

CONSTAR INTERNATIONAL INC
Form 10-K
March 31, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For Fiscal Year Ended December 31, 2004

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 000-16496

Constar International Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction)

13-1889304
(IRS Employer)

(of incorporation or organization)

(Identification Number)

One Crown Way, Philadelphia, PA
(Address of principal executive offices)

19154
(Zip Code)

(215) 552-3700

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

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Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class

Common Stock, \$.01 Par Value

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

As of June 30, 2004, the aggregate market value of the shares of the Registrant's Common Stock held by non-affiliates of the Registrant (treating Crown Holdings, Inc. and the Company's directors and executive officers as the Company's only affiliates for these purposes) was approximately \$49,964,250 (based on the closing price of \$4.65).

As of March 29, 2005, 12,560,103 shares of the Registrant's Common Stock, excluding shares held in Treasury, were issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Notice of Annual Meeting and Proxy Statement will be incorporated by Reference into Part III hereof. Only those portions specifically cited in Part III hereof as being so incorporated are to be deemed filed as part of this Annual Report on Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS.

This annual report on Form 10-K includes forward-looking statements. Forward-looking statements can be identified by words such as anticipate , believe , expect , intend , plan , project , will , may , could , should , pro forma , continues , estimates , potential , and similar expressions. Statements made regarding future results are subject to numerous assumptions, uncertainties and risks that may cause future results to be materially different from the results stated or implied in this document. The following are among the important factors that could cause actual results to differ materially from any results projected, forecasted, estimated or budgeted:

The Company's debt level and its ability to service existing debt or, if necessary, to refinance that debt;

The impact of the Company's debt on liquidity;

The Company's expectation that it will be cash flow negative at least into the second half of 2006, and the Company's plans to fund operations using a credit facility that is subject to conditions and borrowing base limitations;

Indebtedness under the Company's \$220,000,000 of notes issued in 2004, and borrowings under the Company's credit facility, are subject to floating interest rates that may cause interest expense to increase;

The Company's ability to comply with the covenants in the instruments governing its indebtedness;

The Company's ability to compete successfully against competitors;

The impact of price competition on gross margins and profitability;

The level of demand for conventional PET packaging and custom PET packaging requiring the Company's proprietary technologies and know-how;

Conventional PET containers, which comprise the bulk of the Company's business, generally carry low profit margins, and the market for conventional soft drink containers is not expected to grow appreciably in the near term;

Continued conversion from metal, glass and other materials for packaging to plastic packaging;

The Company's relationships with its largest customers;

The success of the Company's customers in selling their products in their markets;

The Company's ability to manage inventory levels based on its customers' projected sales;

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Risks associated with the Company's international operations;

The terms upon which the Company acquires resin and its ability to reflect price increases in its sales;

The Company's ability to obtain resin from suppliers on a timely basis;

The impact of consolidation of the Company's customers on sales and profitability;

The Company's ability to fund capital expenditures in the future;

General economic and political conditions;

Recent increases in the price of petrochemical products such as PET resin and the effect of such increases on the demand for PET products;

The Company's ability to protect its existing technologies and to develop new technologies;

The Company's ability to timely market products incorporating MonOxbar technology and the realization of the expected benefits of the MonOxbar technology;

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The Company's ability to control costs;

The Company's ability to maintain an effective system of internal control;

Legal and regulatory proceedings and developments;

Seasonal fluctuations in demand and the impact of weather on sales;

The Company's ability to identify trends in the markets in which it competes and to offer new solutions that address the changing needs of these markets;

The Company's ability to successfully execute its business model and enhance its product mix;

The Company's ability to successfully prosecute or defend the legal proceedings to which it is a party; and

The other factors disclosed from time to time by the Company in its filings with the Securities and Exchange Commission.

These factors are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors could also have material adverse effects on future results. The Company undertakes no obligation to update publicly any forward-looking statement whether as a result of new information or future events.

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PART I

ITEM 1. BUSINESS

General

Constar International Inc. (the Company or Constar) is a global producer of PET, or polyethylene terephthalate, plastic containers for food and beverages. Constar manufactures PET containers for conventional PET applications in soft drinks and water and for custom PET applications. Custom PET container applications include food, juices, teas, sport drinks, new age beverages, beer and flavored alcoholic beverages, most of which require a combination of advanced technologies, processing know-how and innovative designs.

Constar's technologies are aimed at enabling the Company to meet the specific needs of products being converted from other forms of packaging to PET. Oxbar, Constar's oxygen-scavenging technology, enables the Company to produce the special packaging required to extend the shelf life of oxygen sensitive products. The Company believes that Oxbar is the PET industry's best performing oxygen barrier technology. Furthermore, the Food and Drug Administration recently approved for commercial use Constar's next-generation monolayer Oxbar technology. The Company has also developed methods for addressing the challenges of hot-filling containers. Constar is focused on providing its customer base with the best service through technological innovation, new product development and lowest-cost production. The Company actively seeks new business where its technologies and other competitive strengths can yield attractive and sustainable profitability.

History

Constar is a Delaware corporation. Originally incorporated in 1927, the Company was an independent publicly held corporation from 1969 to 1992, when it was purchased by Crown Cork & Seal Company, Inc. (Crown). Constar has been a public company since its initial public offering in November 2002. The Company's principal executive office is located at One Crown Way, Philadelphia, PA 19154-4599, and its telephone number is (215) 552-3700.

The PET Container Industry

The PET container industry is generally divided into two product types: conventional PET, which includes beverage containers for soft drinks and water, and custom PET, which includes containers that generally require specialized performance characteristics.

The conventional PET container industry consists of high volume production of containers for use in packaging soft drinks and water. The industry is supplied by independent producers, as well as captive manufacturers.

The custom PET container industry is characterized by complex manufacturing processes, unique materials, innovative product designs and technological know-how for products with special requirements. Because of the greater required manufacturing complexity, many custom PET

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applications have greater profitability and higher barriers to entry than conventional PET.

PET products include both bottles and preforms. Preforms are test-tube shaped intermediate products in the bottle manufacturing process. Some companies purchase preforms that they process into bottles at their own manufacturing facilities. Preforms are utilized in both conventional and custom applications. In the United States, manufacturers generally sell completed bottles. In Europe, manufacturers generally sell preforms.

The PET container business is a rapidly growing component of the United States packaging market due to continued growth in water and isotonic, conversion opportunities from other forms of packaging and the introduction of smaller sized soft drink containers. Many of these conversion opportunities involve the use of advanced or proprietary PET technologies.

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PET competes in the packaging market against a number of materials including glass, metal, paperboard and other plastics. Various factors affect the choice of packaging material. In the food and beverage markets, PET containers have been gaining market share due to consumer preference for PET containers' transparency, resealability, light weight and shatter resistance. PET bottles and jars have also gained acceptance due to PET's custom molding potential, which allows customers to differentiate their products using innovative designs and shapes that increase promotional appeal.

Historically, conversions to PET from glass have occurred first in larger size bottles within a product category, and then proliferated to smaller sizes. This was the case for two liter soft drinks in the late 1970s, hot-fill gallon juices in the late 1980s, and 1.5 liter water bottles in the mid-1990s, as well as in many food conversions such as edible oil, salad dressings, peanut butter, and mayonnaise. The four main reasons for this phenomenon are:

Because larger bottles have less surface area in proportion to volume contained, permeation rates for oxygen and carbon dioxide are less critical to shelf life.

The cost of the package in relation to the cost of the product contained is lower in larger bottles. The higher per-bottle costs needed to achieve specialized properties in a large bottle have less impact on a product's cost per ounce.

Larger glass bottles are proportionately heavier because strength is achieved partly by increasing the thickness of the glass, while PET's intrinsic strength does not require significantly greater wall thickness for large bottles. This issue makes PET bottles cost competitive with, and lighter than, glass bottles.

Larger glass bottles are more prone to breakage because of their greater wall surface and weight. Because of their greater mass, they are potentially more damaging when dropped and broken. The shatter resistant nature of PET has even greater importance in larger bottle applications.

Glass conversions in large bottles have typically been followed by conversions of small size bottles. This has resulted from both lower costs achieved over time by scale advantages and new technology, and from stronger demand arising when consumer familiarity and preference for larger sized bottles in PET transfers to smaller sizes.

Key Markets and Products

The Company is a leading producer of PET containers for food and beverages. The Company's products are used in a variety of end-use markets, including soft drinks, water, peanut butter, edible oils, salad dressing, juices, teas, beer and flavored alcoholic beverages. The Company supplies PET products for such well-known brands as Pepsi, Coca-Cola, Dr. Pepper, 7Up, Motts, Shasta, Peter Pan, Aquafina, Wishbone, Smucker's, Veryfine, Snapple and Smirnoff Ice. The Company primarily manufactures and sells bottles in the United States. In Europe, the Company primarily sells preforms. Approximately 74% of the Company's 2004 revenue was attributable to sales in the United States and the remainder was attributable to sales in Europe.

The Company supplies bottles and preforms in both the conventional and custom PET markets. Preforms are test-tube shaped intermediate products that are purchased by manufacturers for processing into finished bottles at their manufacturing facilities.

Conventional PET

The Company's conventional PET sales relate primarily to containers for use in packaging soft drinks and water. In 2004, conventional PET products represented approximately 80% of the Company's sales.

Soft Drinks. Constar is a leading independent provider of PET containers to the United States soft drinks market. The Company is a leading U.S. supplier of PET containers to PepsiCo, as well as a leading supplier to

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Cadbury Schweppes plc, the maker of Dr. Pepper and 7Up. Constar's strategy in this market segment is to maintain its relationships with major customers, improve margins and only invest when projects improve overall conventional margins.

Water. The Company is the largest supplier to PepsiCo's water brand, Aquafina, in the United States. Other large water bottlers, including Nestlé S.A., Groupe Danone and Coca-Cola, predominantly manufacture their own containers. Constar maintains a strong position with a number of independent water bottlers. Constar's strategy in this market is to maintain current relationships and grow profitability along with its customers growth within this market.

Custom PET

Custom PET products represented approximately 15% of Constar's sales in 2004. The Company believes that custom PET applications represent significant growth opportunities for the Company. Additionally, custom PET applications generally provide higher margins and have higher barriers to entry than conventional PET, due to greater manufacturing complexity.

Proprietary Technologies

Custom PET technologies are necessary to produce PET bottles for foods and beverages that require advanced technologies for packaging, such as oxygen-scavenger and hot-fill. Scavenger technologies inhibit oxygen from penetrating the packaging, which can cause the flavor and the color of the product to degrade. Hot-fill technologies are used to allow pouring of heat processed beverages into bottles that can withstand high temperatures without deforming. In the past, products requiring these characteristics were generally packaged in glass. Currently available technologies allow these products to be packaged in PET, which is more desirable than glass because of PET's light weight and shatter resistance.

Oxygen Scavenger. The Company's Oxbar technology increases product shelf life by inhibiting oxygen from entering the packaging. An additional benefit of Oxbar is that the barrier technology can be incorporated in the preforms from which plastic bottles are blown. This is an important competitive advantage since preforms can be shipped more economically than bottles and allow for the blowing of oxygen-scavenger bottles on the world's existing base of blow-molding equipment without modification.

