(b) June 30, 2006 and December 31, 2005 include a \$28 million and \$30 million fair value increase, respectively, related to SFAS 133 hedge accounting. See Note 14 on page 57 of the 2005 Annual Report.

(c) Classified as long-term because of the company's intent to refinance this debt on a long-term basis and the availability of such financing under the terms of the respective agreements.

6. Financial Instruments

The following table is a summary of the notional amount of currency derivatives outstanding at June 30, 2006 and December 31, 2005 (all maturities within one year):

<i>(Millions of dollars)</i>	June 30, 2006	December 31, 2005
CURRENCY CONTRACTS		
Balance sheet items	\$ 534	\$ 749
Anticipated net income	-	12
Forecasted transactions	8	7
	\$ 542	\$ 768

Praxair enters into currency exchange forward contracts to manage its exposure to fluctuations in foreign currency exchange rates. Hedges of balance-sheet items are related to recorded balance-sheet exposures, including intercompany transactions. Hedges of forecasted transactions are for the purchase of equipment related to in-progress construction projects and have been designated as hedges for accounting purposes. The impact of the hedges of forecasted transactions will not be significant. There were no net income hedges outstanding at June 30, 2006 (\$12 million at December 31, 2005 related to anticipated net income in South America which settled January 2, 2006). Additionally, there were no notional value currency-exchange contracts that effectively offset each other at June 30, 2006 (\$104 million at December 31, 2005).

At June 30, 2006, the fair value of all derivative instruments was recorded in the condensed consolidated balance sheet as \$2 million in current assets and \$2 million in current liabilities (\$6 million in current assets at December 31, 2005). There were no interest-rate derivatives outstanding at June 30, 2006 or December 31, 2005.

7. Earnings Per Share

Basic earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding. Diluted earnings per share is computed by dividing net income for the period by the weighted average number of Praxair common shares outstanding and dilutive common stock equivalents, as follows:

	Quarter ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
NUMERATOR (MILLIONS OF DOLLARS)				
Net income used in basic and diluted EPS	\$ 247	\$ 209	\$ 472	\$ 404
DENOMINATOR (THOUSANDS OF SHARES)				
Weighted average shares outstanding	322,470	322,802	322,620	322,756
Shares earned and issuable under				

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compensation plans	1,049	1,096	1,041	1,102
Weighted average shares used in basic earnings per share	323,519	323,898	323,661	323,858
Effect of dilutive securities				
Convertible debt	-	163	-	181
Employee stock options	6,361	5,757	5,963	5,717
Weighted average shares used in diluted earnings per share	329,880	329,818	329,624	329,756
BASIC EARNINGS PER COMMON SHARE	\$ 0.76	\$ 0.65	\$ 1.46	\$ 1.25
DILUTED EARNINGS PER COMMON SHARE	\$ 0.75	\$ 0.63	\$ 1.43	\$ 1.23

There were 25,100 stock options for shares excluded in the computation of diluted earnings per share for the quarter ended June 30, 2006 because the exercise prices were greater than the average market price of the common stock. Stock options for 65,000 shares were excluded in the computation for the quarter ended June 30, 2005. Stock options for 3,999,180 and 65,000 shares for the six months ended June 30, 2006 and 2005, respectively, were excluded in the computation of diluted earnings per share because the exercise prices were greater than the average market price of the common stock.

8. Goodwill and Other Intangible Assets

SFAS No. 142, "Goodwill and Other Intangible Assets," requires the company to perform an assessment at least annually as to whether there is an indication that the carrying value of goodwill is impaired at the reporting unit level. The annual impairment tests for 2005 and 2006 were performed during the second quarter of each year and no impairments were indicated.

Changes in the carrying amount of goodwill for the six months ended June 30, 2006 were as follows:

<i>(Millions of dollars)</i>	North America	South America	Europe	Asia	Surface Technologies	Total
Balance, December 31, 2005	\$ 991	\$ 161	\$ 293	\$ 26	\$ 74	\$ 1,545
Acquisitions	1	1	-	-	-	2
Purchase adjustments	2	-	-	-	-	2
Foreign currency translation	2	15	18	1	3	39
Other	-	-	2	-	-	2
Balance, June 30, 2006	\$ 996	\$ 177	\$ 313	\$ 27	\$ 77	\$ 1,590

Changes in the carrying amount of other intangibles for the six months ended June 30, 2006 were as follows:

Customer &

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	License/Use Agreements	Non-Compete Agreements	Patents & Other	Total
Cost:				
Balance, December 31, 2005	\$ 71	\$ 38	\$ 17	\$ 126
Additions	-	1	-	1
Foreign currency translation	1	1	-	2
Other	(5)	(2)	-	(7)
Balance, June 30, 2006	\$ 67	\$ 38	\$ 17	\$ 122
Less: Accumulated amortization				
Balance, December 31, 2005	\$ (22)	\$ (18)	\$ (5)	\$ (45)
Amortization expense	(3)	(4)	(1)	(8)
Foreign currency translation	-	-	-	-
Other	3	2	-	5
Balance, June 30, 2006	\$ (22)	\$ (20)	\$ (6)	\$ (48)
Net balance at June 30, 2006	\$ 45	\$ 18	\$ 11	\$ 74

There are no expected residual values related to these intangible assets. The remaining weighted-average amortization period for intangible assets is approximately 12 years. Total estimated annual amortization expense is \$8 million for the remainder of 2006; \$12 million, \$9 million, \$7 million and \$6 million for the years ended December 31, 2007, 2008, 2009 and 2010, respectively; and \$32 million thereafter.

