ETHAN ALLEN INTERIORS INC
Form 10-Q
May 07, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

[ ] **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: 1-11692

Ethan Allen Interiors Inc.

(Exact name of registrant as specified in its charter)

Delaware	06-1275288
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Ethan Allen Drive, Danbury, Connecticut	06811
(Address of principal executive offices)	(Zip Code)

(203) 743-8000

(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.

[X] 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 [X] Accelerated filer [ ] Non-accelerated filer [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

At March 31, 2007, there were 31,285,568 shares
of Class A Common Stock, par value $.01, outstanding.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2007	June 30, 2006
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 132,946	$ 173,801
Accounts receivable, less allowance for doubtful accounts of $1,871 at March 31, 2007 and $2,074 at June 30, 2006	18,811	22,179
Inventories (note 4)	180,753	189,650
Prepaid expenses and other current assets	49,767	31,289
Deferred income taxes	5,983	8,696
Total current assets	388,260	425,615
Property, plant and equipment, net	316,606	294,170
Goodwill and other intangible assets (notes 6 and 7)	91,094	87,899
Other assets (note 8)	5,932	6,416
Total assets	$ 801,892	$ 814,100
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt (note 8)	$ 39	$ 39
Customer deposits	53,532	53,203
Accounts payable	25,564	28,549
Accrued compensation and benefits	33,942	33,314
Accrued expenses and other current liabilities (note 5)	28,444	32,472
Total current liabilities	141,521	147,577
Long-term debt (note 8)	202,838	202,748
Other long-term liabilities	12,054	12,151
Deferred income taxes	34,250	34,182
Total liabilities	390,663	396,658
Shareholders equity:		
Class A common stock, par value $.01, 150,000,000 shares authorized; 47,440,950 shares issued at March 31, 2007 and 46,686,512 shares issued at June 30, 2006	474	467
Class B common stock, par value $.01, 600,000 shares authorized; no shares issued and outstanding at March 31, 2007 and June 30, 2006		
Preferred stock, par value $.01, 1,055,000 shares authorized; no shares issued and outstanding at March 31, 2007 and June 30, 2006		
Additional paid-in capital	329,752	307,852

	March 31, 2007	June 30, 2006
	330,226	308,319
Less: Treasury stock (at cost), 16,155,382 shares at March 31, 2007 and 14,566,620 shares at June 30, 2006	(479,062)	(421,308)
Retained earnings	559,226	529,496
Accumulated other comprehensive income (notes 8 and 11)	839	935
Total shareholders equity	411,229	417,442
Total liabilities and shareholders equity	$ 801,892	$ 814,100

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Operations

(Unaudited)

(In thousands, except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Net sales	$ 246,539	$ 267,071	$ 746,781	$ 794,388
Cost of sales	118,023	132,325	358,186	393,248
Gross profit	128,516	134,746	388,595	401,140
Operating expenses:				
Selling	54,880	58,340	164,093	166,291
General and administrative	45,729	43,067	132,214	124,787
Restructuring and impairment charge (credit), net (note 5)	(180)		13,442	4,241
Total operating expenses	100,429	101,407	309,749	295,319
Operating income	28,087	33,339	78,846	105,821
Interest and other miscellaneous income, net	2,339	1,747	7,146	2,950
Interest and other related financing costs (note 8)	2,927	3,095	8,780	6,497
Income before income taxes	27,499	31,991	77,212	102,274
Income tax expense	10,000	11,997	28,469	38,986
Net income	$ 17,499	$ 19,994	$ 48,743	$ 63,288

	Three Months Ended March 31,		Nine Months Ended March 31,	
Per share data (note 10):				
Basic earnings per common share:				
Net income per basic share	$ 0.55	$ 0.61	$ 1.54	$ 1.90
Basic weighted average common shares	31,656	33,021	31,736	33,340
Diluted earnings per common share:				
Net income per diluted share	$ 0.54	$ 0.59	$ 1.50	$ 1.85
Diluted weighted average common shares	32,352	34,046	32,495	34,173

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended March 31, 2007	2006
Operating activities:		
Net income	$ 48,743	$ 63,288
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,241	16,141
Compensation expense related to share-based awards	637	1,672
Provision (benefit) for deferred income taxes	2,781	848
Excess tax benefits from share-based payment arrangements	(4,954)	(411)
Restructuring and impairment charge (credit), net	9,439	2,915
(Gain) loss on disposal of property, plant and equipment	493	1,809
Other	419	352
Change in assets and liabilities, net of the effects of acquired businesses:		
Accounts receivable	2,759	359
Inventories	13,648	(603)
Prepaid expenses and other current assets	(16,703)	(3,304)
Other assets	372	1,271
Customer deposits	(1,899)	2,087
Accounts payable	(5,432)	7,050
Accrued expenses and other current liabilities	2,467	(1,064)
Other long-term liabilities	(97)	(370)
Net cash provided by operating activities	69,914	92,040

	Nine Months Ended March 31,	
Investing activities:		
Proceeds from the disposal of property, plant and equipment	1,673	2,357
Capital expenditures	(47,459)	(28,267)
Acquisitions	(11,376)	(6,339)
Cash payments on hedging contracts		(930)
Other	86	942
Net cash used in investing activities	(57,076)	(32,237)
Financing activities:		
Borrowings on revolving credit facility		17,000
Payments on revolving credit facility		(25,000)
Net proceeds from issuance of long-term debt		198,396
Payments on long-term debt	(29)	(59)
Proceeds from issuance of common stock	249	1,931
Excess tax benefits from share-based payment arrangements	4,954	411
Payment of deferred financing costs	(107)	(2,142)
Payment of cash dividends	(18,529)	(17,161)
Purchases and other retirements of company stock	(40,197)	(51,137)
Net cash (used in) provided by financing activities	(53,659)	122,239
Effect of exchange rate changes on cash	(34)	264
Net increase (decrease) in cash and cash equivalents	(40,855)	182,306
Cash and cash equivalents - beginning of period	173,801	3,448
Cash and cash equivalents - end of period	$ 132,946	$ 185,754

See accompanying notes to consolidated financial statements.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity

Nine Months Ended March 31, 2007

(Unaudited)

(In thousands, except share data)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at June 30, 2006	$ 467	$ 307,852	$ (421,308)	$ 935	$ 529,496	$ 417,442
Issuance of 754,438 shares of common stock upon exercise of share-based awards (note 3)	7	16,117				16,124

	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Compensation expense associated with share-based awards (note 3)		637				637
Tax benefit associated with exercise of share-based awards (note 3)		4,954				4,954
Charge for early vesting of share-based awards		22				22
Treasury shares issued in connection with retail IDC acquisition (26,269 shares) (note 6)		170	765			935
Purchase/retirement of 1,615,031 shares of company stock (note 3)			(58,519)			(58,519)
Dividends declared on common stock					(19,013)	(19,013)
Other comprehensive income (notes 8 and 11):						
Currency translation adjustments				(132)		(132)
Reclass of loss on cash-flow hedge, net-of-tax				36		36
Net income					48,743	48,743
Total comprehensive income						48,647
Balance at March 31, 2007	$ 474	$ 329,752	$ (479,062)	$ 839	$ 559,226	$ 411,229

See accompanying notes to consolidated financial statements.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Basis of Presentation

Ethan Allen Interiors Inc. ("Interiors") is a Delaware corporation incorporated on May 25, 1989. The consolidated financial statements include the accounts of Interiors, its wholly-owned subsidiary Ethan Allen Global, Inc. ("Global"), and Global s subsidiaries (collectively "we", "us", "our", "Ethan Allen", or the "Company"). All intercompany accounts and transactions have been eliminated in the consolidated financial statements. All of Global s capital stock is owned by Interiors, which has no assets or operating results other than those associated with its investment in Global.

(2) Interim Financial Presentation

All intercompany accounts and transactions have been eliminated in the consolidated financial statements. In our opinion, all adjustments, consisting only of normal recurring adjustments necessary for fair presentation, have been included in the consolidated financial statements. The results of operations for the three and nine months ended March 31, 2007 are not necessarily indicative of results that may be expected for the entire fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended June 30, 2006.

Certain prior year amounts have been reclassified in order for them to conform to the current year s presentation. These changes were made for disclosure purposes only and did not have any impact on previously reported results of operations or shareholders equity.

(3) Share-Based Compensation

Effective July 1, 2005, share-based awards granted under our 1992 Stock Option Plan (the "Plan") are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123(R)"), which replaced SFAS No. 123, *Accounting for Stock-Based Compensation*, and superceded Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. SFAS No. 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, we adhere to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, *Share-Based Payment*, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

In adopting SFAS No. 123(R), we applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of SFAS No. 123(R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under SFAS No. 123.

Consistent with our practice prior to the adoption of SFAS No. 123(R), we estimate, as of the date of grant, the fair value of stock options awarded using the Black-Scholes option-pricing model. Use of a valuation model requires management 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 our stock and other contributing 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.

Our results for the three and nine months ended March 31, 2007 include share-based compensation expense totaling $0.2 million and $0.6 million, respectively. For the three and nine months ended March 31, 2006, share-based compensation expense totaled $0.3 million and $1.7 million, respectively. Such amounts have been included in the Consolidated Statements of Operations within selling, general and administrative expenses. During the three and nine months ended March 31, 2007, we recognized related tax benefits associated with our share-based compensation arrangements totaling $0.1 million and $0.3 million, respectively. For the three and nine months ended March 31, 2006, tax benefits recognized totaled $0.1 million and $0.6 million, respectively. Such amounts have been included in the Consolidated Statements of Operations within income tax expense.

During the quarter ended March 31, 2007, we received proceeds totaling $10.7 million upon the exercise of share-based awards. Approximately $10.6 million of the proceeds were in the form of our common stock (272,556 shares) with the remaining $0.1 million in cash. An additional 97,045 shares of our common stock were received to cover employee tax withholding liabilities associated with such exercise activity. We recognized tax benefits totaling $3.3 million in connection with share-based award exercise activity occurring during the period.

During the quarter ended September 30, 2006, we received proceeds totaling $5.4 million upon the exercise of share-based awards. Approximately $5.3 million of the proceeds were in the form of our common stock (137,517 shares) with the remaining $0.1 million in cash. An additional 48,413 shares of our common stock were received to cover employee tax withholding liabilities associated with such exercise activity. We recognized tax benefits totaling $1.6 million in connection with share-based award exercise activity occurring during the period.

All shares of our common stock received in connection with the exercise of share-based awards have been recorded as treasury stock and result in a reduction in shareholders equity.

(4) Inventories

Inventories at March 31, 2007 and June 30, 2006 are summarized as follows (in thousands):

	March 31, 2007	June 30, 2006
Finished goods	$ 150,022	$ 155,630
Work in process	6,867	6,111
Raw materials	23,864	27,909
	$ 180,753	$ 189,650

Inventories are presented net of a related valuation allowance of $2.9 million at both March 31, 2007 and June 30, 2006.

(5) Plant Consolidations

In recent years, we have developed, announced and executed plans to consolidate our manufacturing operations as part of an overall strategy to maximize production efficiencies and maintain our competitive advantage.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

On September 6, 2006, we announced a plan to close our Spruce Pine, North Carolina case goods manufacturing facility and convert our Atoka, Oklahoma upholstery manufacturing facility into a regional distribution center. In connection with this initiative, we have permanently ceased production at both locations, allocating production among our remaining domestic manufacturing locations and selected offshore vendors. The decision impacted approximately 465 employees with the reduction in headcount occurring during the second and third quarters of fiscal 2007. We recorded a pre-tax restructuring and impairment charge of $14.1 million during the quarter ended September 30, 2006, of which $4.0 million was related to employee severance and benefits and other plant exit costs, and $10.1 million, which was non-cash in nature, was related to fixed asset impairment charges, primarily for real property and machinery and equipment, stemming from the decision to cease production activities. During the three months ended March 31, 2007 and December 31, 2006, adjustments totaling $0.2 million and $0.3 million, respectively, were recorded to reverse remaining previously established accruals which were no longer deemed necessary.

On September 7, 2005, we announced a plan to convert one of our existing manufacturing facilities into a regional distribution center. The facility, formerly involved in the production of wood case goods furniture, is located in Dublin, Virginia. In connection with this initiative, we permanently ceased production at the Dublin location, allocating production among our remaining domestic manufacturing locations and selected offshore vendors, and have consolidated the distribution operations of our existing Old Fort, North Carolina location into this larger facility. The decision impacted approximately 325 employees, of which approximately 75 have been employed in new positions. We recorded a pre-tax restructuring and impairment charge of $4.2 million during the quarter ended September 30, 2005, of which $1.3 million was related to employee severance and benefits and other plant exit costs, and $2.9 million, which was non-cash in nature, was related to fixed asset impairment charges, primarily for machinery and equipment, stemming from the decision to cease production activities. As of June 30, 2006, the remaining reserve totaled $0.4 million. During the six months ended December 31, 2006, adjustments totaling $0.2 million were recorded to reverse remaining previously established accruals which were no longer deemed necessary.

As of March 31, 2007, all restructuring related obligations for severance and employee benefits were satisfied. The remaining accrual balances which were deemed unnecessary have been reversed. No restructuring reserves are included in the Consolidated Balance Sheets as accrued expenses within current liabilities. Activity in the Company s restructuring reserves is summarized as follows (in thousands):

	Original Charges	Cash Payments	Non-cash Utilized	Adjustments	Balance at March 31, 2007
Spruce Pine, NC / Atoka, OK					
Employee severance and other related payroll and benefit costs	$ 3,903	$ (3,455)	$	$ (448)	$
Other plant exit costs	100	(100)			
Write-down of long-lived assets	10,099		(10,099)		
	$ 14,102	$ (3,555)	$ (10,099)	$ (448)	$
Dublin, VA					
Employee severance and other related payroll and benefit costs	$ 1,266	$ (1,054)	$	$ (212)	$
Other plant exit costs	60	(60)			

	Original Charges	Cash Payments	Non-cash Utilized	Adjustments	Balance at March 31, 2007
Write-down of long-lived assets	2,915		(2,915)		
	$ 4,241	$ (1,114)	$ (2,915)	$ (212)	$

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(6) Business Acquisitions

In January 2007, we acquired, in a single transaction, two Ethan Allen retail interior design centers (IDCs) from an independent retailer for total consideration of $1.6 million. As a result of this acquisition, we recorded additional inventory and other assets of $1.2 million and assumed customer deposits of $0.5 million and accounts payable and other liabilities of $0.1 million. Goodwill associated with this acquisition totaled $1.0 million.

During November and December 2006, we acquired, in three separate transactions, five Ethan Allen retail IDCs from three independent retailers for total consideration of approximately $3.9 million. As a result of these acquisitions, we recorded additional inventory and other assets of $2.7 million and $0.8 million, respectively, and assumed customer deposits and other liabilities of $1.3 million and $0.3 million, respectively. Goodwill associated with these acquisitions totaled $2.0 million.