The Company has recently developed monolayer oxygen-scavenging bottles as an addition to its multi-layer product offering. Multi-layer oxygen-scavenging bottles have Oxbar between two layers of PET. Monolayer bottles incorporate the scavenging technology into a single layer container. This introduces oxygen-scavenging properties into preforms made on conventional injection presses, eliminating significant incremental costs of multi-layer injection molding. Combined with monolayer Oxbar's outstanding oxygen barrier performance, Constar believes monolayer Oxbar has both a cost and performance advantage over competing technologies. Monolayer Oxbar bottles are not as transparent as multi-layer bottles, so customers desiring glass-like clarity may prefer multi-layer products. The Company's existing Oxbar patents cover monolayer oxygen-scavenging technology. Constar expects to begin shipping its first monolayer bottles in the second quarter of 2005.

Food. Constar manufactures containers for well-known brands including ConAgra Grocery Products' Wesson Oil, Healthy Choice peanut butter, Unilever's Wishbone Salad Dressings, and Smucker's Toppings. Constar also produces bottles for some of the largest producers of quality private-labeled food products.

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Hot-fill. The Company possesses expertise and patents that enable it to manufacture bottles that can withstand the hot-fill process. Products within this market are filled at temperatures in excess of 180 degrees Fahrenheit. Hot-fill bottles require specialized equipment and processes that allow the bottles to withstand this heat without deforming. Hot-fill bottles also use structural design features that absorb and withstand vacuum

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created inside the bottle when the contents cool after filling. In response to customer requests for new hot-fill packages, the Company has developed a next generation heat-set container that allows the Company to produce creative product designs without the structural design features that meet customer requirements and offer the potential for lighter-weight bottles. Constar is also working to expand other applications of hot-fill technology. The Company supplies hot-fill bottles for brands such as Arizona Iced Tea, Snapple, Gatorade Propel and Veryfine. The Company supplies a full range of sizes, from gallon bottles for juices to single serve bottles.

Pasteurization. The Company has expertise and proprietary functional design features that enable its PET bottles to be filled on the same filling lines as glass bottles for pasteurized beer. During pasteurization, the sealed bottle and its contents are subjected to heat, which both increases the internal pressure of the bottle and decreases the rigidity of the bottle. The Company's pasteurizable bottle has a proprietary base design that resists deformation during this process, and a proprietary neck design that expands slightly under heat and pressure to reduce stress on the base. In line with the Company's strategy for capturing conversion opportunities, Constar plans to apply its Oxbar technology first to target larger capacity, multi-serve bottle glass conversions and then target smaller, single serve bottle conversions as the market expands.

Customers

Generally, Constar supplies its customers pursuant to contracts with terms of one year or longer. Substantially all of the Company's sales are under contracts containing provisions that allow for the pass through of changes in the price of PET resin. In 2004, the Company's top five customers accounted for approximately 60% of the Company's sales, while the Company's top ten customers accounted for approximately 75% of the Company's sales. During the same period, purchases by PepsiCo accounted for approximately 30% of the Company's sales while Coca-Cola accounted for approximately 13% of the Company's sales. Other than PepsiCo and Coca-Cola, no customer accounted for more than 10% of the Company's sales in 2004. The Company is continually seeking ways to expand its customer base.

Sales and Marketing

The Company's management structure includes a senior vice president of sales and marketing, three regional vice presidents of sales and a vice president of marketing. In addition to having responsibility for overseeing regional sales, each vice president of sales also has product line management responsibilities for certain product lines.

Research and Development

The Company conducts its major technology and product development work, as well as testing and product qualification, at in-house laboratories. From laboratory locations in Alsip, Illinois and Sherburn, United Kingdom, Constar's research and development staff provides project support for the design and development needs of its existing and potential customers, and is responsible for the full range of development activity from concept to commercialization. The Company's research and development staff have advanced degrees in chemical engineering, mechanical engineering and polymer science. Typical activities of the staff include:

determination of ideal design, lightest weight, and optimum finish;

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design development to enhance product preference;

use of predictive tools to minimize development cycle;

unit cavity production and the making of samples;

blow-mold trials in the process lab and in the field;

setting process parameters and specifications; and

assisting its customers tests of new containers.

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Sources and Availability of Raw Materials

The Company buys PET resin directly from a diversified base of leading resin suppliers in the United States, Europe and Asia. While specialized PET resin is required for some hot-fill and other specific applications, most of the major PET manufacturers supply a full range of resin specifications. The Company believes that the large volume of resin that it purchases provides leverage that assists it in negotiating favorable resin purchasing agreements.

The Company buys labels from several suppliers, mostly in the United States, for application to bottles for its customers. The Company's ability to work closely with its customers to forecast, order, and stock the large number of different labels they need and to deliver labeled bottles as needed is an important element of the service it provides.

Competition

PET containers compete with glass bottles, metal cans, paperboard containers and other packaging materials. The Company's major PET industry competitors in the United States are Amcor Ltd., Ball Corporation, Graham Packaging Company and Plastipak Holdings, Inc. In Europe, the competitive landscape is much more fragmented.

Competition in the PET industry is intense. In all of the Company's markets, high standards of service, reliability, and quality performance are prerequisites to obtaining significant awards of business from customers. Margins are tight in the conventional soft drink and water business, and differentiation is obtained by cost advantage of scale, design and execution capability, and the ability to bring synergies to the supply relationship through innovation and organizational integration. While these capabilities are also valuable for custom PET, the major basis for competition in custom PET applications is technology, since patent protection, know-how, and highly specialized equipment and process techniques are required to manufacture custom PET products. Some of this technology, however, is commercially available.

The PET business is highly capital intensive, with whole manufacturing lines often committed to the requirements of a single customer. An important element of competition is the strength of each company's process for evaluation, design, presentation and execution of new product development opportunities presented by the packaging needs of customers. Product design, engineering and investment decisions made when new capacity is acquired, and the financial and contractual terms obtained with customers to support that investment, are key determinants of a company's success in this market. Flexibility of the manufacturing platform, large scale plants that distribute overhead costs broadly and continuous improvement are sources of competitive cost advantage.

Intellectual Property

The Company's portfolio of intellectual property assets includes U.S. and foreign utility and design patents and patent applications. Among these assets are a number of patents on its oxygen-scavenging technology, as well as patents related to its line of hot-fill bottles. The earliest of the U.S. oxygen-scavenging patents is not due to expire for approximately three years. The earliest of the Company's European patents is not due to expire for approximately two years. The Company also owns registrations of, and/or pending applications for registration of, the trademarks CONSTAR, OXBAR and other marks in the United States and various foreign jurisdictions.

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The Company's OXBAR technology is subject to a worldwide royalty-free cross-license with Rexam AB, which owns several patents relating to oxygen-scavenging technology. The cross-license agreement gives both parties the right to use and sublicense each other's oxygen-scavenging technology patents but not each other's know-how. Chevron Phillips Chemical Company LP holds a royalty-based, exclusive, worldwide license to the Oxbar patents, but not for rigid polyester packages such as PET containers. Constar has granted royalty-bearing licenses to some of its competitors for certain applications of the Oxbar patents.

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The Company relies on proprietary know-how, continuing technological innovation and other trade secrets to develop products and maintain its competitive position. The Company attempts to protect its proprietary know-how and its other trade secrets by executing, when appropriate, confidentiality agreements with its customers and employees. The Company cannot assure you that its competitors will not discover comparable or the same knowledge and techniques through independent development or other means.

Environmental Liabilities and Costs

The Company's facilities and operations are subject to a variety of federal, state, local and foreign environmental laws and regulations, including those relating to air emissions, wastewater discharges and chemical and hazardous waste management and disposal and remediation of environmental sites. The Company is also subject to employee health and safety laws. The nature of its operations exposes the Company to the risk of liabilities or claims with respect to environmental and worker health and safety matters. Constar believes its operations are in material compliance with applicable requirements; however, there can be no assurance that material costs will not be incurred in connection with these liabilities or claims. Based on the Company's experiences to date, it believes that the future cost of compliance with existing environmental and employee safety laws and regulations will not have a material adverse effect. Future events, including changes in laws and regulations or their interpretations and the discovery of presently unknown conditions, may nevertheless give rise to additional costs that could be material.

Certain environmental laws hold current owners or operators of land or businesses liable for their own and for previous owners' or operators' releases of hazardous or toxic substances. Because of Constar's operations, the long history of industrial operations at some of its facilities, the operations of predecessor owners or operators of certain of its businesses, and the use, production and release of hazardous substances at these sites and at surrounding sites, the Company may be affected by liability provisions of environmental laws. Various facilities have experienced some level of regulatory scrutiny in the past and are, or may become, subject to further regulatory inspections, future requests for investigation or liability for past practices.

The Didam, Netherlands facility has been identified as having impacts to soil and groundwater from volatile organic compounds at concentrations that exceed those permissible under Dutch law. The main body of the groundwater plume is beneath Constar's Didam facility but it also appears to extend from an upgradient neighboring property. Following the results of recent testing, remediation is not required to begin until 2007. The Company records an environmental liability on an undiscounted basis when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. The Company has an accrual of \$0.2 million for costs associated with completing the required investigations and certain other activities that may be required at the Didam facility. The Company has no other accruals for environmental matters.

The Comprehensive Environmental Response, Compensation, and Liability Act, as amended by the Superfund Amendments and Reauthorization Act of 1986, or CERCLA, provides for responses to and joint and several liability for releases of hazardous substances into the environment. Constar has received requests for information or notifications of potential liability from the Environmental Protection Agency, or EPA, under CERCLA and certain state environmental agencies under state superfund laws for off-site locations. Constar has been identified by the Wisconsin Department of Natural Resources as a potentially responsible party at three related sites in Wisconsin and agreed to share in the remediation costs with one other party. Remediation is ongoing at two of these sites and remediation has been completed at the third site. Constar has also been identified as a potentially responsible party at the Bush Valley Landfill site in Abingdon, Maryland and entered into a settlement agreement with the EPA in July 1997. The activities required under that agreement are ongoing. The Company has not incurred any significant costs relating to these matters to date and does not believe that it will incur material costs in the future in responding to conditions at these sites.

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Employees

As of December 31, 2004, the Company employed 2,004 employees, with 1,678 in the United States and 326 in Europe. None of its U.S. employees are unionized, but there are union workers at its Sherburn, United Kingdom plant and its Didam, Netherlands plant. The Company believes that its employee relations are good and that its practices in the areas of training, progression, retention, and team involvement foster continuous improvement in capabilities and satisfaction levels throughout its workforce.

Securities Exchange Act Reports

Constar maintains an Internet website at the following address: www.constar.net. The information on the Company's website is not incorporated by reference into this annual report on Form 10-K. Constar makes available on or through its website certain reports and amendments to those reports that Constar files with or furnishes to the SEC in accordance with the Securities Exchange Act of 1934. These include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Constar makes this information available on its website free of charge as soon as reasonably practicable after it electronically files the information with, or furnishes it to, the SEC. You may also read and copy any materials Constar files with the SEC at the SEC's Public Reference Room that is located at 450 Fifth Street, NE, Washington DC 20549. Information about the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330. You can also access Constar's filings through the SEC's internet site: www.sec.gov.