9. Pension and OPEB

The components of net pension and postretirement benefits other than pensions (OPEB) costs for the quarters and six-month periods ended June 30, 2006 and 2005 are shown below:

<i>(Millions of dollars)</i>	Quarter Ended June 30,				Six Months Ended June 30,			
	Pensions		OPEB		Pensions		OPEB	
	2006	2005	2006	2005	2006	2005	2006	2005
Service cost	\$ 11	\$ 9	\$ 2	\$ 2	\$ 21	\$ 18	\$ 4	\$ 3
Interest cost	24	22	4	4	48	44	8	8
Expected return on plan assets	(29)	(25)	-	-	(57)	(50)	-	-
Net amortization and deferral	7	5	-	(1)	14	10	-	(1)
Net periodic benefit cost	\$ 13	\$ 11	\$ 6	\$ 5	\$ 26	\$ 22	\$ 12	\$ 10

Praxair estimates that 2006 contributions to its pension plans will be in the area of \$125 million, including required contributions. Contributions of \$118 million have been made through June 2006.

10. Legal Proceedings

Praxair is subject to various lawsuits and government investigations from time to time. These actions are based upon alleged environmental, tax, antitrust and personal injury claims, among others. While Praxair may incur a loss in connection with some of these actions, management does not anticipate that they will have a material adverse effect on the company's consolidated financial position, results of operations or cash flows in any given year (see Note 19 on page 63 of the 2005 Annual Report).

Among such matters are claims brought by welders alleging that exposure to manganese contained in welding fumes caused neurological injury. Praxair has never manufactured welding consumables. Such products were manufactured prior to 1985 by a predecessor company of Praxair. As of June 30, 2006, Praxair was a co-defendant with many other companies in 2,008 lawsuits alleging personal injury caused by manganese contained in welding fumes. There were a total of 6,995 individual claimants in these cases. The cases were pending in state or federal courts in Alabama, Arkansas, California, Georgia, Illinois, Kentucky, Louisiana, Mississippi, Missouri, Ohio, Tennessee, Texas, Utah and West Virginia. The federal cases are being transferred to the U.S. District Court for the Northern District of Ohio for coordinated pretrial proceedings. The plaintiffs seek unspecified compensatory and, in most instances, punitive damages. Eight of the cases are proposed class actions seeking medical monitoring on behalf of welders. None of the class actions have been certified. In the past, Praxair has either been dismissed from the cases with no payment or has settled a few cases for nominal amounts. No reserves have been recorded for these cases as management does not believe that a loss from them is probable or reasonably estimable.

Praxair has strong defenses in these cases and intends to defend itself vigorously.

11. Segments

Sales and operating profit by segment for the quarters and six-month periods ended June 30, 2006 and 2005 are shown below. Effective in 2006, Praxair changed its presentation of segment sales to reflect external sales only. Segment operating profit was not impacted. Prior period information has been reclassified to conform to current period presentation (for a description of Praxair's operating segments, refer to Note 4 to the consolidated financial statements included on page 49 of Praxair's 2005 Annual Report):

<i>(Dollar amounts in millions)</i>	Quarter Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
SALES^(a)				
North America	\$ 1,158	\$ 1,097	\$ 2,327	\$ 2,157
Europe	296	287	564	572
South America	340	274	657	518
Asia	155	137	302	259
Surface Technologies ^(b)	127	124	252	240
	\$ 2,076	\$ 1,919	\$ 4,102	\$ 3,746.
OPERATING PROFIT				
North America	\$ 215	\$ 161	\$ 415	\$ 327
Europe	65	72	124	139
South America	58	51	115	94
Asia	28	24	51	46
Surface Technologies ^(b)	16	14	29	25
	\$ 382	\$ 322	\$ 734	\$ 631

(a) Represents external sales. Intersegment sales, primarily from North America, totaled \$15 million and \$32 million for the quarter and six months ended June 30, 2006, respectively, versus \$14 million and \$27 million for the respective 2005 periods.

(b) On July 3, 2006, Praxair completed the sale of its aviation services business, which contributed full year 2005 sales of approximately \$80 million (\$67 million of which was reflected in the Surface Technologies segment).

12. Subsequent Events

On July 3, 2006, Praxair completed the previously announced sale of its aviation services business and on July 10, 2006 the Turkish competition authorities approved the sale of Karbogaz, a Praxair, Inc. joint venture accounted for under the equity method of accounting. Both transactions will be recorded in the third quarter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**Consolidated Results**

The following table provides summary data for the quarters and six-month periods ended June 30, 2006 and 2005:

<i>(Dollar amounts in millions)</i>	Quarter Ended June 30,			Six Months Ended June 30,		
	2006	2005	Variance	2006	2005	Variance
Sales	\$ 2,076	\$ 1,919	+8%	\$ 4,102	\$ 3,746	+10%
Gross margin ^(a)	\$ 838	\$ 752	+11%	\$ 1,657	\$ 1,470	+13%
As a percent of sales	40.4%	39.2%		40.4%	39.2%	
Selling, general and administrative	\$ 271	\$ 247	+10%	\$ 544	\$ 492	+11%
As a percent of sales	13.1%	12.9%		13.3%	13.1%	
Depreciation and amortization	\$					