In September 2006, we acquired, in a single transaction, two Ethan Allen retail IDCs from an independent retailer for total consideration of approximately $6.3 million. As a result of this acquisition, we recorded additional inventory and other assets (primarily real estate) of $1.0 million and $5.4 million, respectively, and assumed customer deposits and other liabilities of $0.4 million and $0.1 million, respectively. Goodwill associated with this acquisition totaled $0.4 million.

During the three months ended March 31, 2006, we acquired, in two separate transactions, two Ethan Allen retail IDCs from two independent retailers for total consideration of $4.9 million. As a result of these acquisitions, we (i) recorded additional inventory of $0.8 million, property, plant and equipment (real estate) of $3.7 million, and other assets of $0.2 million, and (ii) assumed customer deposits of $0.4 million and accounts payable and other liabilities of $0.2 million. Goodwill associated with these acquisitions totaled $0.8 million.

During the three months ended December 31, 2005, we acquired, in a single transaction, two Ethan Allen retail IDCs from an independent retailer for total consideration of $2.5 million, which included 50,446 shares of our common stock issued on the closing date and 15,760 shares of our common stock held in escrow pending completion of the contractual holdback period. As a result of this acquisition we recorded additional inventory of $2.3 million and other assets of $1.0 million, and assumed customer deposits of $1.5 million and accounts payable and other liabilities of $0.5 million. Goodwill associated with this acquisition totaled $1.2 million. In August 2006, the contractual holdback period associated with this acquisition ended. Satisfaction of the holdback period and reconciliation, with the seller, of certain purchase accounting matters resulted in the issuance of the shares previously held in escrow as well as an additional 10,509 shares of our common stock (total of 26,269 shares).

During the three months ended September 30, 2005, we acquired, in a single transaction, three Ethan Allen retail IDCs from an independent retailer for total consideration of $1.9 million. As a result of this acquisition, we recorded additional inventory of $1.3 million and other assets of $0.3 million, and assumed customer deposits of $0.6 million. Goodwill associated with this acquisition totaled $0.9 million.

All acquisitions are subject to a contractual holdback, or reconciliation, period during which the parties to the transaction may agree to certain normal and customary purchase accounting adjustments.

Goodwill associated with our acquisitions represents the premium paid to the seller related to the acquired business (i.e. market presence) and other fair value adjustments to the assets acquired and liabilities assumed. Further discussion of our goodwill and other intangible assets can be found in Note 7.

A summary of our allocation of purchase price is provided below (in thousands):

	Three Months Ended March 31,		**Nine Months Ended March 31,**	
	2007	**2006**	**2007**	**2006**
Nature of acquisition	2 IDCs	2 IDCs	9 IDCs	7 IDCs
Total consideration	$ 1,592	$ 4,924	$ 12,136	$ 9,378
Fair value of assets acquired and liabilities assumed:				
Inventory	1,005	838	4,751	4,491
PP&E and other assets	156	3,861	6,369	5,032
Customer deposits	(540)	(390)	(2,228)	(2,479)
A/P and other liabilities	(34)	(172)	(115)	(642)
Goodwill and other intangible assets	$ 1,005	$ 787	$ 3,359	$ 2,976

(7) Goodwill and Other Intangible Assets

As of March 31, 2007, we had goodwill, including product technology, of $71.4 million and other indefinite-lived intangible assets of $19.7 million. Comparable balances as of June 30, 2006 were $68.2 million and $19.7 million, respectively.

Goodwill in the retail and wholesale segments was $43.9 million and $27.5 million, respectively, at March 31, 2007 and $40.7 million and $27.5 million, respectively, at June 30, 2006. The wholesale segment, at both dates, includes additional indefinite-lived intangible assets of $19.7 million which represent Ethan Allen trade names.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, we do not amortize goodwill or other indefinite-lived intangible assets but, rather, evaluate such assets for impairment on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of the goodwill or other intangible asset may exceed its fair value. We conduct our required annual impairment test during the fourth quarter of each fiscal year. No impairment losses have been recorded on our goodwill or other indefinite-lived intangible assets as a result of applying the provisions of SFAS No. 142.

(8) Borrowings

Total debt obligations at March 31, 2007 and June 30, 2006 consist of the following (in thousands):

	March 31, 2007	June 30, 2006
5.375% Senior Notes due 2015	$ 198,636	$ 198,516
Industrial revenue bonds	3,855	3,855
Other debt	386	416
Total debt	202,877	202,787
Less: current maturities	39	39
Total long-term debt	$ 202,838	$ 202,748

On September 27, 2005, we completed a private offering of $200.0 million of ten-year senior unsecured notes due 2015 (the "Senior Notes"). The Senior Notes were offered by Global and have an annual coupon rate of 5.375% with interest payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2006. Proceeds received in connection with the issuance of the Senior Notes, net of a related discount of $1.6 million,

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

totaled $198.4 million. As of March 31, 2007 and June 30, 2006, outstanding borrowings related to this transaction are included in the Consolidated Balance Sheets within long-term debt. The discount on this borrowing is being amortized to interest expense over the life of the related debt.

In connection with the offering, debt issuance costs totaling $2.0 million were incurred related, primarily, to banking, legal, accounting, rating agency, and printing services. As of March 31, 2007 and June 30, 2006, these costs are included in the Consolidated Balance Sheets as deferred financing costs within other assets and are being amortized to interest expense over the life of the Senior Notes.

Also in connection with the issuance of the Senior Notes, Global, in July and August 2005, entered into 6 separate forward contracts to hedge the risk-free interest rate associated with $108.0 million of the related debt in order to mitigate the negative impact of interest rate fluctuations on earnings, cash flows and equity. The forward contracts were entered into with a major banking institution thereby mitigating the risk of credit loss.

Upon issuance of the Senior Notes and settlement of the related forward contracts, losses totaling $0.9 million were incurred representing the change in the fair value of the forward contracts since their respective trade dates. In accordance with SFAS No. 133, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, as amended, it was determined that a portion of the related losses was the result of hedge ineffectiveness and, as such, $0.1 million of the losses was included, within interest and other related financing costs, in the Consolidated Statement of Operations for the six months ended December 31, 2005. The balance of the losses is included (on a net-of-tax basis) in the Consolidated Balance Sheets within accumulated other comprehensive income and is being amortized to interest expense over the life of the Senior Notes. The remaining unamortized balance of these forward contract losses totaled $0.7 million ($0.4 million, net-of-tax) as of March 31, 2007.

(9) Litigation

We and our subsidiaries are subject to various environmental laws and regulations. Under these laws, we and/or our subsidiaries are, or may be, required to remove or mitigate the effects on the environment of the disposal or release of certain hazardous materials.

As of March 31, 2007, we and/or our subsidiaries have been named as a potentially responsible party ("PRP") with respect to the remediation of four active sites currently listed, or proposed for inclusion, on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"). The sites are located in Lyndonville, Vermont; Southington, Connecticut; High Point, North Carolina; and Atlanta, Georgia.

With respect to the Lyndonville, Vermont site, we have resolved our liability by completing remedial construction activities. We obtained a certificate of construction completion, subject to certain limited conditions which were the obligation of another PRP. We have since been advised that all conditions have been finalized. We do not anticipate incurring significant costs with respect to the Southington, Connecticut, High Point, North Carolina, or Atlanta, Georgia sites as we believe that we are not a major contributor based on the very small volume of waste generated by us in relation to total volume at those sites. Specifically, with respect to the Southington site, our volumetric share is less than 1% of over 51 million gallons disposed of at the site and there are more than 1,000 PRPs. With respect to the High Point site, our volumetric share is less than 1% of over 18 million gallons disposed of at the site and there are more than 2,000 PRPs, including more than 1,000 "de-minimis" parties (of which we are one). With respect to the Atlanta site, a former solvent recycling/reclamation facility, our volumetric share is less than 1% of over 20 million gallons disposed of at the site by more than 1,700 PRPs. In all three cases, the other PRPs consist of local, regional, national and multi-national companies.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

Liability under CERCLA may be joint and several. As such, to the extent certain named PRPs are unable, or unwilling, to accept responsibility and pay their apportioned costs, we could be required to pay in excess of our pro rata share of incurred remediation costs. Our understanding of the financial strength of other PRPs has been considered, where appropriate, in the determination of our estimated liability.

In addition, in July 2000, we were notified by the State of New York (the "State") that we may be named a PRP in a separate, unrelated matter with respect to a site located in Carroll, New York. To date, no further notice has been received from the State and the State has not yet conducted an initial environmental study at this site.

As of March 31, 2007, we believe that established reserves related to these environmental contingencies are adequate to cover probable and reasonably estimable costs associated with the remediation and restoration of these sites.

We are subject to other federal, state and local environmental protection laws and regulations and are involved, from time to time, in investigations and proceedings regarding environmental matters. Such investigations and proceedings typically concern air emissions, water discharges, and/or management of solid and hazardous wastes. We believe that our facilities are in material compliance with all such applicable laws and regulations.

Regulations issued under the Clean Air Act Amendments of 1990 required the industry to reformulate certain furniture finishes or institute process changes to reduce emissions of volatile organic compounds. Compliance with many of these requirements has been facilitated through the introduction of high solids coating technology and alternative formulations. In addition, we have instituted a variety of technical and procedural controls, including reformulation of finishing materials to reduce toxicity, implementation of high velocity low pressure spray systems, development of storm water protection plans and controls, and further development of related inspection/audit teams, all of which have served to reduce emissions per unit of production. We remain committed to implementing new waste minimization programs and/or enhancing existing programs with the objective of (i) reducing the total volume of waste, (ii) limiting the liability associated with waste disposal, and (iii) continuously improving environmental and job safety programs on the factory floor which serve to minimize emissions and safety risks for employees. We will continue to evaluate the most appropriate, cost effective, control technologies for finishing operations and design production methods to reduce the use of hazardous materials in the manufacturing process.

(10) Earnings Per Share

Basic and diluted earnings per share are calculated using the following weighted average share data (in thousands):

	Three Months Ended March 31, 2007	2006	Nine Months Ended March 31, 2007	2006
Weighted average common shares outstanding for basic calculation	31,656	33,021	31,736	33,340
Effect of dilutive stock options and other share-based awards	696	1,025	759	833
Weighted average common shares outstanding, adjusted for diluted calculation	32,352	34,046	32,495	34,173

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

As of March 31, 2007 and 2006, stock options to purchase 304,705 and 52,481 common shares, respectively, had exercise prices which exceeded the average market price of our common stock for the corresponding periods. These options have been excluded from the respective diluted earnings per share calculation as their impact is anti-dilutive.

(11) Comprehensive Income

Total comprehensive income represents the sum of net income and items of "other comprehensive income or loss" that are reported directly in equity. Such items, which are generally presented on a net-of-tax basis, may include foreign currency translation adjustments, minimum pension liability adjustments, fair value adjustments (i.e. gains and losses) on certain derivative instruments, and unrealized gains and losses on certain investments in debt and equity securities. We have reported our total comprehensive income in the Consolidated Statements of Shareholders Equity.

Our accumulated other comprehensive income, which is comprised of losses on certain derivative instruments and accumulated foreign currency translation adjustments, totaled $0.8 million at March 31, 2007 and $0.9 million at June 30, 2006. Losses on derivative instruments are the result of cash-flow hedging contracts entered into in connection with the issuance of the Senior Notes (see Note 8). Foreign currency translation adjustments are the result of changes in foreign currency exchange rates related to our operation of five Ethan Allen-owned retail IDCs located in Canada. Foreign currency translation adjustments exclude income tax expense (benefit) given that the earnings of non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

(12) Segment Information

Our operations are classified into two operating segments: wholesale and retail. These operating segments represent strategic business areas which, although they operate separately and provide their own distinctive services, enable us to more effectively offer our complete line of home furnishings.

The wholesale segment is principally involved in the development of the Ethan Allen brand, which encompasses the design, manufacture, domestic and off-shore sourcing, sale and distribution of a full range of home furnishings to a network of independently-owned and Ethan Allen-owned IDCs, as well as related marketing and brand awareness efforts. Wholesale revenue is generated upon the wholesale sale of our product to all retail IDCs, including those owned by Ethan Allen. Wholesale profitability includes (i) the wholesale gross margin, which represents the difference between the wholesale sales price and the cost associated with manufacturing and/or sourcing the related product, and (ii) other operating costs associated with wholesale segment activities.

The retail segment sells home furnishings to consumers through a network of Company-owned IDCs. Retail revenue is generated upon the retail sale of our products by these IDCs. Retail profitability includes (i) the retail gross margin, which represents the difference between the retail sales price and the cost of goods purchased from the wholesale segment, and (ii) other operating costs associated with retail segment activities.

Inter-segment eliminations result, primarily, from the wholesale sale of inventory to the retail segment, including the related profit margin.

We evaluate performance of the respective segments based upon revenues and operating income. While the manner in which our home furnishings are marketed and sold is consistent, the nature of the underlying recorded sales (i.e. wholesale versus retail) and the specific services that each operating segment provides (i.e. wholesale manufacturing, sourcing, and distribution versus retail selling) are different. Within the wholesale segment, we

maintain revenue information according to each respective product line (i.e. case goods, upholstery, or home accessories and other).

A breakdown of wholesale sales by these product lines for the three and nine months ended March 31, 2007 and 2006 is provided below:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	**2006**	**2007**	**2006**
Case Goods	46%	48%	45%	49%
Upholstered Products	36	37	38	36

	Three Months Ended March 31,		Nine Months Ended March 31,	
Home Accessories and Other	18	15	17	15
	100%	100%	100%	100%

Revenue information by product line is not as easily determined within the retail segment. However, because wholesale production and sales are matched, for the most part, to incoming orders, we believe that the allocation of retail sales by product line would be similar to that of the wholesale segment.

Segment information for the three and nine months ended March 31, 2007 and 2006 is set forth below (in thousands):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	2006	2007	2006
Net Sales:				
Wholesale segment	$ 171,906	$ 192,192	$ 493,208	$ 558,153
Retail segment	167,724	168,224	511,104	506,598
Elimination of inter-company sales	(93,091)	(93,345)	(257,531)	(270,363)
Consolidated Total	$ 246,539	$ 267,071	$ 746,781	$ 794,388
Operating Income:				
Wholesale segment (1)	$ 31,862	$ 33,974	$ 73,423	$ 97,283
Retail segment	(94)	139	8,540	11,248
Elimination of inter-company profit (2)	(3,681)	(774)	(3,117)	(2,710)
Consolidated Total	$ 28,087	$ 33,339	$ 78,846	$ 105,821
Capital Expenditures:				
Wholesale segment	$ 1,992	$ 2,226	$ 6,915	$ 4,103
Retail segment	10,520	4,892	40,544	24,164
Acquisitions (3) (4)	1,807	4,649	11,376	6,339
Consolidated Total	$ 14,319	$ 11,767	$ 58,835	$ 34,606

	March 31, 2007	June 30, 2006
Total Assets:		
Wholesale segment	$ 423,668	$ 487,951
Retail segment	417,221	361,109
Inventory profit elimination (5)	(38,997)	(34,960)
Consolidated Total	$ 801,892	$ 814,100

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

(1) Operating income for the wholesale segment for the nine months ended March 31, 2007 and 2006 includes pre-tax restructuring and impairment charges, net of $13.4 million and $4.2 million, respectively.
(2) Represents the change in the inventory profit elimination entry necessary to adjust for the embedded wholesale profit contained in Ethan Allen-owned IDC inventory existing at the end of the period. See footnote 5 below.
(3) For the three months ended March 31, 2007 and 2006, acquisitions include the purchase of 2 retail IDCs in each period. For the nine months ended March 31, 2007 and 2006, acquisitions include the purchase of 9 retail IDCs and 7 retail IDCs, respectively.
(4) The 2 retail IDCs purchased during the three months ended December 31, 2005 were acquired in exchange for shares of our common stock. See Note 6.
(5) Represents the embedded wholesale profit contained in Ethan Allen-owned IDC inventory that has not yet been realized. These profits are realized when the related inventory is sold.