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The Company's corporate headquarters are located at One Crown Way, Philadelphia, Pennsylvania. The Company maintains facilities in the United States and Europe, and has a joint venture interest in Turkey. The locations of these facilities, their respective sizes and ownership/lease status are as follows:

<u>Location</u>	<u>Type of Facility</u>	<u>Size⁽¹⁾</u>	<u>Ownership Status</u>
North America			
Philadelphia, Pennsylvania	Headquarters	23,000	Leased
Alsip, Illinois	Research and Development	33,300	Leased
Atlanta, Georgia	Warehouse	202,607	Leased
Atlanta, Georgia	Plant and Warehouse	121,704	Owned
Atlanta, Georgia	Administrative	38,438	Owned
Belcamp, Maryland ⁽³⁾	Warehouse	140,000	Leased
Birmingham, Alabama ⁽⁴⁾	Plant	184,723	Leased
Charlotte, North Carolina	Warehouse	185,768	Leased
Charlotte, North Carolina ⁽⁵⁾	Plant and Warehouse	142,500	Owned/Leased
Cheraw, South Carolina	Plant and Warehouse	134,236	Leased
Collierville, Tennessee ⁽⁶⁾	Plant	200,001	Owned/Leased
Collierville, Tennessee ⁽²⁾	Warehouse	136,847	Leased
Dallas, Texas ⁽⁷⁾	Plant	198,099	Leased
Dallas, Texas	Plant and Warehouse	636,480	Leased
Dallas, Texas ⁽⁸⁾	Warehouse	201,661	Leased
Havre de Grace, Maryland	Plant and Warehouse	437,564	Owned
Havre de Grace, Maryland ⁽⁹⁾	Plant and Warehouse	175,200	Owned/Leased
Building 8, Houston, Texas	Plant and Warehouse	191,537	Leased
Houston, Texas ⁽²⁾	Warehouse	44,050	Leased
Jackson, Mississippi ⁽¹⁰⁾	Plant and Warehouse	127,043	Owned/Leased
Jackson, Mississippi ⁽¹¹⁾	Sidetrack	800 ft	Leased
Kansas City, Kansas	Warehouse	47,277	Leased
Kansas City, Kansas	Plant and Warehouse	236,633	Leased
Hebron, Ohio ⁽³⁾	Warehouse	211,200	Leased
Hebron, Ohio	Plant	109,800	Leased
Orlando, Florida	Plant and Warehouse	180,000	Leased
Orlando, Florida	Plant and Warehouse	180,332	Leased
Reserve, Louisiana ⁽²⁾⁽⁴⁾⁽¹²⁾	Plant	187,000	Owned/Leased
Salt Lake City, Utah	Warehouse	80,713	Leased
West Chicago, Illinois ⁽²⁾	Warehouse	57,823	Leased
West Chicago, Illinois	Plant and Warehouse	123,100	Owned
Europe			
Didam, Netherlands	Plant	22,188	Owned
Izmir, Turkey ⁽¹³⁾	Plant	10,772	Owned
Sherburn, England	Plant	51,500	Owned

(1) In square feet for the properties located in North America and in square meters for the properties located in Europe, unless otherwise noted.

(2) Lease is expiring within 12 months and is not expected to be renewed.

(3) Oral lease.

(4) As part of the 2003 restructuring plan, the Company closed manufacturing facilities at Birmingham, Alabama and Reserve, Louisiana. Other properties held subject to leases but where the Company no longer operates are not listed above.

(5) Includes 83,250 square feet of owned space and 59,250 square feet of leased space.

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- (6) Includes 118,791 square feet of owned space and 81,210 square feet of leased space.
- (7) Operated as a plant from lease inception in 1992 contrary to restriction in lease to use as warehouse.
- (8) Property is vacant and the lease is scheduled for termination.
- (9) Includes 108,000 square feet of owned space and 67,200 square feet of leased space.
- (10) Includes 36,608 square feet of owned space and 90,435 square feet of leased space.
- (11) Sidetrack consists of 800 feet of rail track.
- (12) Includes 86,968 square feet of owned space and 100,032 of leased space.
- (13) This property is owned by a joint venture, in which the Company owns a 55% equity interest.

The Company from time to time secures additional warehouse space on a short-term basis as needed to meet inventory storage requirements.

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ITEM 3. LEGAL PROCEEDINGS

On November 1, 2004, Constar settled its Oxbar® patent infringement action against Continental PET Technologies, Inc. Constar was paid \$25.1 million, which was applied to Constar's revolving loan facility. In addition, Constar granted Continental PET Technologies, Inc. and its former parent company, Owens-Illinois, Inc., global licenses to multilayer applications of the Oxbar® patents. Constar also settled the related dispute with Chevron Phillips Chemical Company LP. Constar and Rexam have entered into a new license going forward that grants Chevron rights to practice the Oxbar® patents, but not for rigid polyester packages such as PET containers. The original license agreement with Chevron survives only for purposes of a sublicense agreement between Chevron and a third party.

Constar is one of 42 defendants in a patent infringement action seeking unspecified monetary damages brought on August 3, 1999 by North American Container, Inc. in the U.S. District Court for the Northern District of Texas based on its patent for a certain plastic container base design. The other defendants include many of the principal plastic container manufacturers, various food and beverage companies, and three grocery store chains. On November 28, 2003, the Court granted summary judgment in favor of the defendants. The parties dismissed without prejudice certain remaining unadjudicated claims in order to position the case for appeal to the Federal Circuit Court of Appeals by the plaintiff. On February 24, 2004, judgment was entered in accordance with the November 28, 2003 ruling and an appeal was filed. Briefing in the Federal Circuit was completed December 15, 2004, and argument is currently scheduled for April 4, 2005.

The Company and certain of its present and former directors, along with Crown Holdings, Inc., as well as various underwriters, have been named as defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Eastern District of Pennsylvania, In re Constar International Inc. Securities Litigation (Master File No. 03-CV-05020). This action consolidates previous lawsuits, namely Parkside Capital LLC v. Constar International Inc et al.(Civil Action No. 03-5020), filed on September 5, 2003 and Walter Frejek v. Constar International Inc. et al. (Civil Action No.03-5166), filed on September 15, 2003. The consolidated and amended complaint, filed June 17, 2004, generally alleges that the registration statement and prospectus for the Company's initial public offering of its common stock on November 14, 2002 contained material misrepresentations and/or omissions. Plaintiffs claim that defendants in these lawsuits violated Sections 11 and 15 of the Securities Act of 1933. Plaintiffs seek class action certification and an award of damages and litigation costs and expenses. Under the Company's charter documents, an agreement with Crown and an underwriting agreement with Crown and the underwriters, Constar has incurred certain indemnification and contribution obligations to the other defendants with respect to this lawsuit. The Company believes the claims in the action are without merit and intends to defend against them vigorously.

The Company is a defendant in a lawsuit that was filed in the Ninth Judicial Circuit of Florida on January 9, 2001 by former and current employees of its Orlando, Florida facility seeking unspecified monetary damages. The lawsuit alleges bodily injury as a result of exposure to off-gasses from polyvinyl chloride (PVC) during the manufacture of plastic bottles from 1980-1987. PVC suppliers and a manufacturer of the manufacturing equipment used to process the PVC are also defendants. The litigation is currently in the discovery stage. The Company believes the claims are without merit and is aggressively defending against the claims. A trial with respect to one of the plaintiffs, which had been docketed for the fourth quarter of 2004, has been removed from the court's calendar. A new date has not been scheduled.

The Company is subject to other lawsuits and claims in the normal course of business and related to businesses operated by predecessor corporations. Management believes that the ultimate liabilities resulting from these lawsuits and claims will not materially impact its results of operations or financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS**

The Company's Common Stock is listed on the National Market segment of The Nasdaq Stock Market ("Nasdaq National Market") under the symbol CNST. The following table sets forth, for the periods indicated, the high and low bid prices per share of the Company's Common Stock, as quoted on The Nasdaq National Market.

2004	High	Low
Quarter ended December 31, 2004	\$ 7.75	\$ 4.10
Quarter ended September 30, 2004	\$ 5.75	\$ 4.39
Quarter ended June 30, 2004	\$ 5.38	\$ 3.63
Quarter ended March 31, 2004	\$ 6.54	\$ 4.91
2003		
Quarter ended December 31, 2003	\$ 5.83	\$ 4.31
Quarter ended September 30, 2003	\$ 9.43	\$ 4.98
Quarter ended June 30, 2003	\$ 9.10	\$ 6.29
Quarter ended March 31, 2003	\$ 12.00	\$ 5.80

At March 29, 2005, there were no shares of preferred stock outstanding.

As of March 29, 2005, there were approximately 68 holders of record of the Company's Common Stock. The Company did not declare dividends on its Common Stock during the past two fiscal years and it does not intend to declare dividends on its common stock in the foreseeable future. On December 31, 2004 the closing price of the Company's Common Stock was \$7.72.

Equity Compensation Plans

The Company has a stock-based incentive compensation plan (the "2002 Plan") under which employees maybe granted deferred stock, restricted stock, stock appreciation rights ("SAR") and incentive or non-qualified stock options. The Company also has a plan (the "Directors Plan") under which non-employee directors may be granted restricted stock or non-qualified stock options to purchase shares of Common Stock. The 2002 Plan and the Directors Plan, together, are referred to hereafter as the Option Plans.

Options granted are to be issued at prices equal to at least fair market value and expire up to ten years after the grant date in the case of the 2002 Plan and up to five years after the grant date in the case of the Directors Plan. The plan is administrated by the Compensation Committee of the Board of Directors, which determines the vesting provisions, the form of payment for shares and all other terms of the options or grants. The maximum number of shares reserved under the 2002 Plan is 850,000 shares. At December 31, 2004, 74,578 shares were available for future grants. The maximum number of shares reserved under the Directors Plan is 25,000. At December 31, 2004, 15,417 shares were available for future grants.

Constar's Employee Stock Purchase Plan permits eligible employees to purchase up to 190,000 shares of Constar Common Stock from Constar at a 15% discount to market value. Constar may acquire Common Stock for use under this Plan from authorized but unissued shares, treasury shares, in the open market or in privately negotiated transactions. To date, employees have purchased approximately 13,095 shares under this Plan, all of which were acquired by Constar in the open market. Shares purchased under this Plan are subject to a two-year vesting period.