There are 33 independent retail IDCs located outside the United States. Less than 3.0% of our net sales are derived from sales to these retail IDCs.

(13) Subsequent Events

Business Acquisitions
In May 2007, we acquired, in a single transaction, one Ethan Allen retail IDC from an independent retailer for total consideration of approximately $0.9 million. As a result of this acquisition, we recorded additional inventory and other assets of $0.6 million and $0.1 million, respectively, and assumed customer deposits of $0.2 million. Goodwill associated with this acquisition totaled $0.4 million.

Share Repurchases
During April and May 2007, we purchased, in two separate open market transactions on two different trading days, 62,700 shares of our common stock at a total cost of $2,152,334, or $34.33 per share. All of our common stock repurchases and retirements are recorded as treasury stock and result in a reduction of shareholders equity.

(14) Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. ("FIN") 48, *Accounting for Uncertainty in Income Taxes*, *an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. FIN 48 provides a comprehensive model for the recognition, measurement, presentation, and disclosure in a company s financial statements of uncertain tax positions taken, or expected to be taken, on a tax return. If an income tax position exceeds a more likely than not (i.e. greater than 50%) probability of success upon tax audit, the company is to 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 the respective jurisdictional tax laws. This interpretation is effective for fiscal years beginning after December 15, 2006 (July 1, 2007 for the Company). As such, we are currently in the process of evaluating the impact of this authoritative guidance on our consolidated financial statements.

In September 2006, the SEC issued SAB No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, to address diversity in practice in quantifying financial statement misstatements. SAB No. 108 requires the quantification of misstatements based on their impact to both the balance sheet and the income statement to determine materiality. The guidance provides for a one-time cumulative-effect adjustment to correct for misstatements that were not deemed material under a company s prior approach but are material under the SAB No. 108 approach. SAB No. 108 is effective for the Company for the fiscal year ending June 30, 2007. As such, we are currently in the process of evaluating the impact of this authoritative guidance on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which provides a single definition of fair value, and requires additional disclosure about the use of fair value to measure assets and liabilities. SFAS No. 157 emphasizes that fair value is a market-based measurement and should be determined based on the assumptions that market participants would use in valuing assets or liabilities. This interpretation is effective for fiscal years beginning after November 15, 2007 (July 1, 2008 for the Company). As such, we are currently in the process of evaluating the impact of this authoritative guidance on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which allows the Company to choose to measure selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 (July 1, 2008 for the Company). As such, we are currently in the process of evaluating the impact of this authoritative guidance on our consolidated financial statements.

(15) Financial Information About the Parent, the Issuer and the Guarantors

On September 27, 2005, Global (the "Issuer") issued $200 million aggregate principal amount of Senior Notes which have been guaranteed on a senior basis by Interiors (the "Parent"), and other wholly-owned subsidiaries of

the Issuer and the Parent, including Ethan Allen Retail, Inc., Ethan Allen Operations, Inc., Ethan Allen Realty, LLC, Lake Avenue Associates, Inc. and Manor House, Inc. The subsidiary guarantors (other than the Parent) are collectively called the "Guarantors". The guarantees of the Guarantors are unsecured. All of the guarantees are full, unconditional and joint and several and the Issuer and each of the Guarantors are 100% owned by the Parent. Ethan Allen (UK) Ltd., KEA International Inc. (which was legally dissolved in January 2007), Northeast Consolidated, Inc., Riverside Water Works, Inc. and our other subsidiaries which are not guarantors are called the "Non-Guarantors". The following tables set forth the condensed consolidating balance sheets as of March 31, 2007 and June 30, 2006, the condensed consolidating statements of operations for the three and nine months ended March 31, 2007 and 2006, and the condensed consolidating statements of cash flows for the nine months ended March 31, 2007 and 2006, of the Parent, the Issuer, the Guarantors and the Non-Guarantors.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
(in thousands)
March 31, 2007

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$	$ 127,940	$ 5,006	$	$	$ 132,946
Accounts receivable, net		18,237	554	20		18,811
Inventories			211,471	8,279	(38,997)	180,753
Prepaid expenses and other current assets		32,347	23,171	232		55,750
Intercompany		556,384	190,254		(746,638)	
Total current assets		734,908	430,456	8,531	(785,635)	388,260
Property, plant and equipment, net		11,075	305,531			316,606
Goodwill and other intangible assets		37,905	53,189			91,094
Other assets		4,677	1,255			5,932
Investment in affiliated companies	579,681	153,728			(733,409)	
Total assets	$ 579,681	$ 942,293	$ 790,431	$ 8,531	$ (1,519,044)	$ 801,892
Liabilities and Shareholders Equity						
Current liabilities:						
Current maturities of long-term debt	$	$	$ 39	$	$	$ 39
Customer deposits			53,532			53,532
Accounts payable	3,448	7,110	10,392	4,614		25,564
Accrued expenses and other current liabilities	6,407	39,555	16,159	265		62,386
Intercompany	159,436	44,241	539,294	3,667	(746,638)	
Total current liabilities	169,291	90,906	619,416	8,546	(746,638)	141,521
Long-term debt		198,636	4,202			202,838
Other long-term liabilities		232	11,822			12,054
Deferred income taxes		34,250				34,250
Total liabilities	169,291	324,024	635,440	8,546	(746,638)	390,663
Shareholders equity	410,390	618,269	154,991	(15)	(772,406)	411,229
Total liabilities and shareholders equity	$ 579,681	$ 942,293	$ 790,431	$ 8,531	$ (1,519,044)	$ 801,892

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATING BALANCE SHEET
(in thousands)
June 30, 2006

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$	$ 172,246	$ 1,555	$	$	$ 173,801
Accounts receivable, net		21,530	641	8		22,179
Inventories			215,798	8,812	(34,960)	189,650
Prepaid expenses and other current assets		19,544	20,232	209		39,985
Intercompany		436,352	176,433		(612,785)	
Total current assets		649,672	414,659	9,029	(647,745)	425,615
Property, plant and equipment, net		12,444	281,644	82		294,170
Goodwill and other intangible assets		37,905	49,994			87,899
Other assets		5,276	1,140			6,416
Investment in affiliated companies	525,836	186,714			(712,550)	
Total assets	$ 525,836	$ 892,011	$ 747,437	$ 9,111	$ (1,360,295)	$ 814,100
Liabilities and Shareholders Equity						
Current liabilities:						
Current maturities of long-term debt	$	$	$ 39	$	$	$ 39
Customer deposits			53,203			53,203
Accounts payable	1,001	11,097	12,410	4,041		28,549
Accrued expenses and other current liabilities	5,903	45,277	14,605	1		65,786
Intercompany	102,425	42,336	463,021	5,003	(612,785)	
Total current liabilities	109,329	98,710	543,278	9,045	(612,785)	147,577
Long-term debt		198,517	4,231			202,748
Other long-term liabilities		251	11,900			12,151
Deferred income taxes		34,182				34,182
Total liabilities	109,329	331,660	559,409	9,045	(612,785)	396,658
Shareholders equity	416,507	560,351	188,028	66	(747,510)	417,442
Total liabilities and shareholders equity	$ 525,836	$ 892,011	$ 747,437	$ 9,111	$ (1,360,295)	$ 814,100

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(in thousands)
Three Months Ended March 31, 2007

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 172,477	$ 235,230	$	$ (161,168)	$ 246,539

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cost of sales		120,586	154,633	1	(157,197)	118,023
Gross profit		51,891	80,597	(1)	(3,971)	128,516
Selling, general and administrative expenses	41	11,382	89,185	1		100,609
Restructuring and impairment charge, net			(180)			(180)
Total operating expenses	41	11,382	89,005	1		100,429
Operating income (loss)	(41)	40,509	(8,408)	(2)	(3,971)	28,087
Interest and other miscellaneous income, net	17,540	(5,025)	22	(78)	(10,120)	2,339
Interest and other related financing costs		2,851	76			2,927
Income before income tax expense	17,499	32,633	(8,462)	(80)	(14,091)	27,499
Income tax expense		10,000				10,000
Net income (loss)	$ 17,499	$ 22,633	$ (8,462)	$ (80)	$ (14,091)	$ 17,499

Three Months Ended March 31, 2006

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 192,738	$ 253,407	$	$ (179,074)	$ 267,071
Cost of sales		136,565	173,846	10	(178,096)	132,325
Gross profit		56,173	79,561	(10)	(978)	134,746
Selling, general and administrative expenses	41	10,322	91,031	3	10	101,407
Restructuring and impairment charge, net						
Total operating expenses	41	10,322	91,031	3	10	101,407
Operating income (loss)	(41)	45,851	(11,470)	(13)	(988)	33,339
Interest and other miscellaneous income, net	20,035	(9,050)	33	(434)	(8,837)	1,747
Interest and other related financing costs		3,019	76			3,095
Income before income tax expense	19,994	33,782	(11,513)	(447)	(9,825)	31,991
Income tax expense		11,997				11,997
Net income (loss)	$ 19,994	$ 21,785	$ (11,513)	$ (447)	$ (9,825)	$ 19,994

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(in thousands)
Nine Months Ended March 31, 2007

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 493,039	$ 726,020	$	$ (472,278)	$ 746,781
Cost of sales		346,462	480,842	15	(469,133)	358,186
Gross profit		146,577	245,178	(15)	(3,145)	388,595
Selling, general and administrative expenses	124	32,328	263,844	11		296,307
Restructuring and impairment charge, net			13,442			13,442
Total operating expenses	124	32,328	277,286	11		309,749
Operating income (loss)	(124)	114,249	(32,108)	(26)	(3,145)	78,846
Interest and other miscellaneous income, net	48,867	(25,580)	(118)	(55)	(15,968)	7,146
Interest and other related financing costs		8,551	229			8,780
Income before income tax expense	48,743	80,118	(32,455)	(81)	(19,113)	77,212
Income tax expense		28,019	450			28,469
Net income (loss)	$ 48,743	$ 52,099	$ (32,905)	$ (81)	$ (19,113)	$ 48,743

Nine Months Ended March 31, 2006

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net sales	$	$ 559,052	$ 751,361	$	$ (516,025)	$ 794,388
Cost of sales		395,114	511,381	23	(513,270)	393,248
Gross profit		163,938	239,980	(23)	(2,755)	401,140
Selling, general and administrative expenses	124	33,954	256,991	9		291,078
Restructuring and impairment charge, net			4,241			4,241
Total operating expenses	124	33,954	261,232	9		295,319
Operating income (loss)	(124)	129,984	(21,252)	(32)	(2,755)	105,821
Interest and other miscellaneous income, net	63,412	(20,150)	(280)	(901)	(39,131)	2,950
Interest and other related financing costs		6,266	231			6,497
Income before income tax expense	63,288	103,568	(21,763)	(933)	(41,886)	102,274
Income tax expense		37,322	1,664			38,986
Net income (loss)	$ 63,288	$ 66,246	$ (23,427)	$ (933)	$ (41,886)	$ 63,288

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in thousands)

Nine Months Ended March 31, 2007

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 58,477	$ (47,172)	$ 58,609	$	$	$ 69,914
Cash flows from investing activities:						
Capital expenditures		(2,067)	(45,392)			(47,459)
Acquisitions			(11,376)			(11,376)
Proceeds from the disposal of property, plant and equipment			1,673			1,673
Other		86				86
Net cash used in investing activities		(1,981)	(55,095)			(57,076)
Cash flows from financing activities:						
Payments on long-term debt			(29)			(29)
Payment of deferred financing costs		(107)				(107)
Purchases and other retirements of company stock	(40,197)					(40,197)
Proceeds from issuance of common stock	249					249
Excess tax benefits from share-based payment arrangements		4,954				4,954
Payment of cash dividends	(18,529)					(18,529)
Net cash provided by (used in) financing activities	(58,477)	4,847	(29)			(53,659)
Effect of exchange rate changes on cash			(34)			(34)
Net increase (decrease) in cash and cash equivalents		(44,306)	3,451			(40,855)
Cash and cash equivalents - beginning of period		172,246	1,555			173,801
Cash and cash equivalents - end of period	$	$ 127,940	$ 5,006	$	$	$ 132,946

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(in thousands)
Nine Months Ended March 31, 2006

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$ 66,367	$ (320)	$ 26,097	$ (104)	$	$ 92,040
Cash flows from investing activities:						
Capital expenditures		(5,371)	(22,896)			(28,267)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Consolidated
Acquisitions			(6,339)			(6,339)
Proceeds from the disposal of property, plant and equipment		5	2,352			2,357
Other		12				12
Net cash used in investing activities		(5,354)	(26,883)			(32,237)
Cash flows from financing activities:						
Net borrowings on revolving credit facility		(8,000)				(8,000)
Net proceeds from issuance of long-term debt		198,396				198,396
Payments on long-term debt			(59)			(59)
Payment of deferred financing costs		(2,142)				(2,142)
Purchases and other retirements of company stock	(51,137)					(51,137)
Proceeds from issuance of common stock	1,931					1,931
Excess tax benefits from share-based payment arrangements		411				411
Payment of cash dividends	(17,161)					(17,161)
Net cash provided by (used in) financing activities	(66,367)	188,665	(59)			122,239
Effect of exchange rate changes on cash			264			264
Net increase (decrease) in cash and cash equivalents		182,991	(581)	(104)		182,306
Cash and cash equivalents - beginning of period			3,344	104		3,448
Cash and cash equivalents - end of period	$	$ 182,991	$ 2,763	$	$	$ 185,754

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

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

The following discussion of financial condition and results of operations should be read in conjunction with (i) our Consolidated Financial Statements, and notes thereto, as set forth in this Quarterly Report on Form 10-Q and (ii) our Annual Report on Form 10-K for the year ended June 30, 2006.

Forward-Looking Statements

Management's discussion and analysis of financial condition and results of operations and other sections of this Quarterly Report contain forward-looking statements relating to our future results. Such forward-looking statements are identified by use of forward-looking words such as "anticipates", "believes", "plans", "estimates", "expects", and "intends" or words or phrases of similar expression. These forward-looking statements are subject to management decisions and various assumptions, risks and uncertainties, including, but not limited to: the effects of terrorist attacks or conflicts or wars involving the United States or its allies or trading partners; the effects of labor strikes; weather conditions that may affect sales; volatility in fuel, utility, transportation and security costs; changes in global or regional political or economic conditions, including changes in governmental and central bank policies; changes in business conditions in the furniture industry, including changes in consumer spending patterns and demand for home furnishings; effects of our brand awareness and marketing programs, including changes in demand for our existing and new products; our ability to locate new IDC sites and/or negotiate favorable lease terms for additional IDCs or for the expansion of existing IDCs; competitive factors, including changes in products or marketing efforts of others; pricing pressures; fluctuations in interest rates and the cost, availability and quality of raw materials; those matters discussed in Item 1A (Risk Factors) of our Annual Report on Form 10-K for the year ended June 30, 2006 and in other SEC filings; and our future decisions. Accordingly, actual circumstances and results could differ materially from those contemplated by the forward-looking statements.

Critical Accounting Policies

Our consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America which require, in some cases, that certain estimates and assumptions be made that affect the amounts and disclosures reported in those financial statements and the related accompanying notes. Estimates are based on currently known facts and circumstances, prior experience and other assumptions believed to be reasonable. We use our best judgment in valuing these estimates and may, as warranted, solicit external advice. Actual results could differ from these estimates, assumptions and judgments, and these differences could be material. The following critical accounting policies, some of which are impacted significantly by estimates, assumptions and judgments, affect our consolidated financial statements.

Inventories Inventories (finished goods, work in process and raw materials) are stated at the lower of cost, determined on a first-in, first-out basis, or market. Cost is determined based solely on those charges incurred in the acquisition and production of the related inventory (i.e. material, labor and manufacturing overhead costs). We estimate an inventory valuation allowance for excess quantities and obsolete items based on specific identification and historical write-downs, taking into account future demand and market conditions. If actual demand or market conditions in the future are less favorable than those estimated, additional inventory write-downs may be required.

Revenue Recognition Revenue is recognized when all of the following have occurred: persuasive evidence of a sales arrangement exists (e.g. a wholesale purchase order or retail sales invoice); the sales arrangement specifies a fixed or determinable sales price; product is shipped or services are provided to the customer; and collectibility is reasonably assured. As such, revenue recognition occurs upon the shipment of goods to independent retailers or, in the case of Ethan Allen-owned retail IDCs, upon delivery to the customer. Recorded sales provide for estimated returns and allowances. We permit our customers to return defective products and incorrect shipments, and terms we offer are standard for the industry.

In accordance with Emerging Issues Task Force ("EITF") Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (i.e., Gross versus Net Presentation)*, we may elect to present sales in the Consolidated

Statements of Operations on either a gross (that is, include tax collections within revenue and related remittances within operating expenses) or a net (that is, excluded from both revenue and operating expenses) basis. Our policy has always been to report such items on a net basis.

Allowance for Doubtful Accounts We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on a review of specifically identified accounts in addition to an overall aging analysis. Judgments are made with respect to the collectibility of accounts receivable based on historical experience and current economic trends. Actual losses could differ from those estimates.

Retail IDC Acquisitions - We account for the acquisition of retail IDCs and related assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, *Business Combinations*, which requires application of the purchase method for all business combinations initiated after June 30, 2001. Accounting for these transactions as purchase business combinations requires the allocation of purchase price paid to the assets acquired and liabilities assumed based on their fair values as of the date of the acquisition. The amount paid in excess of the fair value of net assets acquired is accounted for as goodwill.

Impairment of Long-Lived Assets and Goodwill We periodically evaluate whether events or circumstances have occurred that indicate that long-lived assets may not be recoverable or that the remaining useful life may warrant revision. When such events or circumstances are present, we assess the recoverability of long-lived assets by determining whether the carrying value will be recovered through the expected undiscounted future cash flows resulting from the use of the asset. In the event the sum of the expected undiscounted future cash flows is less than the carrying value of the asset, an impairment loss equal to the excess of the asset s carrying value over its fair value is recorded. The long-term nature of these assets requires the estimation of cash inflows and outflows several years into the future and only takes into consideration technological advances known at the time of the impairment test.

In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and other indefinite-lived intangible assets are evaluated for impairment on an annual basis and between annual tests whenever events or circumstances indicate that the carrying value of the goodwill or other intangible asset may exceed its fair value. We conduct our required annual impairment test during the fourth quarter of each fiscal year and use a discounted cash flow model to estimate fair value. This model requires the use of long-term planning forecasts and assumptions regarding industry-specific economic conditions that are outside our control.

Business Insurance Reserves We have insurance programs in place to cover workers compensation and property/casualty claims. The insurance programs, which are funded through self-insured retention, are subject to various stop-loss limitations. We accrue estimated losses using actuarial models and assumptions based on historical loss experience. Although we believe that the insurance reserves are adequate, the reserve estimates are based on historical experience, which may not be indicative of current and future losses. In addition, the actuarial calculations used to estimate insurance reserves are based on numerous assumptions, some of which are subjective. We adjust insurance reserves, as needed, in the event that future loss experience differs from historical loss patterns.

Other Loss Reserves We have a number of other potential loss exposures incurred in the ordinary course of business such as environmental claims, product liability, litigation, tax liabilities, restructuring charges, and the recoverability of deferred income tax benefits. Establishing loss reserves for these matters requires the use of estimates and judgment with regard to maximum risk exposure and ultimate liability or realization. As a result, these estimates are often developed with our counsel, or other appropriate advisors, and are based on our current understanding of the underlying facts and circumstances. Because of uncertainties related to the ultimate outcome of these issues or the possibilities of changes in the underlying facts and circumstances, additional charges related to these issues could be required in the future.

ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Results of Operations

Our revenues are comprised of (i) wholesale sales to independently-owned and Company-owned retail IDCs and (ii) retail sales of Company-owned IDCs. See Note 12 to our Consolidated Financial Statements for the three and nine months ended March 31, 2007 and 2006.

The components of consolidated revenue and operating income were as follows (in millions):

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2007	**2006**	**2007**	**2006**
Revenue:				
Wholesale segment	$ 171.9	$ 192.2	$ 493.2	$ 558.2
Retail segment	167.7	168.2	511.1	506.6
Elimination of inter-company sales	(93.1)	(93.3)	(257.5)	(270.4)
Consolidated Revenue	$ 246.5	$ 267.1	$ 746.8	$ 794.4
Operating Income:				
Wholesale segment (1)	$ 31.9	$ 34.0	$ 73.4	$ 97.3
Retail segment	(0.1)	0.1	8.5	11.2
Elimination of inter-company profit (2)	(3.7)	(0.8)	(3.1)	(2.7)
Consolidated Operating Income	$ 28.1	$ 33.3	$ 78.8	$ 105.8

(1) Operating income for the wholesale segment for the nine months ended March 31, 2007 and 2006 includes pre-tax restructuring and impairment charges, net of $13.4 million and $4.2 million, respectively.

(2) Represents the change in the inventory profit elimination entry necessary to adjust for the embedded wholesale profit contained in Ethan Allen-owned IDC inventory existing at the end of the period.

Quarter Ended March 31, 2007 Compared to Quarter Ended March 31, 2006

Consolidated revenue for the three months ended March 31, 2007 decreased by $20.6 million, or 7.7%, to $246.5 million, from $267.1 million for the three months ended March 31, 2006. Net sales for the period largely reflect the delivery of product associated with booked orders and backlog existing as of the end of the preceding quarter. During the quarter, sales were impacted by (i) a weak retail environment for home furnishings, and (ii) the prior year effects of a more favorable economic environment and our initiative to reduce the lead time associated with product delivery to both our independent retailers and consumers, both of which resulted in a substantial reduction in backlog during the three months ended March 31, 2006. These factors were partially offset by (i) the positive effects of our continued efforts to reposition the retail network, and (ii) new product introductions.

To date, the repositioning of the retail network has involved three primary elements: the opening of larger, new or relocated IDCs in more prominent locations; development of a more focused advertising campaign to highlight our solutions-based approach and position Ethan Allen as an authority in style and design; and investment within the retail network to strengthen the existing management structure. Implementation of our project management initiative, which has resulted in the promotion and/or hiring of more than 300 project managers, has enabled us to increase the level of service, professionalism, interior design competence, efficiency, and effectiveness of retail IDC personnel. With project managers actively partnering with design consultants and their customers, we believe we have improved the customer service experience and facilitated, to some degree, better awareness of potential cross-selling opportunities.

Wholesale revenue for the third quarter of fiscal 2007 decreased by $20.3 million, or 10.6%, to $171.9 million from $192.2 million in the prior year comparable period. The quarter-over-quarter decrease was primarily attributable to a decline in the incoming order rate as a result of the softer retail environment for home furnishings noted throughout much of the current period.

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ETHAN ALLEN INTERIORS INC. AND SUBSIDIARIES

Retail revenue from Ethan Allen-owned IDCs for the three months ended March 31, 2007 decreased by $0.5 million, or 0.3%, to $167.7 million from $168.2 million for the three months ended March 31, 2006. The decrease in retail sales by Ethan Allen-owned IDCs was attributable to a decrease in comparable IDC delivered sales of $13.8 million, or 8.6%, and reduced revenue from sold and closed IDCs, which generated $3.7 million fewer sales in the third quarter of fiscal 2007 as compared to the same period in fiscal 2006. These unfavorable variances were largely offset by sales generated by newly opened (including relocated) or acquired IDCs of $17.0 million. The number of Ethan Allen-owned IDCs increased to 154 as of March 31, 2007 as compared to 134 as of March 31, 2006. During that twelve month period, we acquired 14 IDCs from independent retailers and opened 11 IDCs (5 of which were relocations).

Comparable IDCs are those which have been operating for at least 15 months. Minimal net sales, derived from the delivery of customer ordered product, are generated during the first three months of operations of newly opened (including relocated) IDCs. IDCs acquired by us from independent retailers are included in comparable IDC sales in their 13th full month of Ethan Allen-owned operations.

Quarter-over-quarter, written business of Ethan Allen-owned IDCs increased 2.1% and comparable IDC written business decreased 7.1%. Over that same period, wholesale orders decreased 13.2%. Retail written business reflects the softer retail environment for home furnishings noted throughout much of the current period, likely offset, to some degree, by (i) our continued efforts to reposition the retail network, (ii) recent product introductions, and (iii) our use of national television as an advertising medium throughout much of the quarter. Wholesale written business reflects the impact of the aforementioned factors.

Gross profit decreased during the quarter to $128.5 million from $134.7 million in the prior year comparable quarter. The $6.2 million, or 4.6%, decrease in gross profit was primarily attributable to a decline in wholesale sales volume and inefficiencies associated with our Spruce Pine, North Carolina manufacturing operation as a result of the phase-out of production at this facility during the period. Partially offsetting these factors were (i) a shift in sales mix with retail sales representing a higher proportionate share of total sales in the current quarter (68%) compared to the prior year period (63%), and (ii) improved performance within our remaining product sourcing operations, including price stabilization with regard to the cost of foam and a reduction in overhead as a result of past plant closures. Consolidated gross margin increased to 52.1% in the third quarter of fiscal 2007 from 50.5% in the prior year quarter as a result, primarily, of the factors set forth above.

Operating profit, the elements of which are discussed in greater detail below, was impacted by the following items during the three months ended March 31, 2007 and 2006:

Operating expenses decreased $1.0 million, or 1.0%, to $100.4 million, or 40.7% of net sales, in the current quarter from $101.4 million, or 38.0% of net sales, in the prior year quarter. The decrease was primarily attributable to (i) lower costs experienced within our distribution operations, a portion of which is a result of the aforementioned decrease in volume, (ii) a decrease within certain compensation and benefit related expenses, and (iii) a reduction in operating costs associated with closed manufacturing facilities, including reduced losses incurred in connection with the disposition of certain property, plant and equipment. These decreases were partially offset by (i) an increase in national television advertising costs, and (ii) increased costs associated with our continued efforts to reposition the retail network which, during the period, resulted in higher costs associated with occupancy, managerial salaries and benefits, and delivery and warehousing.

Consolidated operating income for the three months ended March 31, 2007 totaled $28.1 million, or 11.4% of net sales, as compared to $33.3 million, or 12.5% of net sales, for the three months ended March 31, 2006. This represents a decrease of $5.2 million which was primarily attributable to a decline in gross profit, partially offset by lower period-over-period operating expenses, both of which were discussed previously.

Wholesale operating income for the three months ended March 31, 2007 totaled $31.9 million, or 18.5% of net sales, as compared to $34.0 million, or 17.7% of net sales, in the prior year comparable quarter. The decrease of $2.1 million was primarily attributable to (i) a decrease in wholesale sales volume, (ii) inefficiencies experienced with manufacturing

facilities closed during the period, and (iii) an increase in national television advertising costs. These factors were partially offset by the favorable impact of (i) improved performance within our remaining product sourcing operations, (ii) lower distribution costs, (iii) a decrease in compensation and benefit related expenses, and (iv) a reduction in operating costs associated with closed manufacturing facilities, including reduced losses incurred in connection with the disposition of certain property, plant and equipment.

Retail operating income decreased $0.2 million to ($0.1) million, or (0.1%) of sales, for the third quarter of fiscal 2007, from $0.1 million, or 0.1% of sales, for the third quarter of fiscal 2006. The decrease in retail operating income generated by Ethan Allen-owned IDCs was primarily attributable to a reduction in sales volume generated by comparable IDCs and IDCs closed or sold during the period, and higher operating expenses as a result of our continued efforts to reposition the retail network. These decreases were partially offset by higher sales volume generated by newly-opened (including relocations) or acquired IDCs.