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The following table sets forth certain information as of December 31, 2004 with respect to the equity compensation plans (including individual compensation arrangements) under which the equity securities are authorized for issuance, aggregated by (i) all compensation plans previously approved by our security holders, and (ii) all compensation plans not previously approved by our security holders. The table includes:

the number of securities to be issued upon the exercise of outstanding options;

the weighted-average exercise price of the outstanding options; and

the number of securities that remain available for future issuance under the plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights(1)	Weighted- average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans(2)
Equity compensation plans approved by security holders	181,676	\$ 12.00	266,900
Equity compensation plans not approved by security holders	0	n/a	0
Total	181,676	n/a	266,900

- (1) Does not include 467,075 shares of restricted stock outstanding under the 2002 Stock-Based Incentive Compensation Plan and our Non-Employee Directors' Equity Incentive Plan. Does not include 13,095 shares issued under our Employee Stock Purchase Plan. Does not include 55,205 Restricted Stock Units issued on February 17, 2005 under the Company's Annual Incentive and Management Stock Purchase Plan. When these Units vest on February 17, 2008, they may be paid, at the discretion of the Compensation Committee of the Company's Board of Directors, in (i) cash or (ii) stock. Any payments in stock would be made from shares authorized under the 2002 Stock-Based Incentive Compensation Plan.
- (2) Includes shares available under our 2002 Stock-Based Incentive Compensation Plan, our Non-Employee Directors' Equity Incentive Plan and our Employee Stock Purchase Plan.

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You should read the following selected combined and consolidated financial data in conjunction with the Company's Combined and Consolidated Financial Statements, including the notes thereto. The Combined and Consolidated Statement of Operations data for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 and the Combined and Consolidated Balance Sheet data at December 31, 2004, 2003, 2002, 2001 and 2000, have been derived from the Company's Combined and Consolidated Financial Statements that have been audited.

After the completion of the Company's initial public offering, Crown transferred to Constar, and Constar transferred to Crown, their respective interests in certain affiliates. With the exception of dividends paid by the Company's subsidiaries, the combined and consolidated financial data below gives retroactive effect to these transfers for all periods presented.

(in millions, except per share data)	Year ended and as of December 31,				
	2004	2003	2002	2001	2000
Combined and Consolidated Statements of Operation Data:					
Net Sales	\$ 844.2	\$ 742.3	\$ 704.3	\$ 745.8	\$ 711.9
Cost of products sold, excluding depreciation	746.7	657.9	589.2	648.7	610.2
Depreciation	51.1	55.5	55.9	56.5	56.7
Gross Profit	46.4	28.9	59.2	40.6	45.0
Selling and administrative expenses	28.1	23.0	10.8	9.1	9.1
Management charges			3.6	4.4	4.0
Research and technology expense	5.7	5.2	12.1	13.2	12.5
Write off of deferred financing costs		0.7			
Interest expense, net	39.8	34.2	7.0	10.4	13.1
Foreign exchange adjustments	0.1	(1.4)	0.1	0.5	0.3
Provision for restructuring and asset impairments	1.1	11.6		2.0	0.7
Goodwill impairment loss (1)		183.0			
Amortization of goodwill (1)				12.2	12.2
Other (income) expenses, net (4)	(25.0)	4.4	0.6	0.1	6.8
	49.8	260.7	34.2	51.9	58.7
Income (loss) before taxes, minority interest and cumulative effect of a change in accounting	(3.4)	(231.8)	25.0	(11.3)	(13.7)
Benefit (provision) for income taxes	(3.4)	11.4	(10.2)	(2.5)	(1.0)
Minority interests		(0.1)	(0.1)	0.2	(0.1)
Income (loss) before cumulative effect of a change in accounting	(6.8)	(220.5)	14.7	(13.6)	(14.8)
Cumulative effect of a change in accounting for goodwill (1)			(50.1)		
Net Loss	\$ (6.8)	\$ (220.5)	\$ (35.4)	\$ (13.6)	\$ (14.8)
Net Loss per share					
Basic	\$ (0.57)	\$ (18.38)	\$ (2.95)	\$ (1.13)	\$ (1.23)

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Diluted	\$ (0.57)	\$ (18.38)	\$ (2.95)	\$ (1.13)	\$ (1.23)
Weighted average common share (in thousands)					
Basic	12,028	12,000	12,000	12,000	12,000
Diluted	12,028	12,000	12,002	12,000	12,000
Combined and Consolidated Balance Sheet Data:					
Working capital	\$ 65.1	\$ 57.2	\$ 76.4	\$ 32.8	\$ 103.2
Goodwill(1)	148.8	148.8	331.8	381.9	394.0
Total assets	580.3	578.3	754.6	761.7	905.9
Total debt	388.4	397.4	377.0	74.3	185.6
Stockholders' equity / Owner's net investment	24.0	32.8	246.1	555.9	588.2

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	Year Ended December 31,				
	2004	2003	2002	2001	2000
(in millions)					
Other Data					
Cash flows provided by (used in):					
Operating activities	28.1	25.0	62.5	126.2	43.0
Investing activities	(21.9)	(50.9)	(29.2)	(12.7)	(33.8)
Financing activities	(13.9)	20.5	(16.9)	(112.8)	(9.9)
EBITDA(2)	87.5	(142.2)	87.8	68.0	68.2
Adjusted EBITDA(3)	90.8	58.3	89.2	71.3	78.0
Capital expenditures	22.2	47.1	30.0	23.5	34.9
Depreciation and amortization	53.3	57.5	55.9	68.7	68.9

- (1) Effective January 1, 2002, Constar adopted the provisions of SFAS 142, which requires companies to cease amortizing goodwill and to review for impairment, goodwill and intangible assets deemed to have an indefinite useful life. During the second quarter of 2002, Constar completed its impairment review and recognized an impairment charge as a cumulative effect of a change in accounting principle. During the second quarter of 2003, the Company recorded an impairment charge of \$183.0 due to the trading price of the Company's common stock, operating results that reflect lower volumes of domestic conventional product sales, increased handling and shuttling costs and other factors.
- (2) EBITDA is a non-GAAP measurement that the Company defines as income or loss before interest expense, provision for income taxes, depreciation and amortization and the cumulative effect of a change in accounting. This measure does not represent cash flow for the periods presented and should not be considered as an alternative to net income/(loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity, but EBITDA is a key financial measure used by our lenders. The Company's definition of EBITDA may not be comparable to EBITDA as defined by other companies. Although EBITDA is a non-GAAP measurement, the Company believes it is a useful measure of pre-tax operating cash flow prior to debt service.
- (3) The Company's Credit Agreement adjusts EBITDA for certain non-cash accruals and uses the adjusted EBITDA figure to determine the Company's compliance with a financial covenant in the Credit Agreement. This definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as defined by other companies.
- (4) During 2004, the Company recognized income of \$25.1 million as a result of settling a patent infringement action.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company is a manufacturer of PET plastic containers for food and beverages. Approximately 74% of the Company's 2004 revenues were generated in the United States with the remainder attributable to its European operations. During 2004, one customer accounted for approximately 30% of the Company's consolidated revenues, while the top ten customers accounted for an aggregate of 75% of the Company's consolidated revenues. Approximately 80% of the Company's 2004 sales relate to conventional PET containers which are primarily used for carbonated soft drinks and bottled water. These products generally carry low profit margins. Profitability is driven principally by volume and maintaining efficient manufacturing operations. In recent years, the largest growth within conventional products has come from bottled water. The Company believes that in the long run, profitability from bottled water may decline as economic factors force some water bottlers into self manufacturing of PET bottles and some smaller water bottlers out of business. The Company does not expect appreciable growth in the carbonated soft drink market in the near term.

In addition to the conventional product lines, the Company is also a producer of higher margin custom products that are used in such packaging applications as hot-fill beverages, food, beer and flavored alcoholic beverages, most of which require containers with special performance characteristics. Critical success factors in the custom PET market include technology, design capabilities and expertise with specialized equipment. The technology required to produce certain types of custom products is commonly available, which has resulted in increased competition and lower margins for such products.

The PET packaging industry is in a very competitive pricing environment. Although the industry's available capacity appears to be tightening, the Company is still encountering price competition. The Company expects its competitors to continue to bid aggressively when customer contracts expire. Many of the Company's largest contracts are scheduled to expire over the next few years. The Company's main contract with PepsiCo expires on December 31, 2007. The Company believes that it will continue to face two other significant sources of pricing pressure. The first source is customer consolidation. When smaller customers combine or are acquired by larger customers or customers purchase through buying cooperatives and thereby aggregate purchasing power, the profitability of Constar's business with the smaller customer tends to decline. In addition, as customers grow through acquisitions, they acquire more leverage in contract negotiations. The second source of pricing pressure is contractual provisions that permit customers to terminate contracts if the customer receives an offer from another manufacturer that the Company chooses not to match. The Company is making efforts to remove these provisions in all new contracts and contract renewals. Thus, despite a reduction in the industry's available capacity, price declines remain a concern. The Company continues to focus its efforts on effective cost controls, manufacturing efficiencies and overhead reductions in an effort to offset pricing pressures.

In negotiations with certain customers for new business and the extension of current business, the Company has agreed to price concessions averaging approximately \$6 million to \$16 million for each year between 2005 and 2007, with the most significant reductions scheduled to take place in 2005. The Company is currently engaged in negotiations with certain customers regarding amendments to their contracts which may include price reductions in addition to the range stated above. Constar is currently attempting to improve its margins by improving customer and product mix, maximizing utilization rates, updating existing facilities and investing in cost reduction and efficiency improvements. If the Company is unsuccessful in its efforts to reduce costs and improve efficiencies, its ability to maintain its current operating margins will be adversely affected. During the second and third quarters of 2004, Constar operated at high utilization rates, however the Company does not intend to invest in additional capacity in the low margin conventional business until overall margins and prices increase to levels where acceptable returns can be achieved.

The primary raw material and component cost of the Company's products is PET resin which is a commodity available globally. The price of PET resin is subject to frequent fluctuations as a result of oil and gas

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prices, overseas markets and seasonal demand. The price of resin has been increasing dramatically due to increases in the price of petrochemical products. Constar is one of the largest purchasers of PET resin in North America, which it believes provides it with negotiating leverage necessary to obtain PET resin on favorable terms. However, higher resin prices may impact the Company's sales where customers have a choice between PET and other forms of packaging.

During this period of dramatic increases in resin prices, several of Constar's customers have had difficulty passing these costs along within their markets. As a result, there has been increased pricing pressure placed on the Company to absorb these increased prices. As a result, the Company may be faced with lost volume or demands for additional selling price reductions in the near term which would negatively impact future operating results unless the Company can offset these exposures with additional cost reductions or more favorable purchasing arrangements with its raw material suppliers.

Substantially all of the Company's sales are made under contracts that allow for the pass through of changes in the price of PET resin. An industry index that monitors PET resin price movement and which is used for the resin pass-through mechanisms of customer agreements representing approximately 25% of the Company's net sales made a significant non-market adjustment in its January 2005 report to re-set its index basis. Because this adjustment does not reflect changes in current resin costs, Constar believes it should not result in a decrease in its resin prices as reflected in the pass-through provisions in its customer contracts that use this index. The Company has discussed this matter with affected customers and most of them have agreed not to reflect this adjustment. If Constar is required to reflect this adjustment in affected customer contracts, it will adversely affect the Company's sales and margins insofar as its resin costs will not have decreased correspondingly.

PET bottle manufacturing is capital intensive, requiring both specialized production equipment and significant support infrastructure for power, high pressure air and resin handling. Constar believes that the introduction of new PET technologies has created significant opportunities for the conversion of glass containers to PET containers for bottled teas, beer, flavored alcoholic beverages and food applications. These conversion opportunities will require significant capital expenditures to obtain the appropriate production equipment. The Company's ability to make capital expenditures is limited by the covenants contained in the new credit facility discussed below. If Constar is awarded a significant volume of conversions over a short period of time, it may have to obtain waivers or amendments to these covenants.