Interest and other miscellaneous income, net increased $0.6 million from the prior year comparable quarter. The increase was a result, primarily, of prior year losses incurred in connection with our pastid #000000">

Income/(loss) before income taxes

(22) 117 115 210

Provision for income taxes

38 16 54

Equity earnings in affiliates

$129 91 50 $(270)

Net income

129 69 129 99 (270) 156

Net income attributable to noncontrolling interests

(27) (27)

Net income attributable to Crown Holdings

$129 $69 $129 $72 $(270) $129

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the three months ended June 30, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 1,161	$ 849		$ 2,010
Cost of products sold, excluding depreciation and amortization		$ (4)	956	679		1,631
Depreciation and amortization			23	21		44
Gross profit		4	182	149		335
Selling and administrative expense		(1)	69	27		95
Provision for restructuring			2			2
Asset impairments and sales		1	(1)	(6)		(6)
Net interest expense		6	35	2		43
Technology royalty			(9)	9		
Income/(loss) before income taxes		(2)	86	117		201
Provision for income taxes			35	22		57
Equity earnings in affiliates	$ 112	75	61		$ (248)	
Net income	112	73	112	95	(248)	144
Net income attributable to noncontrolling interests				(32)		(32)
Net income attributable to Crown Holdings	$ 112	$ 73	$ 112	$ 63	$ (248)	$ 112

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Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the six months ended June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 2,349	$ 1,814		$ 4,163
Cost of products sold, excluding depreciation and amortization		$ (1)	1,941	1,475		3,415
Depreciation and amortization			40	45		85
Gross profit		1	368	294		663
Selling and administrative expense		(1)	157	46		202
Provision for restructuring			25			25
Asset impairments and sales			(182)		$ 182	
Loss from early extinguishment of debt		2	30			32
Net interest expense		39	55	16		110
Technology royalty			(15)	15		
Translation and foreign exchange				1		1
Income/(loss) before income taxes		(39)	298	216	(182)	293
Provision for income taxes		1	39	55		95
Equity earnings/(loss) in affiliates	$ 145	139	(114)		(170)	
Net income	145	99	145	161	(352)	198
Net income attributable to noncontrolling interests				(53)		(53)
Net income attributable to Crown Holdings	$ 145	$ 99	$ 145	$ 108	$ (352)	$ 145

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Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the six months ended June 30, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 2,208	$ 1,579		$ 3,787
Cost of products sold, excluding depreciation and amortization		$ (6)	1,851	1,269		3,114
Depreciation and amortization			45	43		88
Gross profit		6	312	267		585
Selling and administrative expense		(1)	121	54		174
Provision for restructuring			24			24
Asset impairments and sales		1	(2)	(6)		(7)
Net interest expense		4	78	7		89
Technology royalty			(16)	16		
Translation and foreign exchange			(2)			(2)
Income before income taxes		2	109	196		307
Provision for income taxes			59	37		96
Equity earnings in affiliates	$ 153	107	103		$ (363)	
Net income	153	109	153	159	(363)	211
Net income attributable to noncontrolling interests				(58)		(58)
Net income attributable to Crown Holdings	$ 153	$ 109	$ 153	$ 101	$ (363)	$ 153

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Crown Holdings, Inc.

CONDENSED COMBINING BALANCE SHEET

As of June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Assets						
Current assets						
Cash and cash equivalents			$ 62	$ 359		$ 421
Restricted cash		$ 125				125
Receivables, net		74	311	938		1,323
Intercompany receivables		1	68	23	$ (92)	
Inventories			767	770		1,537
Prepaid expenses and other current assets	$ 1	6	150	36		193
Total current assets	1	206	1,358	2,126	(92)	3,599
Intercompany debt receivables		1,316	3,443	265	(5,024)	
Investments	525	3,381	(656)		(3,250)	
Goodwill			1,455	614		2,069
Property, plant and equipment, net			635	1,111		1,746
Other non-current assets		15	581	49		645
Total	$ 526	$ 4,918	$ 6,816	$ 4,165	$ (8,366)	$ 8,059
Liabilities and equity						
Current liabilities						
Short-term debt		$ 16	$ 30	,$ 226		$ 272
Current maturities of long-term debt		121	1	58		180
Accounts payable and accrued liabilities	$ 13	28	1,283	934		2,258
Intercompany payables			23	69	$ (92)	
Total current liabilities	13	165	1,337	1,287	(92)	2,710
Long-term debt, excluding current maturities		1,123	2,114	187		3,424
Long-term intercompany debt	583	2,337	1,358	746	(5,024)	
Postretirement and pension liabilities			1,152	19		1,171
Other non-current liabilities			329	154		483
Commitments and contingent liabilities						
Noncontrolling interests			1	340		341
Crown Holdings shareholders equity/(deficit)	(70)	1,293	525	1,432	(3,250)	(70)
Total equity/(deficit)	(70)	1,293	526	1,772	(3,250)	271
Total	$ 526	$ 4,918	$ 6,816	$ 4,165	$ (8,366)	$ 8,059

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Crown Holdings, Inc.

CONDENSED COMBINING BALANCE SHEET

As of December 31, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Assets						
Current assets						
Cash and cash equivalents			$ 65	$ 398		$ 463
Receivables, net		$ 66	111	759		936
Intercompany receivables		1	101	64	$ (166)	
Inventories			575	485		1,060
Prepaid expenses and other current assets	$ 1	12	148	29		190
Total current assets	1	79	1,000	1,735	(166)	2,649
Intercompany debt receivables		1,374	2,956	373	(4,703)	
Investments	308	3,039	(350)		(2,997)	
Goodwill			1,411	573		1,984
Property, plant and equipment, net			626	984		1,610
Other non-current assets		16	590	50		656
Total	$ 309	$ 4,508	$ 6,233	$ 3,715	$ (7,866)	$ 6,899
Liabilities and equity						
Current liabilities						
Short-term debt		$ 48	$ 5	$ 188		$ 241
Current maturities of long-term debt		116	5	37		158
Accounts payable and accrued liabilities	$ 28	26	1,085	839		1,978
Intercompany payables		2	62	102	$ (166)	
Total current liabilities	28	192	1,157	1,166	(166)	2,377
Long-term debt, excluding current maturities		810	1,731	108		2,649
Long-term intercompany debt	377	2,362	1,556	408	(4,703)	
Postretirement and pension liabilities			1,149	10		1,159
Other non-current liabilities			331	154		485
Commitments and contingent liabilities						
Noncontrolling interests			1	324		325
Crown Holdings shareholders equity/(deficit)	(96)	1,144	308	1,545	(2,997)	(96)
Total equity/(deficit)	(96)	1,144	309	1,869	(2,997)	229
Total	$ 309	$ 4,508	$ 6,233	$ 3,715	$ (7,866)	$ 6,899

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net used for operating activities	$ (3)	$ (43)	$ (103)	$ (98)		$ (247)
Cash flows from investing activities						
Capital expenditures			(31)	(153)		(184)
Change in restricted cash		(125)				(125)
Intercompany investing activities		6	230	(180)	$ (56)	
Proceeds from sale of property, plant and equipment			2			2
Other						0
Net cash provided by/(used for) investing activities		(119)	201	(333)	(56)	(307)
Cash flows from financing activities						
Proceeds from long-term debt		400	900	116		1,416
Payments of long-term debt		(159)	(747)	(16)		(922)
Net change in revolving credit facility and short-term debt		(29)	250	27		248
Debt issue costs			(16)			(16)
Net change in long-term intercompany balances	206	(63)	(488)	345		
Common stock issued	9					9
Common stock repurchased	(212)					(212)
Dividends paid				(56)	56	
Purchase of noncontrolling interests				(9)		(9)
Dividends paid to noncontrolling interests				(38)		(38)
Other		13		5		18
Net cash provided by/(used for) financing activities	3	162	(101)	374	56	494
Effect of exchange rate changes on cash and cash equivalents				18		18
Net change in cash and cash equivalents			(3)	(39)		(42)
Cash and cash equivalents at January 1			65	398		463
Cash and cash equivalents at June 30	$ 0	$ 0	$ 62	$ 359	$ 0	$ 421

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended June 30, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net cash provided by/(used for) operating activities	$ 4		$ 12	$ (210)		$ (194)
Cash flows from investing activities						
Capital expenditures			(31)	(73)		(104)
Intercompany investing activities		$ (193)	231	3	$ (41)	
Proceeds from sale of property, plant and equipment			5	11		16
Other			1	2		3
Net cash provided by/(used for) investing activities		(193)	206	(57)	(41)	(85)
Cash flows from financing activities						
Proceeds from long-term debt				47		47
Payments of long-term debt		(215)	(201)	(10)		(426)
Net change in revolving credit facility and short-term debt		255	257	167		679
Net change in long-term intercompany balances	(3)	134	(274)	143		
Common stock issued	4					4
Common stock repurchased	(5)					(5)
Dividends paid				(41)	41	
Dividends paid to noncontrolling interests				(49)		(49)
Other		14	(8)			6
Net cash provided by/(used for) financing activities	(4)	188	(226)	257	41	256
Effect of exchange rate changes on cash and cash equivalents			(2)	(22)		(24)
Net change in cash and cash equivalents		(5)	(10)	(32)		(47)
Cash and cash equivalents at January 1		5	49	405		459
Cash and cash equivalents at June 30	$ 0	$ 0	$ 39	$ 373	$ 0	$ 412

Crown Holdings, Inc.

Crown Cork & Seal Company, Inc. (Issuer), a 100% owned subsidiary, has $350 principal amount of 7.375% senior notes due 2026 and $64 principal amount of 7.5% senior notes due 2096 outstanding that are fully and unconditionally guaranteed by Crown Holdings, Inc. (Parent). No other subsidiary guarantees the debt. The following condensed combining financial statements:

statements of operations for the three and six months ended June 30, 2011 and 2010,

balance sheets as of June 30, 2011 and December 31, 2010, and

statements of cash flows for the six months ended June 30, 2011 and 2010

are presented on the following pages to comply with the Company s requirements under Rule 3-10 of Regulation S-X.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the three months ended June 30, 2011

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Net sales			$ 2,281		$ 2,281
Cost of products sold, excluding depreciation and amortization			1,865		1,865
Depreciation and amortization			45		45
Gross profit			371		371
Selling and administrative expense		$ 3	97		100
Provision for restructuring			0		0
Asset impairments and sales			0		0
Loss from early extinguishment of debt			2		2
Net interest expense		21	37		58
Translation and foreign exchange			1		1
Income/(loss) before income taxes		(24)	234		210
Provision for income taxes		2	52		54
Equity earnings in affiliates	$ 129	155		$ (284)	
Net income	129	129	182	(284)	156
Net income attributable to noncontrolling interests			(27)		(27)
Net income attributable to Crown Holdings	$ 129	$ 129	$ 155	$ (284)	$ 129

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Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the three months ended June 30, 2010

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Net sales			$ 2,010		$ 2,010
Cost of products sold, excluding depreciation and amortization			1,631		1,631
Depreciation and amortization			44		44
Gross profit			335		335
Selling and administrative expense		$ 2	93		95
Provision for restructuring			2		2
Asset impairments and sales			(6)		(6)
Net interest expense		20	23		43
Income/(loss) before income taxes		(22)	223		201
Provision for/(benefit from) income taxes		(2)	59		57
Equity earnings in affiliates	$ 112	132		$ (244)	
Net income	112	112	164	(244)	144
Net income attributable to noncontrolling interests			(32)		(32)
Net income attributable to Crown Holdings	$ 112	$ 112	$ 132	$ (244)	$ 112

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Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the six months ended June 30, 2011

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Net sales			$ 4,163		$ 4,163
Cost of products sold, excluding depreciation and amortization			3,415		3,415
Depreciation and amortization			85		85
Gross profit			663		663
Selling and administrative expense		$ 5	197		202
Provision for restructuring			25		25
Asset impairments and sales			0		0
Loss from early extinguishment of debt			32		32
Net interest expense		42	68		110
Translation and foreign exchange			1		1
Income/(loss) before income taxes		(47)	340		293
Provision for/(benefit from) income taxes		(5)	100		95
Equity earnings in affiliates	$ 145	187		$ (332)	
Net income	145	145	240	(332)	198
Net income attributable to noncontrolling interests			(53)		(53)
Net income attributable to Crown Holdings	$ 145	$ 145	$ 187	$ (332)	$ 145

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Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the six months ended June 30, 2010

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Net sales			$ 3,787		$ 3,787
Cost of products sold, excluding depreciation and amortization			3,114		3,114
Depreciation and amortization			88		88
Gross profit			585		585
Selling and administrative expense		$ (16)	190		174
Provision for restructuring			24		24
Asset impairments and sales			(7)		(7)
Net interest expense		42	47		89
Translation and foreign exchange			(2)		(2)
Income/(loss) before income taxes		(26)	333		307
Provision for income taxes			96		96
Equity earnings in affiliates	$ 153	179		$ (332)	
Net income	153	153	237	(332)	211
Net income attributable to noncontrolling interests			(58)		(58)
Net income attributable to Crown Holdings	$ 153	$ 153	$ 179	$ (332)	$ 153

Crown Holdings, Inc.

CONDENSED COMBINING BALANCE SHEET

As of June 30, 2011

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Assets					
Current assets					
Cash and cash equivalents			$ 421		$ 421
Restricted cash			125		125
Receivables, net			1,323		1,323
Inventories			1,537		1,537
Prepaid expenses and other current assets	$ 1	$ 79	113		193
Total current assets	1	79	3,519		3,599
Intercompany debt receivables			1,232	$ (1,232)	
Investments	525	1,360		(1,885)	
Goodwill			2,069		2,069
Property, plant and equipment, net			1,746		1,746
Other non-current assets		434	211		645
Total	$ 526	$ 1,873	$ 8,777	$ (3,117)	$ 8,059
Liabilities and equity					
Current liabilities					
Short-term debt			$ 272		$ 272
Current maturities of long-term debt			180		180
Accounts payable and accrued liabilities	$ 13	$ 31	2,214		2,258
Total current liabilities	13	31	2,666		2,710
Long-term debt, excluding current maturities		411	3,013		3,424
Long-term intercompany debt	583	649		$ (1,232)	
Postretirement and pension liabilities			1,171		1,171
Other non-current liabilities		257	226		483
Commitments and contingent liabilities					
Noncontrolling interests			341		341
Crown Holdings shareholders equity/(deficit)	(70)	525	1,360	(1,885)	(70)
Total equity/(deficit)	(70)	525	1,701	(1,885)	271
Total	$ 526	$ 1,873	$ 8,777	$ (3,117)	$ 8,059

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Crown Holdings, Inc.

CONDENSED COMBINING BALANCE SHEET

As of December 31, 2010

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Assets					
Current assets					
Cash and cash equivalents			$ 463		$ 463
Receivables, net			936		936
Inventories			1,060		1,060
Prepaid expenses and other current assets	$ 1	$ 79	110		190
Total current assets	1	79	2,569		2,649
Intercompany debt receivables			1,014	$ (1,014)	
Investments	308	1,133		(1,441)	
Goodwill			1,984		1,984
Property, plant and equipment, net			1,610		1,610
Other non-current assets		449	207		656
Total	$ 309	$ 1,661	$ 7,384	$ (2,455)	$ 6,899
Liabilities and equity					
Current liabilities					
Short-term debt			$ 241		$ 241
Current maturities of long-term debt			158		158
Accounts payable and accrued liabilities	$ 28	$ 42	1,908		1,978
Total current liabilities	28	42	2,307		2,377
Long-term debt, excluding current maturities		411	2,238		2,649
Long-term intercompany debt	377	637		$ (1,014)	
Postretirement and pension liabilities			1,159		1,159
Other non-current liabilities		263	222		485
Commitments and contingent liabilities					
Noncontrolling interests			325		325
Crown Holdings shareholders equity/(deficit)	(96)	308	1,133	(1,441)	(96)
Total equity/(deficit)	(96)	308	1,458	(1,441)	229
Total	$ 309	$ 1,661	$ 7,384	$ (2,455)	$ 6,899

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended June 30, 2011

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Net cash used for operating activities	$ (3)	$ (43)	$ (201)		$ (247)
Cash flows from investing activities					
Capital expenditures			(184)		(184)
Change in restricted cash			(125)		(125)
Proceeds from sale of property, plant and equipment			2		2
Investment dividends		31		$ (31)	
Other			0		0
Net cash provided by/(used for) investing activities		31	(307)	(31)	(307)
Cash flows from financing activities					
Proceeds from long-term debt			1,416		1,416
Payments of long-term debt			(922)		(922)
Net change in revolving credit facility and short-term debt			248		248
Debt issue costs			(16)		(16)
Net change in long-term intercompany balances	206	12	(218)		
Common stock issued	9				9
Common stock repurchased	(212)				(212)
Dividends paid			(31)	31	
Purchase of noncontrollling interests			(9)		(9)
Dividend paid to noncontrolling interests			(38)		(38)
Other			18		18
Net cash provided by financing activities	3	12	448	31	494
Effect of exchange rate changes on cash and cash equivalents			18		18
Net change in cash and cash equivalents			(42)		(42)
Cash and cash equivalents at January 1			463		463
Cash and cash equivalents at June 30	$ 0	$ 0	$ 421	$ 0	$ 421

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended June 30, 2010

(in millions)

	Parent	Issuer	Non-Guarantors	Eliminations	Total Company
Net cash provided by/(used for) operating activities	$ 4	$ (1)	$ (197)		$ (194)
Cash flows from investing activities					
Capital expenditures			(104)		(104)
Proceeds from sale of property, plant and equipment			16		16
Intercompany investing activities		38		$ (38)	
Other			3		3
Net cash provided by/(used for) investing activities		38	(85)	(38)	(85)
Cash flows from financing activities					
Proceeds from long-term debt			47		47
Payments of long-term debt			(426)		(426)
Net change in revolving credit facility and short-term debt			679		679
Net change in long-term intercompany balances	(3)	(37)	40		
Common stock issued	4				4
Common stock repurchased	(5)				(5)
Dividends paid			(38)	38	
Dividend paid to noncontrolling interests			(49)		(49)
Other			6		6
Net cash provided by/(used for) financing activities	(4)	(37)	259	38	256
Effect of exchange rate changes on cash and cash equivalents			(24)		(24)
Net change in cash and cash equivalents			(47)		(47)
Cash and cash equivalents at January 1			459		459
Cash and cash equivalents at June 30	$ 0	$ 0	$ 412	$ 0	$ 412

Crown Holdings, Inc.

Crown Americas, LLC, Crown Americas Capital Corp. II and Crown Americas Capital Corp. III (collectively, the Issuers), 100% owned subsidiaries of the Company, have $400 principal amount of 7.625% senior notes due 2017 and $700 principal amount of 6.25% senior notes due 2021 outstanding that are fully and unconditionally guaranteed by Crown Holdings, Inc. (Parent) and substantially all subsidiaries in the United States. The guarantors are 100% owned by the Company and the guarantees are made on a joint and several basis. The following condensed combining financial statements:

statements of operations for the three and six months ended June 30, 2011 and 2010,

balance sheets as of June 30, 2011 and December 31, 2010, and

statements of cash flows for the six months ended June 30, 2011 and 2010

are presented on the following pages to comply with the Company s requirements under Rule 3-10 of Regulation S-X.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the three months ended June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 513	$ 1,768		$ 2,281
Cost of products sold, excluding depreciation and amortization			398	1,467		1,865
Depreciation and amortization			9	36		45
Gross profit			106	265		371
Selling and administrative expense		$ 1	34	65		100
Provision for restructuring				0		0
Asset impairments and sales				0		0
Loss from early extinguishment of debt			2			2
Net interest expense		14	18	26		58
Technology royalty			(13)	13		
Translation and foreign exchange				1		1
Income/(loss) before income taxes		(15)	65	160		210
Provision for/(benefit from) income taxes		(5)	(17)	76		54
Equity earnings in affiliates	$ 129	90	47		$ (266)	
Net income	129	80	129	84	(266)	156
Net income attributable to noncontrolling interests				(27)		(27)
Net income attributable to Crown Holdings	$ 129	$ 80	$ 129	$ 57	$ (266)	$ 129

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Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the three months ended June 30, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 597	$ 1,413		$ 2,010
Cost of products sold, excluding depreciation and amortization			491	1,140		1,631
Depreciation and amortization			10	34		44
Gross profit			96	239		335
Selling and administrative expense		$ (1)	40	56		95
Provision for restructuring				2		2
Asset impairments and sales				(6)		(6)
Net interest expense		(3)	37	9		43
Technology royalty			(12)	12		
Income before income taxes		4	31	166		201
Provision for income taxes		2	20	35		57
Equity earnings in affiliates	$ 112	38	101		$ (251)	
Net income	112	40	112	131	(251)	144
Net income attributable to noncontrolling interests				(32)		(32)
Net income attributable to Crown Holdings	$ 112	$ 40	$ 112	$ 99	$ (251)	$ 112

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the six months ended June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 1,136	$ 3,027		$ 4,163
Cost of products sold, excluding depreciation and amortization			926	2,489		3,415
Depreciation and amortization			19	66		85
Gross profit			191	472		663
Selling and administrative expense		$ 3	70	129		202
Provision for restructuring				25		25
Asset impairments and sales				0		0
Loss from early extinguishment of debt		30	2			32
Net interest expense		26	40	44		110
Technology royalty			(23)	23		
Translation and foreign exchange				1		1
Income/(loss) before income taxes		(59)	102	250		293
Provision for/(benefit from) income taxes		(22)	0	117		95
Equity earnings in affiliates	$ 145	116	43		$ (304)	
Net income	145	79	145	133	(304)	198
Net income attributable to noncontrolling interests				(53)		(53)
Net income attributable to Crown Holdings	$ 145	$ 79	$ 145	$ 80	$ (304)	$ 145

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the six months ended June 30, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net sales			$ 1,119	$ 2,668		$ 3,787
Cost of products sold, excluding depreciation and amortization			945	2,169		3,114
Depreciation and amortization			20	68		88
Gross profit			154	431		585
Selling and administrative expense		$ 1	55	118		174
Provision for restructuring				24		24
Asset impairments and sales				(7)		(7)
Net interest expense		18	50	21		89
Technology royalty			(19)	19		
Translation and foreign exchange				(2)		(2)
Income/(loss) before income taxes		(19)	68	258		307
Provision for/(benefit from) income taxes		(7)	44	59		96
Equity earnings in affiliates	$ 153	66	129		$ (348)	
Net income	153	54	153	199	(348)	211
Net income attributable to noncontrolling interests				(58)		(58)
Net income attributable to Crown Holdings	$ 153	$ 54	$ 153	$ 141	$ (348)	$ 153

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Crown Holdings, Inc.

CONDENSED COMBINING BALANCE SHEET

As of June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Assets						
Current assets						
Cash and cash equivalents		$ 35	$ 1	$ 385		$ 421
Restricted cash				125		125
Receivables, net			16	1,307		1,323
Intercompany receivables			46	15	$ (61)	
Inventories			329	1,208		1,537
Prepaid expenses and other current assets	$ 1	1	95	96		193
Total current assets	1	36	487	3,136	(61)	3,599
Intercompany debt receivables		1,441	1,313	221	(2,975)	
Investments	525	1,313	803		(2,641)	
Goodwill			453	1,616		2,069
Property, plant and equipment, net		1	296	1,449		1,746
Other non-current assets		33	440	172		645
Total	$ 526	$ 2,824	$ 3,792	$ 6,594	$ (5,677)	$ 8,059
Liabilities and equity						
Current liabilities						
Short-term debt				$ 272		$ 272
Current maturities of long-term debt			$ 1	179		180
Accounts payable and accrued liabilities	$ 13	$ 36	355	1,854		2,258
Intercompany payables			15	46	$ (61)	
Total current liabilities	13	36	371	2,351	(61)	2,710
Long-term debt, excluding current maturities		1,661	412	1,351		3,424
Long-term intercompany debt	583	680	1,375	337	(2,975)	
Postretirement and pension liabilities			815	356		1,171
Other non-current liabilities			294	189		483
Commitments and contingent liabilities						
Noncontrolling interests				341		341
Crown Holdings shareholders equity/(deficit)	(70)	447	525	1,669	(2,641)	(70)
Total equity/(deficit)	(70)	447	525	2,010	(2,641)	271
Total	$ 526	$ 2,824	$ 3,792	$ 6,594	$ (5,677)	$ 8,059

Crown Holdings, Inc.

CONDENSED COMBINING BALANCE SHEET

As of December 31, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Assets						
Current assets						
Cash and cash equivalents		$ 38	$ 1	$ 424		$ 463
Receivables, net			(6)	942		936
Intercompany receivables			28	13	$ (41)	
Inventories			281	779		1,060
Prepaid expenses and other current assets	$ 1	1	84	104		190
Total current assets	1	39	388	2,262	(41)	2,649
Intercompany debt receivables		1,428	1,231	383	(3,042)	
Investments	308	1,197	670		(2,175)	
Goodwill			453	1,531		1,984
Property, plant and equipment, net		1	301	1,308		1,610
Other non-current assets		26	482	148		656
Total	$ 309	$ 2,691	$ 3,525	$ 5,632	$ (5,258)	$ 6,899
Liabilities and equity						
Current liabilities						
Short-term debt				$ 241		$ 241
Current maturities of long-term debt		$ 4	$ 1	153		158
Accounts payable and accrued liabilities	$ 28	24	316	1,610		1,978
Intercompany payables			13	28	$ (41)	
Total current liabilities	28	28	330	2,032	(41)	2,377
Long-term debt, excluding current maturities		1,278	413	958		2,649
Long-term intercompany debt	377	1,017	1,363	285	(3,042)	
Postretirement and pension liabilities			816	343		1,159
Other non-current liabilities			295	190		485
Commitments and contingent liabilities						
Noncontrolling interests				325		325
Crown Holdings shareholders equity/(deficit)	(96)	368	308	1,499	(2,175)	(96)
Total equity/(deficit)	(96)	368	308	1,824	(2,175)	229
Total	$ 309	$ 2,691	$ 3,525	$ 5,632	$ (5,258)	$ 6,899

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended June 30, 2011

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net provided by/(used for) operating activities	$ (3)	$ (16)	$ 48	$ (276)		$ (247)
Cash flows from investing activities						
Capital expenditures			(9)	(175)		(184)
Change in restricted cash				(125)		(125)
Proceeds from sale of property, plant and equipment				2		2
Intercompany investing activities			32		$ (32)	
Other			0			0
Net cash provided by/(used for) investing activities			23	(298)	(32)	(307)
Cash flows from financing activities						
Proceeds from long-term debt		900		516		1,416
Payments of long-term debt		(746)	(1)	(175)		(922)
Net change in revolving credit facility and short-term debt		225		23		248
Debt issue costs		(16)				(16)
Net change in long-term intercompany balances	206	(350)	(70)	214		
Common stock issued	9					9
Common stock repurchased	(212)					(212)
Dividends paid				(32)	32	
Purchase of noncontrolling interests				(9)		(9)
Dividends paid to noncontrolling interests				(38)		(38)
Other				18		18
Net cash provided by/(used for) financing activities	3	13	(71)	517	32	494
Effect of exchange rate changes on cash and cash equivalents				18		18
Net change in cash and cash equivalents		(3)		(39)		(42)
Cash and cash equivalents at January 1		38	1	424		463
Cash and cash equivalents at June 30	$ 0	$ 35	$ 1	$ 385	$ 0	$ 421

Crown Holdings, Inc.

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the six months ended June 30, 2010

(in millions)

	Parent	Issuer	Guarantors	Non-Guarantors	Eliminations	Total Company
Net cash provided by/(used for) operating activities	$ 4	$ (2)	$ 88	$ (284)		$ (194)
Cash flows from investing activities						
Capital expenditures			(13)	(91)		(104)
Proceeds from sale of property, plant and equipment			1	15		16
Intercompany investing activities		2	39		$ (41)	
Other, net			1	2		3
Net cash provided by/(used for) investing activities		2	28	(74)	(41)	(85)
Cash flows from financing activities						
Proceeds from long-term debt				47		47
Payments of long-term debt		(200)	(1)	(225)		(426)
Net change in revolving credit facility and short-term debt		235		444		679
Net change in long-term intercompany balances	(3)	(34)	(114)	151		
Common stock issued	4					4
Common stock repurchased	(5)					(5)
Dividends paid				(41)	41	
Dividends paid to noncontrolling interests				(49)		(49)
Other		(15)		21		6
Net cash provided by/(used for) financing activities	(4)	(14)	(115)	348	41	256
Effect of exchange rate changes on cash and cash equivalents				(24)		(24)
Net change in cash and cash equivalents		(14)	1	(34)		(47)
Cash and cash equivalents at January 1		27	1	431		459
Cash and cash equivalents at June 30	$ 0	$ 13	$ 2	$ 397	$ 0	$ 412

PART I FINANCIAL INFORMATION

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

(in millions)

Introduction

The following discussion presents management s analysis of the results of operations for the three and six months ended June 30, 2011 compared to the corresponding periods in 2010 and the changes in financial condition and liquidity from December 31, 2010. 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, 2010, along with the consolidated financial statements and related notes included in and referred to within this report.

Executive Overview

The Company s focus is to increase shareholder value by maximizing cash flow while investing in promising growth projects in emerging markets and generating sufficient returns which can be used to pay down debt and/or returned to shareholders. The Company s current growth projects include expansion in the emerging markets of Brazil, China, Eastern Europe and Southeast Asia. When the current lineup of expansion projects is completed, the Company will have built seven new beverage can plants and added 14 new production lines with approximately 11 billion units of incremental capacity to its year-end 2010 levels, a 22% increase in annual beverage can capacity. In the mature, developed markets of North America and Western Europe, the Company continues to focus on improving productivity and efficiency while reducing material and resource use and waste.

The key performance measure used by the Company is segment income. Segment income, a non-GAAP measure, is defined by the Company as gross profit less selling and administrative expenses. Improving segment income is primarily dependent on the Company s ability to increase revenues and manage costs. The Company s key strategies for increasing revenues include investing in geographic markets with growth potential and developing innovative packaging products using proprietary technology. The Company s cost control efforts focus on improving operating efficiencies and managing material and labor costs, including pension and other benefit costs.

The Company s revenues and costs are impacted by the cost of aluminum and steel, the primary raw materials used to manufacture the Company s products, which have been subject to significant volatility in recent years. The Company attempts to pass-through these costs to its customers either through provisions that adjust the selling prices to certain customers based on changes in the market price of the applicable raw material, or through surcharges where no such provision exists. However, there can be no assurance that the Company will be able to fully recover from its customers the impact of any increased aluminum and steel costs. In addition, if the Company is unable to purchase steel or aluminum for a significant period of time, its operations would be disrupted.

Results of Operations

The foreign currency translation impacts referred to below were primarily due to changes in the euro and pound sterling in the Company s European segments, the Canadian dollar in the Company s Americas segments and the Chinese renminbi and Thai baht in the Company s Asian businesses included in non-reportable segments.