In order to capture economies of scale, the Company favors large plants located within a few hours' driving distance of the major markets that it service. Normally, this proximity helps the Company to minimize freight costs. However, in order to meet its customers' requirements, the Company must sometimes manufacture products at a plant that is not its closest plant to the necessary delivery location. Constar's contracts typically would require it to bear the resulting added freight costs. These out of territory freight costs tend to peak during the second and third quarters, when the Company's customers' requirements are at their highest. In addition, any general increase in freight rates may impact the Company's margins to the extent that its contracts do not permit it to pass the increase through to its customers.

The Company is highly leveraged. As of December 31, 2004, the Company's debt structure consisted of a \$90 million revolving loan, \$122 million term loan, \$75 million second lien term loan and \$175 million of publicly held senior subordinated notes. As of December 31, 2004, the Company had \$17 million borrowed under the revolving loan, \$5.2 million outstanding on letters of credit and was fully drawn on the other instruments. Interest expense for the year ended December 31, 2004 was \$39.8 million.

On February 11, 2005, the Company completed a refinancing which consisted of the sale of \$220 million of Senior Secured Floating Rate Notes due 2012 ("Senior Notes") and entered into a new four year \$70 million Senior Secured Asset Based Revolving Credit Facility ("Credit Agreement"). The proceeds, net of expenses, from the refinancing were used to repay amounts outstanding under the revolving loan and two term loans. In connection with the repayment and termination of these facilities, the Company incurred approximately \$3.5 million of prepayment penalties. The Company's previously issued \$175 million of publicly held senior subordinated notes

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were not refinanced. The Credit Agreement is limited to a borrowing base calculated based on eligible accounts receivable and inventory. The Credit Agreement contains customary affirmative, financial and negative covenants relating to its operations and its financial condition. The financial covenants require the Company to maintain a minimum level of available credit of \$10.0 million and a minimum interest coverage ratio to be tested only when available credit is less than \$15.0 million, and imposes maximum capital expenditures. As of March 29, 2005, the Company had borrowings under the Credit Agreement of \$17.2 million and had additional availability of \$48.4 million.

The following discussion should be read in conjunction with the Combined and Consolidated Financial Statements and the accompanying Notes to the Combined and Consolidated Financial Statements for the years ended December 31, 2004, 2003 and 2002.

Relationship with Crown

Constar was a wholly owned subsidiary of Crown from 1992 until the closing of Constar's initial public offering on November 20, 2002. At December 31, 2004, Crown owned 1,255,000 shares, or approximately 10%, of the Company's common stock. During 2004, Frank J. Mechura, an executive officer of Crown, and William G. Little, a director of Crown, served on Constar's Board of Directors.

The Company's historical costs and expenses include charges from Crown for certain centralized corporate services and for the use of Crown's infrastructure. These allocations were based on methodologies that Crown believed to be reasonable and are consistent with charges made to other Crown operations; however, these allocations may not be indicative of Constar's future expenses. Certain of these services that had been provided by Crown prior to the Company's initial public offering are now provided by the Company's current employees, some of whom were Crown employees. In addition, the Company has a services agreement with Crown under which it receives certain services from Crown. The services provided by Crown under the services agreement include payroll, systems for accounting, reporting, information technology, benefits administration and logistics. See Note 19 of the accompanying Notes to Combined and Consolidated Financial Statements.

The Company's historical expenses also include a technology fee of approximately 1.8% of net sales assessed by Crown Cork & Seal Technologies Corporation (CCK Technologies), a wholly owned subsidiary of Crown. In exchange for this fee, CCK Technologies provided Constar with access to CCK Technologies' intellectual property related to PET, paid for direct costs related to the Company's research, development and engineering activities, provided the Company with legal services related to the defense of Constar's rights to certain technologies, and provided the Company with support for customer claims resolution, supplier qualifications, spoilage reduction and product and material specifications. Upon completion of Constar's initial public offering and the contribution of certain technology from CCK Technologies to the Company, this arrangement with CCK Technologies was discontinued and Constar's technology and research and development requirements were thereafter met by hiring PET research and development staff from Crown, by outsourcing with unrelated third-party providers, and through a research and development agreement with CCK Technologies. During the third quarter of 2003, the Company ceased outsourcing research and technology to CCK Technologies.

Prior to the completion of the Company's initial public offering, Crown charged the Company interest expense on the net average intercompany indebtedness the Company owed to Crown based on the average actual interest costs to Crown. The Company believes the methodology that was used to calculate this charge was reasonable but may not be indicative of the Company's current and future expenses as an independent entity.

Concurrently with the completion of the Company's initial public offering, the Company entered into lease agreements with Crown for its Philadelphia headquarters, a research facility in Alsip, Illinois and a warehouse facility in Belcamp, Maryland. For the years ended December 31, 2004, 2003 and 2002, the Company paid Crown \$1.5 million, \$1.4 million and \$0.1 million, respectively, under these lease agreements. The

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current Philadelphia lease agreement expires on December 31, 2005 and the current Alsip lease agreement expires on December 31, 2006. The Belcamp lease is on a month to month basis. In addition, the Company also entered into

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a transition services agreement with Crown. Under the transition services agreement, Crown provided services that included payroll, systems for accounting reporting, tax, information technology, benefits administration, and logistics. This agreement expired at the end of 2003 and was extended on similar terms (excluding certain services that Constar no longer purchases from Crown), which has since expired and is being renegotiated. The Company recorded an expense of \$5.2 million, \$4.9 million and \$0.5 million during the years ended December 31, 2004, 2003 and 2002, respectively, related to the transition services agreement and had a \$0.3 million and \$0.3 million payable to Crown at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, one of the Company's subsidiaries, Constar, Inc. and a subsidiary of Crown called Crown Cork & Seal Company (USA), Inc., or Crown USA, entered into the Salt Lake City PET Products Supply and Lease of Related Assets Agreement (SLC Agreement). Under the SLC Agreement, Crown USA supplies Constar, Inc. with PET preforms and containers manufactured at Crown USA's facility. The products are manufactured using equipment that Constar, Inc. leases to Crown USA which are maintained at Crown USA's Salt Lake City facility. The SLC Agreement expired on November 19, 2004 but the Company and Crown USA continue to operate under its terms. The Company purchased approximately \$15.9 million, \$14.0 million and \$1.1 million of PET preforms and containers from Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company had a net payable to Crown of approximately \$0.6 million and \$0.4 million related to the SLC Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, Constar, Inc. and Crown USA entered into the Newark Component Supply and Lease of Related Assets Agreement (Newark Agreement). Under the Newark Agreement, Constar, Inc. supplies Crown USA with rings, bands and closures manufactured at Constar Inc.'s facilities. The products are manufactured using equipment that Crown USA leases to Constar, Inc. and operates at the Company's facilities. The Newark Agreement expired on November 19, 2004 but the Company and Crown USA continue to operate under its terms. The Company sold approximately \$3.8 million, \$1.6 million and \$0.1 million of rings, bands and closures to Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company had a net receivable from Crown of approximately \$0.6 million and \$0.2 million related to the Newark Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, one of the Company's subsidiaries, Constar Plastics of Italy, S.R.L., or Constar Italy, and a subsidiary of Crown called Crown Cork Italy S.p.A., or Crown Italy, entered into the Voghera PET Preform Supply and Lease of Related Assets Agreement (Voghera Agreement). Under the Voghera Agreement, Constar Italy supplies Crown Italy with resin and Crown Italy supplies Constar Italy with PET preforms manufactured at Crown Italy's facility. The products are manufactured using equipment that Constar Italy leases to Crown Italy and maintains at Crown Italy's facility. The Voghera Agreement expired on December 31, 2003, and an extension is being negotiated. Net of resin sales, the Company purchased approximately \$3.2 million, \$1.3 million and \$1.7 million of PET preforms from Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company had approximately a \$0.0 million net receivable due from Crown and approximately a \$3.3 million net payable to Crown related to the Voghera Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, Constar Italy and Crown Faba Sirma S.p.A., or Crown Faba, entered into the Faba Supply Agreement (Faba Agreement). Under the Faba Agreement, Crown Faba blows preforms into bottles and sells the bottles to Constar Italy. Constar Italy sells preforms to Crown Faba. The Faba Agreement expired on December 31, 2003 and an extension is being negotiated. The Company purchased approximately \$2.4 million, \$2.4 million, and \$0.3 million of bottles from Crown and sold approximately \$0.9 million, \$1.9 million, and \$0 of preforms to Crown during the years ended December 31, 2004, 2003, and 2002, respectively. The Company had a net receivable from Crown of approximately \$0.2 million and \$0.7 million related to the Faba Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of our initial public offering, Crown Cork & Seal Technologies Corporation granted Constar International U.K. Limited a royalty-bearing license to certain closures

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technologies. For the years ended December 31, 2004, 2003 and 2002, Constar International U.K. Limited paid to Crown Cork & Seal Technologies Corporation approximately £0.3 million, £0.3 million and £0.3 million, respectively, in royalties under this license and had a net payable to Crown of approximately £0.1 million and £0.0 million related to this license agreement at December 31, 2004 and 2003, respectively.

The Company had a Research and Development agreement with two subsidiaries of Crown, CarnaudMetalbox plc and CCK Technologies, which governed Constar's use of Crown's Research and Development centers in Alsip, Illinois and Wantage, England. CCK Technologies and CarnaudMetalbox guaranteed access to the services of specific employees at their standard rate. During the third quarter of 2003, the Company ceased outsourcing research and technology to CCK Technologies. The Company incurred costs of approximately \$1.1 million and \$0.2 million related to the Research and Development Agreement during the years ended December 31, 2003 and 2002, respectively. The Company had a net payable to Crown of approximately \$0.0 million at December 31, 2003 and none at December 31, 2004.

Concurrently with the completion of our initial public offering, the Company entered into a Benefits Allocation Agreement with Crown, under which the Company and Crown allocated responsibility for certain employee benefit liabilities. The Company retained or assumed all liability for compensation and benefits owed to the Company's active or former employees, and assumed sponsorship of the Crown pension plan previously maintained for the Company's hourly employees. The Company also expanded this plan to include the Company's active salaried employees, establish savings and welfare plans for its active employees that are substantially equivalent to plans previously provided by Crown, and assume the stand-alone pension plans in the United Kingdom and Holland, including the corresponding assets and liabilities. As of December 31, 2004, the Company had an under-funded benefit obligation of approximately \$33.6 million under such plans.

Pursuant to the provisions of our Amended and Restated Certificate of Incorporation, legal expenses incurred by certain current and former directors in connection with a putative securities class action lawsuit, as described in Item 3 of this Annual Report on Form 10-K, are being advanced on behalf of those directors by the Company or the relevant insurer. Because the claims are against both the Company and the defendant directors, we cannot determine what portion of those legal expenses would be attributable to the directors rather than the Company. In addition, pursuant to a Corporate Agreement entered into with Crown concurrently with our initial public offering, we have incurred certain indemnification obligations to Crown with respect to this lawsuit.