Item 2. Management s Discussion and Analysis (Continued)

Net Sales and Segment Income

Net sales increased from $2,010 for the three months ended June 30, 2010 to $2,281 for the same period in 2011 primarily due to $55 from increased sales unit volumes primarily due to organic growth and increased customer demand, $97 from the pass-through of higher raw material costs and $119 from the impact of foreign currency translation. Net sales increased from $3,787 for the six months ended June 30, 2010 to $4,163 for the same period in 2011 primarily due to $91 from increased sales unit volumes primarily due to organic growth and increased customer demand, $162 from the pass-through of higher raw material costs and $132 from the impact of foreign currency translation.

Approximately 73% of net sales were generated outside the U.S. in the first six months of 2011 compared to 71% for the same period in 2010. Sales of beverage cans and ends accounted for 52.9% and sales of food cans and ends accounted for 29.2% of consolidated net sales in the first six months of 2011 compared to 52.6% and 29.6% for the same period in 2010.

Discussion and analysis of net sales and segment income by segment follows.

Americas Beverage

The Americas Beverage segment manufactures aluminum beverage cans and ends and steel crowns, commonly referred to as bottle caps , and supplies a variety of customers throughout the United States, Brazil, Canada, Colombia and Mexico. The Company completed construction of a new plant in Ponta Grossa, Brazil with the first line commencing commercial operations in the first quarter of 2011 and a second line commencing commercial operations in the second quarter of 2011. In addition, the Company commenced commercial operations at a second line in its plant in Estancia, Brazil in the second quarter of 2011. At full capacity and efficiency, these additions are expected to add capacity of 2.7 billion cans. The Company has also announced plans to construct a new beverage can plant in Belem, Brazil which is expected to be completed in 2012.

Three months ended June 30, 2011

Net sales in the Americas Beverage segment increased from $549 for the three months ended June 30, 2010 to $591 for the same period in 2011. The increase is primarily due to $29 from the pass-through of higher raw material costs, primarily aluminum, $5 from increased sales unit volumes and $8 from the impact of foreign currency translation. The increase in sales unit volumes is primarily due to the Company s plant in Ponta Grossa, Brazil which began commercial operations in the first quarter of 2011.

Segment income in the Americas Beverage segment increased from $73 for the three months ended June 30, 2010 to $77 for the same period in 2011. The increase is primarily due to lower operating costs throughout the segment including $2 from lower post-retirement benefits resulting from plan amendments in 2010.

Six months ended June 30, 2011

Net sales in the Americas Beverage segment increased from $1,029 for the six months ended June 30, 2010 to $1,103 for the same period in 2011. The increase is primarily due to $52 from the pass-through of higher raw material costs, primarily aluminum, $9 from increased sales unit volumes and $13 from the impact of foreign currency translation. The increase in sales unit volumes is primarily due to the Company s plant in Ponta Grossa, Brazil which began commercial operations in 2011.

Segment income in the Americas Beverage segment increased from $130 for the six months ended June 30, 2010 to $140 for the same period in 2011. The increase is primarily due to $9 from lower operating costs throughout the segment including $4 from lower post-retirement benefits resulting from plan amendments in 2010.

North America Food

The North America Food segment manufactures steel and aluminum food cans and ends and metal vacuum closures and supplies a variety of customers in the United States and Canada.

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Item 2. Management s Discussion and Analysis (Continued)

Three months ended June 30, 2011

Net sales in the North America Food segment increased from $214 for the three months ended June 30, 2010 to $217 for the same period in 2011. The increase is primarily due to $8 from the pass-through of higher raw material costs, primarily tinplate, and $2 from the impact of foreign currency translation, partially offset by $7 from lower sales unit volumes primarily due to decreased customer demand in the United States.

Segment income in the North America Food segment increased from $33 for the three months ended June 30, 2010 to $38 for the same period in 2011 primarily due to lower operating costs including the benefits from prior plant closures in Canada.

Six months ended June 30, 2011

Net sales in the North America Food segment decreased from $411 for the six months ended June 30, 2010 to $405 for the same period in 2011. The decrease is primarily due to $26 from lower sales unit volumes due to decreased customer demand in the United States partially offset by $16 from the pass-through of higher raw material costs, primarily tinplate, and $4 from the impact of foreign currency translation.

Segment income in the North America Food segment increased from $49 for the six months ended June 30, 2010 to $66 for the same period in 2011. The increase is primarily due to $13 from lower operating costs including the benefits from prior plant closures in Canada and improved manufacturing performance associated with higher production, $5 from inventory holding gains from the sale of inventory on hand at the end of 2010 and $2 from lower post-retirement benefits in the U.S. resulting from plan amendments in 2010. The improvements associated with higher production levels were largely due to increased production in the early part of 2011 due to lower planned inventory levels at the end of 2010.

European Beverage

The Company s European Beverage segment manufactures steel and aluminum beverage cans and ends and supplies a variety of customers throughout North Africa, Eastern and Western Europe and the Middle East. In the second quarter of 2011, the Company commenced commercial operations of the second line at its plant in Kechnec, Slovakia. The second line is expected to add full annualized capacity of 750 million cans. In 2012, the Company expects to complete construction of a new plant in Osmaniye, Turkey which is expected to add full annualized capacity of 700 million cans.

Three months ended June 30, 2011

Net sales in the European Beverage segment increased from $439 for the three months ended June 30, 2010 to $500 for the same period in 2011. The increase is primarily due to $23 from increased sales unit volumes, $10 from the pass-through of higher raw material costs and $28 from the impact of foreign currency translation.

Segment income in the European Beverage segment decreased from $75 for the three months ended June 30, 2010 to $70 for the same period in 2011. The decrease is primarily due to $7 of increased costs which were not fully offset by increases in selling prices including the effects from two major conversions at one of the Company s U.K. plants, partially offset by $2 from the impact of foreign currency translation.

The increased sales unit volumes are primarily attributable to increased customer demand in the Company s beverage can operations in Saudi Arabia, Slovakia and the United Kingdom. In response to strong customer demand in the central and eastern European region, the Company constructed a plant in Kechnec, Slovakia which commenced commercial operations in the first quarter of 2010. The Company increased capacity at the plant by adding a second line which began commercial operations in the second quarter of 2011.

Six months ended June 30, 2011

Net sales in the European Beverage segment increased from $753 for the six months ended June 30, 2010 to $840 for the same period in 2011. The increase is primarily due to $43 from increased sales unit volumes, $18 from the pass-through of higher raw material costs and $26 from the impact of foreign currency translation.

Item 2. Management s Discussion and Analysis (Continued)

Segment income in the European Beverage segment decreased from $127 for the six months ended June 30, 2010 to $115 for the same period in 2011. The decrease is primarily due to $18 of increased costs which were not fully offset by increases in selling prices including the effects from two major conversions at one of the Company s U.K. plants, partially offset by $4 from increased sales unit volumes and $2 from the impact of foreign currency translation.

The increased sales unit volumes are primarily attributable to increased customer demand in the Company s beverage can operations in Saudi Arabia, Slovakia and Spain.

European Food

The European Food segment manufactures steel and aluminum food cans and ends, and metal vacuum closures and supplies a variety of customers throughout Northern, Southern and Western Africa and Eastern and Western Europe.

Three months ended June 30, 2011

Net sales in the European Food segment increased from $421 for the three months ended June 30, 2010 to $509 for the same period in 2011. The increase is primarily due to $31 from the pass-through of higher raw material costs, primarily tinplate, $5 from product mix and $52 from the impact of foreign currency translation.

Segment income in the European Food segment increased from $59 for the three months ended June 30, 2010 to $63 for the same period in 2011. The increase is primarily due to $6 from the impact of foreign currency translation partially offset by $2 from lower sales unit volumes. The lower sales unit volumes were partly due to a fishermen strike in Morocco, which has ended, and political turmoil in the Ivory Coast.

Six months ended June 30, 2011

Net sales in the European Food segment increased from $825 for the six months ended June 30, 2010 to $931 for the same period in 2011. The increase is primarily due to $45 from the pass-through of higher raw material costs, primarily tinplate, $10 from increased sales unit volumes and product mix and $51 from the impact of foreign currency translation.

Segment income in the European Food segment increased from $99 for the six months ended June 30, 2010 to $115 for the same period in 2011. The increase is primarily due to $7 from lower operating costs and $6 from the impact of foreign currency translation.

European Specialty Packaging

The European Specialty Packaging segment manufactures a wide variety of specialty containers, with numerous lid and closure variations and supplies a variety of customers throughout Europe.

Three months ended June 30, 2011

Net sales in the European Specialty Packaging segment increased from $97 for the three months ended June 30, 2010 to $119 for the same period in 2011. The increase is primarily due to $9 from the pass-through of higher raw material costs and $13 from the impact of foreign currency translation.

Segment income in the European Specialty Packaging segment increased from $8 for the three months ended June 30, 2010 to $12 for the same period in 2011. The increase is primarily due to equal contributions from increased sales unit volumes, favorable product mix, cost reductions and the impact of foreign currency translation.

Six months ended June 30, 2011

Net sales in the European Specialty Packaging segment increased from $188 for the six months ended June 30, 2010 to $219 for the same period in 2011. The increase is primarily due to $12 from the pass-through of higher raw material costs, $6 from increased sales unit volumes due to increased customer demand and $13 from the impact of foreign currency translation.

Item 2. Management s Discussion and Analysis (Continued)

Segment income in the European Specialty Packaging segment increased from $11 for the six months ended June 30, 2010 to $19 for the same period in 2011. The increase is primarily due to $5 from increased sales unit volumes and favorable product mix and $2 from lower operating costs.

Non-reportable Segments

The Company s non-reportable segments include its aerosol can businesses in North America, Europe and Thailand, its beverage can businesses in Cambodia, China, Malaysia, Singapore, Thailand and Vietnam, its food can and closures business in Thailand and its tooling and equipment operations.

In the second quarter of 2011, the Company commenced commercial operations at its new beverage can plant in Hangzhou, China. In the fourth quarter of 2011, the Company expects to complete and begin production on the second beverage can line in Phnom Penh, Cambodia and to commence commercial operations at its new beverage can plant in Putian, China. In 2012, the Company expects to complete new plants in Ziyang and Heshan, China and to expand capacity in both Ho Chi Minh City and Hanoi, Vietnam.

Three months ended June 30, 2011

Net sales in non-reportable segments increased from $290 for the three months ended June 30, 2010 to $345 for the same period in 2011 primarily due to $20 from increased beverage can sales and the pass-through of higher raw material costs in Cambodia, China and Vietnam, $10 from increased beverage equipment sales to can manufacturers, $9 from increased sales in the Company s aerosols businesses and $16 from the impact of foreign currency translation. Growth in sales unit volumes in Cambodia, China and Vietnam is primarily the result of increased regional demand driven by macroeconomic factors such as GDP growth and increased consumer spending.

Segment income in non-reportable segments increased from $47 for the three months ended June 30, 2010 to $55 for the same period in 2011 primarily due to $3 from increased beverage equipment sales, $2 from increased sales unit volumes and cost reductions in the Company s aerosol businesses, $2 from increased sales unit volumes in Cambodia, China and Vietnam and $2 from the impact of foreign currency translation.

Six months ended June 30, 2011

Net sales in non-reportable segments increased from $581 for the six months ended June 30, 2010 to $665 for the same period in 2011 primarily due to $46 from increased beverage can sales and the pass-through of higher raw material costs in Cambodia, China and Vietnam, $17 from increased beverage equipment sales to can manufacturers and $25 from the impact of foreign currency translation partially offset by $9 from the April 2010 sale of the Company s plastic closures business in Brazil. Growth in sales unit volumes in Cambodia, China and Vietnam is primarily the result of increased regional demand driven by macroeconomic factors such as GDP growth and increased consumer spending.

Segment income in non-reportable segments increased from $92 for the six months ended June 30, 2010 to $112 for the same period in 2011 primarily due to $5 from increased sales unit volumes in Cambodia, China and Vietnam, $6 from the Company s aerosol businesses which included $2 from inventory holding gains from the sale of inventory on hand at the end of 2010 and increased sales unit volumes which contributed to lower operating costs, $5 from increased beverage equipment sales and $4 from the impact of foreign currency translation.

Corporate and Unallocated Expense

Corporate and unallocated expenses decreased from $55 for the three months ended June 30, 2010 to $44 for the same period in 2011 primarily due to $6 from lower stock compensation costs, $3 from lower pension expense and $2 from other costs.

Corporate and unallocated expenses increased from $97 for the six months ended June 30, 2010 to $106 for the same period in 2011. The six months ended June 30, 2010 included a $20 benefit from the settlement of a legal dispute unrelated to the Company s operations. The six months ended June 30, 2011 included $8 lower pension expense and $3 lower stock compensation costs compared to the same period in 2010.

Item 2. Management s Discussion and Analysis (Continued)

Cost of Products Sold (Excluding Depreciation and Amortization)

Cost of products sold, excluding depreciation and amortization, increased from $1,631 for the three months ended June 30, 2010 to $1,865 for the same period in 2011 primarily due to increased aluminum and tinplate costs and $101 from the impact of foreign currency translation.

Cost of products sold, excluding depreciation and amortization, increased from $3,114 for the six months ended June 30, 2010 to $3,415 for the same period in 2011 primarily due to increased aluminum and tinplate costs and $111 from the impact of foreign currency translation.

Depreciation and Amortization

Depreciation and amortization increased from $44 for the three months ended June 30, 2010 to $45 for the same period in 2011 and decreased from $88 for the six months ended June 30, 2010 to $85 for the same period in 2011. The decrease is primarily due to lower capital expenditures in recent years. As the Company s current capacity expansion projects are completed and depreciation commences, depreciation is expected to increase in future periods.

Selling and Administrative Expense

Selling and administrative expense increased from $95 for the three months ended June 30, 2010 to $100 for the same period in 2011. The increase is primarily due to increased research and development and other costs and $6 from the impact of foreign currency translation partially offset by $4 of lower salary and benefit costs.

Selling and administrative expense increased from $174 for the six months ended June 30, 2010 to $202 for the same period in 2011 partly due to $7 from the impact of foreign currency translation. In addition, selling and administrative expense in 2010 included a benefit of $20 from the settlement of a legal dispute unrelated to the Company s ongoing operations.

Provision for Restructuring

For the six months ended June 30, 2011, the Company recorded a pre-tax charge of $25 for restructuring costs; including $19 related to the relocation of its European Division headquarters and management to Switzerland, $4 related to severance costs in its European Specialty Packaging segment and $2 related to prior restructurings in its North America Food segment. The charge of $19 in the Company s European Division represents the estimated employee compensation costs resulting from an intercompany payment related to the relocation and is expected to be paid over the next one to three years. The Company expects that the restructuring in its European Specialty Packaging segment and the 2009 and 2010 restructurings in its North America Food segment, when fully implemented, may result in annual pre-tax savings of $3 and $25.

For the six months ended June 30, 2010, the Company recorded a pre-tax charge of $24 for restructuring costs; including $10 for asset writedowns, $5 for pension and postretirement plan curtailment charges and $5 for severance costs related to the closure of a Canadian plant in its North America Food segment and $4 for strip and clean costs from prior restructurings.

Loss from Early Extinguishment of Debt

For the three and six month periods ended June 30, 2011, the Company recorded pre-tax charges of $2 and $32, respectively, in connection with the repayment of its $600 outstanding 7.75% senior secured notes due 2015 and its 83 ($121) 6.25% first priority senior secured notes due 2011.

Item 2. Management s Discussion and Analysis (Continued)

Interest Expense

Interest expense increased from $45 for the three months ended June 30, 2010 to $60 for the same period in 2011 due to $9 from higher borrowings, $4 from higher interest rates and $2 from the impact of foreign currency translation. Interest expense increased from $92 for the six months ended June 30, 2010 to $116 for the same period in 2011 due to $14 from higher borrowings, $8 from higher interest rates and $2 from the impact of foreign currency translation.

The higher borrowings were primarily to fund the Company s capacity expansion projects, to repurchase shares of the Company s stock and to purchase additional ownership interests from noncontrolling interests.

Provision for Income Taxes

The Company s effective income tax rate decreased from 28% for the three months ended June 30, 2010 to 26% for the same period in 2011.

The Company s effective income tax rate increased from 31% for the six months ended June 30, 2010 to 32% for the same period in 2011. The increase is partly due to a tax charge of $20 from the relocation of the Company s European Division headquarters and management to Switzerland, partially offset by lower taxes on foreign income primarily due to an overall lower tax rate in Europe as a result of the relocation.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests decreased from $32 for the three months ended June 30, 2010 to $27 for the same period in 2011 and from $58 for the six months ended June 30, 2010 to $53 for the same period in 2011. The decreases were primarily due to the acquisition of additional ownership interests in certain operations in China and Vietnam from the noncontrolling interests.

Liquidity and Capital Resources

Operating Activities

Net cash used for operating activities increased from $194 for the six months ended June 30, 2010 to $247 for the same period in 2011 and included an increase of $243 for inventories partially offset by a decrease of $119 for receivables and other net changes.

Inventories increased from $1,060 at December 31, 2010 to $1,537 at June 30, 2011, including $46 from the impact of foreign currency translation, and impacted operating cash flows for the six months ended June 30, 2011 by $431 compared to $188 for the same period in 2010. The increase in inventories is primarily due to $90 from the pass through of higher raw material costs, $70 from capacity expansion and the remaining increase is primarily from seasonal build and anticipated customer demand. The food packaging business is seasonal with the first quarter tending to be the slowest period as the autumn packaging period has ended and new crops are not yet planted. The industry generally enters its busiest period in the third quarter when the majority of fruits and vegetables are harvested. Due to this seasonality, inventory levels increase in the first half of the year to meet peak demand in the second and third quarters.

Receivables increased from $936 at December 31, 2010 to $1,323 at June 30, 2011, including $40 from the impact of foreign currency translation, and impacted operating cash flows for the six months ended June 30, 2011 by $347 compared to $251 for the same period in 2010 after adjusting 2010 by $215 from the impact of adopting new accounting guidance related to securitizations. The increase in receivables is primarily due to the pass-through of higher raw material costs and increased sales unit volumes. Sales in the month of June 2011 were higher than sales in the month of December 2010. Sales generally increase each month of the year until peaking in the third quarter. As a result, receivables generally increase through the third quarter of each year. Days sales outstanding for trade receivables increased from 42 for the six months ended June 30, 2010 to 45 for the same period in 2011 primarily due to mix.

Item 2. Management s Discussion and Analysis (Continued)

Investing Activities

Net cash used for investing activities increased from $85 for the six months ended June 30, 2010 to $307 for the same period in 2011 primarily due to increases in capital expenditures and restricted cash.

The increase in capital expenditures is due to the Company s current beverage can capacity expansion projects in Brazil, China, Eastern Europe and Southeast Asia. The Company expects capital expenditures of approximately $425 in 2011 compared to $320 in 2010.

The increase in restricted cash is due to an irrevocable deposit into an irrevocable trust in June 2011 that was used in July 2011 to redeem all 83 ($121) of the Company s 6.25% first priority senior secured notes due September 2011 and to pay accrued interest and related premiums.

Financing activities

Borrowings exceeded debt repayments by $300 for the six months ended June 30, 2010 compared to $742 for the same period in 2011. The increase is primarily due to $207 of incremental share repurchases, $125 of borrowings that were used in July 2011 to redeem the September 2011 notes and increased borrowings to fund the Company s capacity expansion projects.

The share repurchases were made pursuant to the program authorized by the Company s Board of Directors to repurchase up to $600 of the Company s common stock through the end of 2012. As of June 30, 2011, $394 of the Company s outstanding common stock may still be purchased under this program.

Liquidity

As of June 30, 2011, the Company had $728 of borrowing capacity available under its revolving credit facility, equal to the total facility of $1,200 less $410 of borrowings and $62 of outstanding standby letters of credit.

As of June 30, 2011, $383 of the Company s $421 cash and cash equivalents was located outside the U.S. The Company is not currently aware of any legal restrictions under foreign law that materially impact its access to cash held outside the U.S.

The Company funds its cash needs in the U.S. through a combination of cash flows generated in the U.S. and dividends from certain foreign subsidiaries. The Company records current and/or deferred U.S. taxes for the earnings of these foreign subsidiaries. For certain other foreign subsidiaries, the Company considers earnings indefinitely reinvested and has not recorded any U.S. taxes. Of the $383 cash and cash equivalents located outside the U.S., $278 was held by subsidiaries for which earnings are considered indefinitely reinvested. While based on current operating plans the Company does not foresee a need to repatriate these funds, if such earnings were repatriated the Company would be required to record any incremental U.S. taxes on the repatriated funds.

The Company s debt agreements contain covenants that provide limits on the ability of the Company and its subsidiaries to, among other things, incur additional debt, pay dividends or repurchase capital stock, make certain other restricted payments, create liens and engage in sale and leaseback transactions. These restrictions are subject to a number of exceptions, however, allowing the Company to incur additional debt or make otherwise restricted payments. The amount of restricted payments permitted to be made, including dividends and repurchases of the Company s common stock, is generally limited to the cumulative excess of $200 plus 50% of adjusted net income plus proceeds from the exercise of employee stock options over the aggregate of restricted payments made since July 2004. Adjustments to net income may include, but are not limited to, items such as asset impairments, gains and losses from asset sales and early extinguishments of debt. The Company s revolving credit facility and term loans also contain various financial covenants.

Item 2. Management s Discussion and Analysis (Continued)

Capital Resources

As of June 30, 2011, the Company has approximately $107 of capital commitments primarily related to its expansion projects in Brazil, Cambodia, China, Turkey and Vietnam. The Company expects to fund these commitments primarily through cash flows generated from operations and to fund any excess needs over available cash through external borrowings.

Contractual Obligations

Purchase obligations related to raw materials and utilities increased $147 for 2012, $386 for 2013, $504 for 2014 and $117 for 2015, compared to amounts provided within Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations of the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Commitments and Contingent Liabilities

Information regarding the Company s commitments and contingent liabilities appears in Part I within Item 1 of this report under Note I, entitled Commitments and Contingent Liabilities, to the consolidated financial statements, which information is incorporated herein by reference.

Critical Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States which require that management make numerous estimates and assumptions. Actual results could differ from these estimates and assumptions, impacting the reported results of operations and financial condition of the Company. Part II, Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Note A to the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2010 describe the significant accounting estimates and policies used in the preparation of the consolidated financial statements. There have been no significant changes in the Company s critical accounting policies during the first six months of 2011.

Recently Issued Accounting Guidance

In June 2011, the FASB issued changes to the presentation of comprehensive income. These changes give companies the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The FASB eliminated the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The FASB did not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Additionally, no changes were made to the calculation and presentation of earnings per share. These changes become effective for the Company on January 1, 2012. The Company is currently evaluating these changes to determine which option will be chosen for the presentation of comprehensive income.

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 discussions of asbestos in Note H and commitments and contingencies in Note I 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, 2010, 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 oral or written statements which are also forward-looking statements.

Item 2. Management s Discussion and Analysis (Continued)

These forward-looking statements are made based upon management s expectations and beliefs concerning future events impacting 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, 2010 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of business the Company is subject to risk from adverse fluctuations in foreign exchange and interest rates and commodity prices. The Company manages these risks through a program that includes the use of derivative financial instruments, primarily swaps and forwards. Counterparties to these contracts are major financial institutions. The Company is exposed to credit loss in the event of nonperformance by the counterparties. These instruments are not used for trading or speculative purposes. The extent to which the Company uses such instruments is dependent upon its access to these contracts in the financial markets and its success in using other methods, such as netting exposures in the same currencies to mitigate foreign exchange risk and using sales arrangements that permit the pass-through of commodity prices and foreign exchange rate risks to customers. The Company s objective in managing its exposure to market risk is to limit the impact on earnings and cash flow. For further discussion of the Company s use of derivative instruments and their fair values at June 30, 2011, see Note E to the consolidated financial statements included in this Quarterly Report on Form 10-Q.

As of June 30, 2011, the Company had approximately $1,330 principal floating interest rate debt. A change of 0.25% in these floating interest rates would change annual interest expense by approximately $3 before tax.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, management, including the Company s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures. Based upon that evaluation and as of the end of the quarter for which this report is made, the Company s Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective. Disclosure controls and procedures ensure that information to be disclosed in reports that the Company files and submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and terms of the Securities and Exchange Commission, and ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There has been no change in internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding the Company s potential asbestos-related liabilities and other litigation, see Note H entitled Asbestos-Related Liabilities and Note I entitled Commitments and Contingent Liabilities, respectively, to the consolidated financial statements within Item 1 of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

Item 1A. Risk Factors

In addition to the other information set forth in this report, carefully consider the factors discussed in Item 1A to Part I in the Company s Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect the Company s business, financial condition or future results. The risks described in the Company s Quarterly Report on Form 10-Q are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company s business, financial condition and/or operating results.

Item 2. Unregistered Sale of Equity Securities and Use of Proceeds

The Company made no purchases of its equity securities during the first three months of 2011.

The following table provides information about the Company s purchase of equity securities during the quarter ended June 30, 2011.

	Total Number of Shares Purchased	Average Price Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Programs As of the end of the period (millions of dollars)
May	5,018,701	$ 39.85	5,018,701	$ 394
Total	5,018,701	$ 39.85	5,018,701	$ 394

In December 2010, the Company entered into an agreement with Citigroup to purchase shares of its common stock under an accelerated share repurchase program. Pursuant to the agreement, the Company initially purchased 4,354,838 shares for $150 million. The purchase price of these shares was subject to an adjustment based on the Company s volume-weighted average stock price during the term of the transaction. The purchase price adjustment was settled in April, 2011 and resulted in an additional cash payment of $6 million.

In May 2011, the Company entered into an agreement with Goldman, Sachs & Co. to purchase shares of its common stock under an accelerated share repurchase program. Pursuant to the agreement, the Company purchased 5,018,701 shares for $200 million.

On December 9, 2010, the Company s Board of Directors authorized the repurchase of up to $600 million of the Company s common stock through the end of 2012. Stock repurchases under this program may be made in the open market or through privately negotiated transactions, and at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. This repurchase authorization replaces all previous authorizations. As of August 5, 2011, $394 million of the Company s outstanding common stock may still be purchased under this program.

Item 4. (Removed and Reserved.)

Item 5. Other Information

None.

Item 6. Exhibits

4.1 Credit Agreement, dated as of November 18, 2005, among Crown Americas LLC, as U.S. Borrower, Crown European Holdings, S.A., as European Borrower, CROWN Metal Packaging Canada LP, as Canadian Borrower, the Subsidiary Borrowers named therein, the Company, Crown International Holdings, Inc. and Crown Cork & Seal Company, Inc., as Parent Guarantors, Deutsche Bank AG New York Branch, as Administrative Agent and U.K. Administrative Agent, The Bank of Nova Scotia, as Canadian Administrative Agent, and various Lending Institutions.*

4.2 Fourth Amendment to Credit Agreement and Waiver, dated as of June 15, 2010, by and among Crown Americas LLC, as U.S. Borrower, Crown European Holdings SA, as European Borrower, CROWN Metal Packaging Canada LP, as Canadian Borrower, the Subsidiary Borrowers named therein, the Company, Crown International Holdings, Inc. and Crown Cork & Seal Company, Inc., as Parent Guarantors, the financial institutions party thereto, including Deutsche Bank AG New York Branch, as lenders, The Bank of Nova Scotia, as Canadian Administrative Agent, and Deutsche Bank AG New York Branch, as Administrative Agent and U.K. Administrative Agent, European Swing Line Lender, U.S. Swing Line Lender, Facing Agent and Collateral Agent.**

4.3 Sixth Amendment to Credit Agreement, dated as of June 9, 2011, by and among Crown Americas LLC, as U.S. Borrower, Crown European Holdings S.A., as European Borrower, CROWN Metal Packaging Canada LP, as Canadian Borrower, the Subsidiary Borrowers named therein, the Company, Crown International Holdings, Inc. and Crown Cork & Seal Company, Inc., as Parent Guarantors, the financial institutions party thereto, including Deutsche Bank AG New York Branch, as lenders, The Bank of Nova Scotia, as Canadian Administrative Agent, and Deutsche Bank AG New York Branch, as Administrative Agent and U.K. Administrative Agent and Collateral Agent.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, executed by John W. Conway, Chairman of the Board, President and Chief Executive Officer of Crown Holdings, Inc. and Timothy J. Donahue, Executive Vice President and Chief Financial Officer of Crown Holdings, Inc.

101 The following financial information from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010, (ii) Consolidated Balance Sheets as of June 30, 2011 and December 31, 2010, (iii) Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010, (iv) Consolidated Statements of Changes in Equity and Comprehensive Income for the six months ended June 30, 2011 and 2010 and (v) Notes to Consolidated Financial Statements.

* The Company is filing this additional copy of its existing Credit Agreement, dated November 15, 2005, in order to include attachments previously omitted from the version originally filed as Exhibit 4.a to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on November 25, 2005. Other than such additional attachments, the Credit Agreement is unchanged from the previously filed version, which the Company also filed as an exhibit and incorporated by reference into its Annual Reports on Form 10-K for the years ended December 31, 2005, 2006, 2007, 2008, 2009 and 2010.

** The Company is filing this additional copy of its existing Fourth Amendment to Credit Agreement and Waiver, dated June 15, 2010, in order to include attachments previously omitted from the version originally filed as Exhibit 4.1 to the Company s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2010. Other than such additional attachments, the Fourth Amendment to Credit Agreement and Waiver is unchanged from the previously filed version, which the Company also filed as an exhibit and incorporated by reference into its Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and its Annual Report on Form 10-K for the year ended December 31, 2010.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Crown Holdings, Inc.
Registrant

By: /s/ Kevin C. Clothier
Kevin C. Clothier
Vice President and Corporate Controller

Date: August 9, 2011