Acquisitions and Significant Items Affecting the Results of Operations

Other Income

During 2004, the Company recognized income of \$25.1 million as a result of settling a patent infringement action against a competitor.

Impairment of Goodwill

Effective January 1, 2002, Constar adopted the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets, which requires companies to cease amortizing goodwill and certain intangible assets deemed to have an indefinite useful life. Instead, SFAS No. 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter unless changes in circumstances indicate that goodwill should be reviewed for impairment. Under SFAS No. 142, goodwill is deemed to be potentially impaired if the net book value of a reporting unit exceeds its estimated fair value.

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During the second quarter of 2002, Constar completed its transitional impairment review of identified reporting units and recognized an impairment charge in its European reporting unit of approximately \$50 million as a cumulative effect of a change in accounting principle as of January 1, 2002.

Due to the trading price of the Company's common stock, operating results that reflect lower volumes of domestic conventional product sales, increased handling and shuttling costs and other factors, the Company determined that a goodwill impairment existed as of June 30, 2003. Based on a preliminary assessment, the

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Company recognized an estimated impairment charge of \$183 million in the second quarter of 2003. The fair value of the Company was determined by quoted market prices of the Company's common stock plus a control premium. In accordance with SFAS No. 142, the Company performed a detailed analysis of the fair value of the Company's assets and liabilities, including obtaining appraisals for fixed assets and intangibles, during the third quarter of 2003. Based on the results of that analysis, the Company was not required to make any adjustments to the estimated impairment charge of \$183 million as recorded during the second quarter ended June 30, 2003. There was no impairment of goodwill in 2004.

Restructuring and Asset Impairments

In September 2003, the Company announced its plan to implement a cost reduction initiative under which it closed two facilities in the North American region. Under this plan, approximately 130 positions were eliminated at the affected facilities and certain production assets at these locations were relocated to other manufacturing facilities. As a result of this initiative, the Company recognized restructuring provisions of \$4.9 million and non-cash asset impairment charges of \$6.7 million during 2003. The restructuring provisions consisted of approximately \$1.3 million for severance and termination benefits for both facilities and approximately \$3.6 million for contract and lease termination costs. During 2004, the Company recognized an additional \$1.1 million restructuring charge to account for the change in expected lease costs relating to the Birmingham facility, which now excludes sublease income. See Note 11 of the accompanying Notes to Combined and Consolidated Financial Statements for additional discussion.

Acquisition

On September 26, 2003, the Company acquired certain manufacturing assets from Carolina Packaging, Inc. and entered into a ten year supply agreement with privately-held Pepsi bottler Carolina Canners, Inc. (Carolina Canners) for \$4 million. Based on final asset appraisals, the entire purchase price was allocated amongst the machinery and equipment acquired in this transaction. In addition, the Company agreed to purchase on-hand inventory of approximately \$2.2 million, which was used to supply Carolina Canners subsequent to the acquisition.

2003 Refinancing

On December 23, 2003, in order to provide for temporary relief from certain covenants and improve short term liquidity, the Company obtained a \$75 million Second Lien Term Loan (Second Lien Loan) due December 2010. Net of fees and expenses of approximately \$5 million, the proceeds from the Second Lien Loan were used to prepay \$25 million of the Term B Loan with the remainder used to pay a portion of amounts outstanding under the Revolver Loan. In connection with this refinancing, certain of the financial covenants contained within these debt agreements were amended through the quarter ended June 30, 2005. Also, the pay down on the Term B Loan resulted in a permanent reduction in the principal outstanding while the Revolver Loan's total availability was reduced from \$100 million to \$90 million.

Basis of Presentation

Net Sales

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The Company recognizes revenue from product sales when the goods are shipped and the title and risk of loss pass to the customer. Provisions for discounts and rebates to customers, returns, and other adjustments are netted against sales in the same period that the related sales are recorded.

PET containers can be sold either as finished bottles or as preforms. Preforms are test tube-shaped intermediate products in the manufacturing process for bottles and are purchased by customers or other PET container manufacturers that operate equipment to convert preforms into bottles. Unit selling prices for preforms are lower than unit selling prices for corresponding finished bottles because of their lower added value. In the United States, the Company's customers typically buy finished bottles, while its European customers typically buy preforms.

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From year to year, the composition of the Company's portfolio of products sold changes significantly due to changes in the Company's customer base, changes in the mix of products presented to the marketplace by its customers, and by incremental opportunities for preform sales. Greater proportions of larger, heavier or more specialized bottles will lead to higher net sales, even if total unit volumes remain stable.

Many of the Company's products have seasonal demand characteristics typically resulting in higher sales and profits in the second and third quarters compared to the first and fourth quarters. Sales of single service convenience beverage bottles are strongest in the summer months. In 2003, the Company experienced unusually low seasonal demand due to poor weather, slow economic conditions and disruptions in the Turkish market as a result of the threat of war. During the first half of 2003, the Company experienced lower shipments of conventional products and increased competitive pricing conditions which were partly offset by increased sales of custom products and the contractual pass-through to customers of higher resin prices. In addition, unfavorable weather conditions exacerbated the lower domestic demand for the Company's conventional products. Some potential high-growth product categories are developed first in conjunction with seasonal promotions and in stadium and special events markets. All of Constar's sales are subject to marketing actions taken by customers as they adjust their mix of product presentations.

The potential for continued conversion to PET from metal, glass and other packaging materials is an important determinant of future demand in the Company's industry. Constar believes that the potential for continued conversions to PET is significant.

As is common in its industry, the Company's contracts are generally requirements-based, granting it all or a percentage of the customer's actual requirements for a particular period of time, instead of a specific commitment of unit volume. Substantially all of Constar's sales are made under contracts that allow for the pass through of changes in the price of PET resin, our principal raw material and a major component of cost of goods sold. When the Company adjusts its prices under these agreements to pass through changes in resin prices, its net sales change accordingly but its gross margin is unaffected. In the aggregate, the lag between effective date of resin price changes and the effective date of price adjustments to its customers under various pass-through mechanisms is approximately equal to the Company's inventory exposure.

In 2004, approximately 26% of the Company's net sales were recorded in currencies other than in U.S. dollars. Because sales denominated in foreign currencies are translated into U.S. dollars in Constar's financial statements using the average exchange rates for the period, net sales reported in its financial statements that are denominated in foreign currencies will fluctuate as a result of variations in the value of foreign currencies relative to the U.S. dollar.

Cost of Products Sold, Excluding Depreciation

Cost of products sold, excluding depreciation includes raw material costs, principally PET resin, other direct and indirect manufacturing costs and shipping and handling costs. PET resin is the largest component of cost of products sold. The prices the Company pays for PET resin are subject to frequent fluctuations resulting from cost changes in the raw materials for PET, which are affected by prices of oil and its derivatives in the U.S. and overseas markets, normal supply and demand influences, and seasonal demand effects.

Direct and indirect manufacturing costs include labor costs, electricity and other utilities, product handling and storage costs, maintenance expense and other fixed and variable expenses required to operate the Company's plants. The Company's cost of products sold also includes expenses for the engineering, production control and manufacturing administration activities that support plant operations.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis for financial reporting purposes over the estimated useful lives of the assets, ranging from 3 to 40 years. Typical depreciation periods are 5 years for molds, 10 years for machinery and equipment and 40 years for buildings.

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Gross Profit

The Company defines gross profit as net sales less cost of products sold and depreciation expense. As discussed above, the Company's agreements with customers typically have provisions that insulate gross profit from changes in resin prices by allowing the Company to pass those changes through to its customers with equivalent price changes for its products.

Important determinants of profitability are volume, product mix, and competitive pricing in relation to resin cost. Volume is significant because the capital intensity of PET bottle manufacturing and the highly automated manufacturing process make fixed overhead costs a high percentage of cost of products sold excluding raw materials. Constar's various products have widely different proportions of variable cost in relation to fixed cost because of their different sizes and weights and because of the different technologies and machine types used to manufacture them. This results in significant differences in the volume effect on profitability for different products. Generally, larger, heavier, and more technologically specialized bottles have higher overhead absorption rates, and therefore have proportionately greater effect on gross profit when volumes vary from period to period. Although price pass-through mechanisms can generally protect profits from short term changes in the market price for resin, it is largely the competitive conditions in the market for the Company's products that ultimately determine the selling prices for its products.

Also important to the Company's profitability is its ability to operate its plants and distribution system efficiently. The Company operates most of its equipment seven days per week and 24 hours per day, with a formal program for scheduled weekly, monthly, and annual preventative maintenance activities. Constar's ability to operate equipment at high output levels and with low unscheduled downtime affects its profitability directly as a result of labor efficiency and the cost of additional freight if product must be shipped from more distant plants to meet commitments to its customers. The Company ships mostly full truckload quantities to its customers using commercial carriers.

Because resin represents a large component of cost of products sold and since the Company typically passes through changes in resin prices to its customers, Constar believes that period-to-period comparisons of its gross profit as a percent of net sales may not accurately reflect performance, as changes in net sales caused by changes in resin prices will not change gross profit. During periods when resin costs are high the Company's net sales will tend to rise but there will be little effect on gross profit. The opposite is true during periods of low resin pricing; the Company's net sales will tend to be lower with little or no decrease in gross profit, causing gross margins to increase.

Selling and Administrative Expense

This includes compensation and related expenses for employees in the selling and administrative functions as well as other operating expenses not directly related to manufacturing or research, development and engineering activities. It does not include depreciation and amortization charges. Crown historically provided the Company with certain centrally managed services as discussed below in the Management Charges section. Charges for these services are classified as management charges through the closing of the Company's initial public offering on November 20, 2002. Since the closing date, the Company has fulfilled these services with internal resources, third parties, or through its services agreement with Crown.

Management Charges

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Prior to the closing of the Company's initial public offering on November 20, 2002, Crown charged the Company certain management fees for payroll, benefits administration, purchasing, information systems and other centrally managed services. The cost of these services was directly charged and/or allocated to the Company using a method that Crown and the Company believed was reasonable. Such charges were not necessarily indicative of the costs that would have been incurred if the Company had been a separate entity. Constar's financial results reflect these management charges through the closing of the Company's initial public

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offering on November 20, 2002. Since November 20, 2002, the Company has provided these services with its own resources or continued to receive them through its services agreement with Crown. All expenses for these services are included in administrative expense.

Research and Technology Expense

Prior to the closing of the Company's initial public offering on November 20, 2002, the Company paid CCK Technologies, a wholly owned subsidiary of Crown, a charge approximately equal to 1.8% of sales. In return, CCK Technologies provided the Company with access to CCK Technologies' intellectual property related to PET; paid for the Company's direct costs of research, development and engineering activities; provided the Company with legal services for the defense of rights for existing technologies; and provided the Company with support for customer claims resolution, supplier qualifications, spoilage reduction, and product and material specifications. As of November 20, 2002, this arrangement was discontinued, and the Company's requirements were thereafter met by hiring PET research and development staff from Crown, by outsourcing with unrelated third-party providers, and through a research and development agreement with CCK Technologies. During the third quarter of 2003, the Company ceased outsourcing research and technology to CCK Technologies.

Interest Expense

Prior to the closing of the Company's initial public offering on November 20, 2002, Crown charged the Company interest based on the average actual interest costs to Crown on the net average intercompany indebtedness. The Company believes that the methodology used to calculate this charge was reasonable but not necessarily indicative of interest expense that would have been incurred if the Company had been a standalone entity. Subsequent to the Company's initial public offering, interest expense reflects the increase in average debt outstanding pertaining to the revolving credit facility, term loan B, second lien term loan and the senior subordinated notes.

Other Expenses, Net

Other expenses, net include operating expenses not included elsewhere, such as write offs pertaining to property, plant and equipment, and bad debt expense offset against income items such as legal settlements and gains on sales of used equipment.

Provision for Income Taxes

The effective tax rate on income or loss was 100% in 2004 compared to 4.9% in 2003. A reconciliation of the provision for income taxes and the amount of income tax determined by applying the U.S. federal statutory rate of 35% to pretax income or loss is presented in Note 12 to the accompanying Combined and Consolidated Financial Statements.

Critical Accounting Policies

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The accompanying combined and 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 those estimates and assumptions, impacting the reported results of operations and financial position of the Company. The Company's significant accounting principles are more fully described in Note 3 to the Combined and Consolidated Financial Statements. Certain accounting policies, however, are considered to be critical in that (i) they are most important to the depiction of the Company's financial condition and results of operations and (ii) their application requires management's most subjective judgment in making estimates about the effect of matters that are inherently uncertain.

On an annual basis, or more frequently if facts and circumstances indicate that goodwill may be impaired, the Company performs an impairment review by comparing the fair value of a reporting unit, including goodwill, to its carrying value. The impairment review involves a number of assumptions and judgments including the

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identification of the appropriate reporting units and the calculation of fair value. The Company uses its stock price plus a control premium to calculate fair value. If the Company's share price and operating results sustain an extended decline, this could trigger an impairment review. The Company's estimates of future cash flows includes assumptions concerning future operating performance, economic conditions, and technological changes and may differ from actual future cash flows. During the second quarter of 2003, the Company recognized an impairment charge of \$183 million due to the trading price of the Company's common stock, operating results that reflected lower volumes of domestic conventional product sales, increased handling and shuttling costs, and other factors.

Long-lived assets, which consist primarily of machinery and equipment and buildings, are depreciated over their estimated useful lives and are reviewed for impairment in accordance with SFAS No.144 Accounting for the Impairment or Disposal of Long Lived Assets, whenever changes in circumstances indicate the carrying value may not be recoverable. Such circumstances would include items such as a significant decrease in the market price of long lived asset, a significant adverse change in the manner which the asset is being used or in its physical condition or a history of operating cash flow losses associated with use of the asset. When such events or changes occurs, the Company estimates the future cash flows expected to result from the use and, if applicable, the eventual disposition of the assets. The key variables that the Company must estimate include assumptions regarding future sales volume, prices and other economic factors. Significant management judgment is involved in estimating these variables, and they include inherent uncertainties since they are forecasting future events. If such assets are considered impaired, they are written down to fair value as appropriate.

Accounting for pensions and postretirement benefit plans requires the use of estimates and assumptions regarding numerous factors, including discount rate, rate of return on plan assets, compensation increases, health care cost increases, mortality and employee turnover. Actual results may differ from the Company's actuarial assumptions, which may have an impact on the amount of reported expense or liability for pensions or postretirement benefits. The rate of return assumption is reviewed at each measurement date based on the pension plans' investment policies and an analysis of the historical returns of the capital markets, adjusted for current interest rates as appropriate. For 2005, the Company is using an expected rate of return on plan assets of 8.5% in the U.S. which is unchanged from 2004. The discount rate is developed at each measurement date by reference to published indices of high-quality bond yields. A 1.0% change in the expected rate of return on plan assets would have changed 2004 U.S. pension expense by approximately \$508,000. A 0.5% change in the discount rate would have changed 2004 U.S. pension expense by approximately \$526,000 and 2004 postretirement expense by approximately \$60,000.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Allowances for doubtful accounts are based on historical experience and known factors regarding specific customers. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required.

The Company writes down its inventories for estimated slow moving and obsolete goods by amounts equal to the difference between the carrying cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions.

Income taxes are accounted for using the asset and liability method under which deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating losses and tax credit carry forwards. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the deferred tax assets for amounts, which are not considered more likely than not to be realized.

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The Company maintains reserves for estimated costs associated with its workers' compensation and health insurance liabilities. The Company is self insured for health insurance. The Company's insurers are the direct payors of workers' compensation claims and the Company is obligated to reimburse the insurers for any payments made. The Company utilizes historical experience and recent expense rates to estimate the reserves necessary for these areas. If an increased level of claims in excess of current estimates were to occur, additional reserves would be required.

Recent Accounting Pronouncements

In December 2003, the FASB issued a revised version of FIN No. 46, Consolidation of Certain Variable Interest Entities (VIEs), which is an interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN No. 46 addresses the application of ARB No. 51 to VIEs, and generally would require that assets, liabilities and results of the activity of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. Public companies other than small business issuers must apply the revised FIN No. 46 by the end of the first reporting period beginning after December 15, 2003 (March 31, 2004 for calendar-year-end companies) to all entities that are not special purpose entities. The Company analyzed certain leasing arrangements with Crown Holdings, Inc. subsidiaries and concluded that the adoption of this standard had no impact on the Company's results of operations or financial position.

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. FAS 106-2 provides guidance on accounting for the effects of the new Medicare prescription drug legislation by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. It also contains basic guidance on related income tax accounting, and complex rules for transition that permit various alternative prospective and retroactive approaches. For all public and non-public companies that sponsor one or more plans with more than 100 participants, FAS 106-2 was effective as of the first interim or annual period beginning after June 15, 2004 (third quarter 2004 for the Company). Based upon the review of the Company's prescription drug plan under the currently issued regulations, the Company concluded that its current plan is not actuarially equivalent to the benefits provided under Medicare Part D. As such the Company's prescription drug plan will not qualify for the federal subsidy and will not require any change in accounting to conform to the requirements of FAS 106-2.

In December 2004, the FASB issued a revised SFAS No. 123, Accounting for Stock Based Compensation. The amended SFAS No. 123 supersedes Accounting Principle Board Opinion No. 25, Accounting for Stock Issued to Employers and eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. This statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. In addition, SFAS No. 123 clarifies guidance in several areas including measuring fair value, classifying an award as equity or as a liability, and attributing compensation cost to reporting periods. The provisions of this statement are effective beginning the first interim or annual reporting period that begins after June 15, 2005. The Company does not expect that the initial adoption of this statement will have a material impact on the Company's results of operations or financial position as stock option awards currently outstanding will fully vest soon after the effective date. Stock options awarded after the effective date will be accounted for in accordance with SFAS No. 123 and may have a material impact on the Company's results of operations.

In December 2004, the FASB issued SFAS No. 151, Inventory Costs. SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, Inventory Pricing, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This statement requires that these items be recognized as current period charges regardless of whether they meet the criterion of abnormal. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement will have a material impact on the Company's results of operations or financial position.

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In October of 2004, the American Job Creation Act of 2004 (AJCA) was signed into law. The AJCA allows companies to repatriate earnings from foreign subsidiaries at a reduced U.S. tax rate. Constar has evaluated the new §965 elements of the act and as a result of the Company's Net Operating Loss (NOL) carry forward and expectations to continue to generate NOL's into the foreseeable future, the Company does not expect to repatriate any foreign dividends in accordance with the AJCA. Constar evaluated the impact of the Qualified Domestic Production Deduction provision (§199 elements) of the AJCA and believes the 2005 impact will be immaterial. Constar will continue to evaluate the provisions of the AJCA and its impact on the Company on a going forward basis.

Results of Operations**2004 Compared to 2003**

Net Sales (dollars in millions)

	2004	2003	Increase (Decrease)
United States	\$ 626.2	\$ 562.8	11.3%
Europe	218.0	179.5	21.4%
Total	\$ 844.2	\$ 742.3	13.7%

Net sales increased by \$101.9 million, or 13.7%, to \$844.2 million in 2004 from \$742.3 million in 2003. In the U.S., net sales increased \$63.4 million, or 11.3%, to \$626.2 million in 2004 from \$562.8 million in 2003. In Europe, net sales increased \$38.5 million, or 21.4%, to \$218.0 million in 2004 from \$179.5 million in 2003. Net sales in the U.S. accounted for 74.2% of net sales in 2004 compared to 75.8% of net sales in 2003.

In the U.S., the increase in net sales in 2004 compared to 2003 reflects increased sales of conventional products and the pass-through of higher resin prices to customers, partly offset by price concessions that were given in exchange for additional volume and contract extensions.

In Europe, the increase in net sales in 2004 compared to 2003 was primarily due to the stronger British pound sterling and Euro against the U.S. dollar. Higher unit sales of performs also contributed to the increase.

Gross Profit

Gross profit increased \$17.5 million, or 60.6%, to \$46.4 million in 2004 from \$28.9 million in 2003. Gross profit benefited from an increase in unit sales, reduced spending in warehousing and product handling costs and cost savings from the Company's 2003 restructuring initiative. These benefits were partly offset by price reductions implemented to extend key contracts and meet competitive pricing.

Selling and Administrative Expenses

Selling and administrative expenses increased by \$5.1 million, or 22.0%, to \$28.1 million in 2004 from \$23.0 million in 2003. The increased costs primarily relate to Sarbanes-Oxley compliance efforts and the Company's incentive compensation plan.

Research and Technology Expenses

Research and technology expenses were \$5.7 million in 2004 compared to \$5.2 million in 2003. The increase in expenses relate to additional spending for the Company's proprietary technologies.

Interest Expense

Interest expense increased \$5.6 million to \$39.8 million in 2004 from \$34.2 million in 2003. This increase primarily relates to an increase in the Company's effective interest rate during 2004 due to the 2003 Refinancing.

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Foreign Exchange Adjustments

Foreign exchange adjustments were approximately \$0.1 million expense in 2004 compared to \$1.5 million income in 2003. The change between 2004 and 2003 was primarily related to the changes in the foreign currency translation rates of intra company balances during 2003

Goodwill Impairment Loss

Due to the trading price of the Company's common stock, operating results that reflect lower volumes of domestic conventional product sales, increased handling and shuttling costs and other factors, the Company determined that a goodwill impairment existed at June 30, 2003. The Company recognized an estimated impairment charge of \$183 million in the second quarter of 2003. The fair value of the Company was determined by quoted market prices of the Company's common stock plus a control premium. There was no impairment loss in 2004.

Provision for Restructuring and Asset Impairments

During 2004, the Company recognized a \$1.1 million restructuring provision to account for the change in expected lease costs related to the Birmingham facility, which was closed as a result of the 2003 restructuring initiative under which the Company closed two facilities operating in Birmingham, Alabama and Reserve, Louisiana. As a result of this initiative, the Company recognized a restructuring provision of approximately \$4.9 million and non-cash asset impairment charges of approximately \$6.7 million during the third quarter of 2003.

Write off of Deferred Financing Costs

In connection with the placement of the 2003 Refinancing, there was a permanent reduction in the amounts available under a Term B loan and revolver loan of \$25 million and \$10 million, respectively. As a result of these permanent reductions, the Company charged to expense a pro-rata share of the deferred financing costs related to these two loans of approximately \$0.7 million.

Other (Income) Expenses, Net

Other income, net was \$25.0 in 2004 compared to \$4.4 million expense in 2003. During 2004, the Company recognized income of \$25.1 million as a result of settling its Oxbar® patent infringement action against Continental PET Technologies, Inc. In addition, the Company recognized income of \$1.2 million related to a licensing agreement pertaining to its oxygen scavenging technology offset by a \$0.5 million net charge for costs incurred from a fire at one of its European facilities. The Company also recorded a non-cash charge of \$0.4 million relating to the write off of fixed assets. During 2003, the Company recorded charges of \$2.7 million and \$1.0 million relating to the write-off of fixed assets and a doubtful account receivable, respectively.

(Provision) Benefit for Income Taxes

The provision for income taxes was \$3.4 million in 2004 compared to a benefit of \$11.4 million in 2003. Loss before taxes was \$3.4 million in 2004 compared to \$231.8 million in 2003. During 2004, the Company recorded an additional valuation allowance of \$4.7 million to reduce certain deferred tax assets in the United States.

Net Loss

Net loss was \$6.8 million in 2004 compared to a net loss of \$220.5 million in 2003. The goodwill impairment loss and the provision for restructuring and asset impairments recognized in 2003 as well as the \$25.1 million settlement proceeds in 2004 were the primary factors contributing to the favorable change.

Adjusted EBITDA

EBITDA is a non-GAAP measurement that the Company defines as income or loss before interest expense, provision for income taxes, depreciation and amortization, and the cumulative effect of a change in accounting. This measure does not represent cash flow for the periods presented and should not be considered as an

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alternative to net income/(loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity. EBITDA is a key financial measure used by our new Credit Agreement lender. The Company's definition of EBITDA may not be comparable to EBITDA as defined by other companies. Although EBITDA is a non-GAAP measurement, the Company believes it is a useful measure of pre-tax operating cash flow prior to debt service.

The Company's Credit Agreement adjusts EBITDA for certain non-cash accruals and uses the adjusted EBITDA figure to determine the Company's compliance with the financial covenant in the new Credit Agreement. This definition of adjusted EBITDA may not be comparable to adjusted EBITDA as defined by other companies.

EBITDA increased to \$87.5 million in 2004 from \$(142.2) million in 2003. After giving effect to the non-cash accruals, Adjusted EBITDA increased to \$90.8 million from \$58.3 million.

Reconciliation of Adjusted EBITDA to Net loss

(In Millions)	December 31,	
	2004	2003
Net loss	\$ (6.8)	\$ (220.5)
Add back:		
Interest expense	39.8	34.2
Taxes	3.4	(11.4)
Depreciation	51.1	55.5
EBITDA	\$ 87.5	\$ (142.2)
Adjustments under the new Credit Agreement	3.3	200.5
Adjusted EBITDA under the new Credit Agreement	\$ 90.8	\$ 58.3

The Company believes that the Adjusted EBITDA amounts shown above are informative in connection with a financial covenant contained within the Company's new Credit Agreement. Even though this covenant is based on the last twelve months of Adjusted EBITDA, the Company has presented the comparable periods above to provide additional insight into the rolling twelve month data.

Results of Operations**2003 Compared to 2002**

Net Sales (dollars in millions)

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	<u>2003</u>	<u>2002</u>	<u>Increase (Decrease)</u>
United States	\$ 562.8	\$ 549.7	2.4%
Europe	179.5	154.6	16.1%
Total	<u>\$ 742.3</u>	<u>\$ 704.3</u>	<u>5.4%</u>

Net sales increased by \$38.0 million, or 5.4%, to \$742.3 million in 2003 from \$704.3 million in 2002. In the U.S., net sales increased \$13.1 million, or 2.4% to \$562.8 million in 2003 when compared to \$549.7 million in 2002. In Europe, net sales increased \$24.9 million, or 16.1%, to \$179.5 million in 2003 from \$154.6 million in 2002. Net sales in the U.S. accounted for 75.8% of net sales in 2003 compared to 78.0% of net sales in 2002.

In the U.S., the primary items that impacted net sales in 2003 as compared to 2002 were increased sales of custom products and the contractual pass-through to customers of higher resin prices primarily offset by lower shipments of conventional products and competitive pricing conditions. In addition, unfavorable weather conditions in the spring and summer of 2003 compared to the same period in 2002 exacerbated the lower domestic demand for the Company's conventional products.

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In Europe, the increase in net sales in 2003 compared to 2002 was primarily due to the strengthening of the British Pound Sterling and the Euro against the U.S. dollar as well as increased shipments of both bottles and preforms in 2003.

Gross Profit

Gross profit decreased \$30.3 million to \$28.9 million in 2003 from \$59.2 million in 2002. Contributing to the decline in gross profit was the loss of certain higher margin business to competitors, a shift in demand to smaller, less profitable bottles and higher than anticipated inventory levels leading to increased warehousing and product handling costs. In addition, gross profit was adversely affected by an unfavorable shift in conventional product mix and the implementation of price reductions to extend long-term customer contracts, increase volume and meet competitors' pricing. The Company also experienced negative developments in certain insurance and benefit related costs.

Selling and Administrative Expenses

Selling and administrative expenses increased by \$12.2 million to \$23.0 million in 2003 from \$10.8 million in 2002. The increase primarily reflects costs associated with the establishment of certain administrative functions that had previously been provided by Crown as well as additional costs that the Company now incurs as a public standalone company that were not incurred when it operated as a division of Crown. In addition, the Company incurred an increase in legal expenses, particularly those relating to the Company's patent infringement claim against a competitor.

Management Charges

Prior to the Company's initial public offering, Crown charged the Company certain management fees for legal, tax, treasury, central purchasing, internal audit and other centrally managed services. These management charges were \$3.6 million in 2002. As of the date of the initial public offering, the management charges from Crown were discontinued.

Research and Technology Expense

Research and technology expenses decreased \$6.9 million to \$5.2 million in 2003 from \$12.1 million in 2002. During 2002, Constar was charged a fee by Crown for research and technology services of approximately 1.8% of net sales. As of November 20, 2002, this arrangement was discontinued and the Company's requirements were thereafter met through the hiring of former Crown employees, by outsourcing with unrelated third-party providers, and through a research and development agreement with CCK Technologies. During the third quarter of 2003, the Company ceased outsourcing research and technology to CCK Technologies.

Provision for Restructuring and Asset Impairments

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In September 2003, the Company announced its plans to implement a cost reduction initiative under which it closed two facilities in Birmingham, Alabama and Reserve, Louisiana. Under the plan, approximately 130 positions were to be eliminated at the affected facilities and certain production assets at these locations were to be relocated to other manufacturing facilities. As of December 31, 2003, both facilities had ceased manufacturing operations and certain machinery and equipment was being transferred to other manufacturing locations. As a result of this initiative, the Company recognized restructuring provisions of approximately \$4.9 million and non-cash asset impairment charges of approximately \$6.7 million during 2003. The restructuring provisions consisted of approximately \$1.3 million for severance and termination benefits for both facilities and approximately \$3.6 million for contract and lease termination costs. See Note 11 of the accompanying Notes to Combined and Consolidated Financial Statements for additional discussion.

Interest Expense, Net

Interest expense increased to \$34.2 million in 2003 from \$7.0 million in 2002. The increase in interest expense reflected the increase in average debt outstanding incurred in conjunction with the Company's initial public offering.

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Foreign Exchange Adjustments

Foreign exchange adjustments were \$1.4 million income in 2003 compared to \$0.1 million expense in 2002. The change reflected the impact of the weaker dollar in 2003 compared to 2002.

Goodwill Impairment Loss

Due to the trading price of the Company's common stock, operating results that reflect lower volumes of domestic conventional product sales, increased handling and shuttling costs and other factors, the Company determined that a goodwill impairment existed as of June 30, 2003. Based on a preliminary assessment, the Company recognized an estimated impairment charge of \$183 million in the second quarter of 2003. The fair value of the Company was determined by quoted market prices of the Company's common stock plus a control premium. In accordance with FAS 142, the Company performed a detailed analysis of the fair value of the Company's assets and liabilities during the third quarter of 2003. Based on the results of this analysis, the Company was not required to make any adjustments to the estimated impairment charge of \$183 million as recorded during the second quarter ended June 30, 2003.

Write off of Deferred Financing Costs

In connection with the placement of the Second Lien Loan, there was a permanent reduction in the amounts available under a term B loan and revolver loan of \$25 million and \$10 million, respectively. As a result of these permanent reductions, the Company wrote off a pro-rata share of the deferred financing costs related to these two loans of approximately \$0.7 million.

Other Expenses, Net

Other expenses (income), net were \$4.4 million expense in 2003 compared to \$0.6 million income in 2002. In connection with the third quarter analysis of asset values, the Company completed a physical inventory of its fixed asset records and identified machinery and equipment that were no longer in use. As a result of this review, the Company has recorded a non-cash charge to earnings of \$2.7 million which reflects the net book value of these assets. This charge was recorded in other expense during the third quarter of 2003. In addition, the Company recorded a \$1.0 million charge related to a doubtful account receivable.

Provision for Income Taxes

Provision for income taxes was an \$11.4 million benefit in 2003 compared to a \$10.2 million expense in 2002. Loss before taxes was \$231.8 million in 2003 compared to \$25.0 million of income in 2002. The effective tax rate was 4.9% in 2003 compared to 40.8% in 2002 due to the effect of the goodwill impairment loss not being deductible. In addition, the Company recorded a valuation allowance to reduce certain deferred tax assets in the United States.

Net Loss

Net loss was \$220.5 million in 2003 compared to a net loss of \$35.4 million in 2002. The increase in net loss 2003 compared to 2002 was primarily due to the goodwill impairment loss, the provision for restructuring and asset impairment, the decline in gross profit and higher interest expense.

Adjusted EBITDA

EBITDA is a non-GAAP measurement that the Company defines as income or loss before interest expense, provision for income taxes, depreciation and amortization, and the cumulative effect of a change in accounting. This measure does not represent cash flow for the periods presented and should not be considered as an alternative to net income/(loss) as an indicator of the Company's operating performance or as an alternative to cash flows as a source of liquidity. EBITDA is a key financial measure used by the Company's Credit Agreement lenders. The Company's definition of EBITDA may not be comparable to EBITDA as defined by other companies. Although EBITDA is a non-GAAP measurement, the Company believes it is a useful measure of pre-tax operating cash flow prior to debt service.

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The Company's new Credit Agreement adjusts EBITDA for certain non-cash accruals and uses the adjusted EBITDA figure to determine the Company's compliance with a financial covenant in the new Credit Agreement. This definition of adjusted EBITDA may not be comparable to adjusted EBITDA as defined by other companies.

EBITDA declined in 2003 to \$(142.2) million from \$87.8 million in 2002. After giving effect to the provision for restructuring and asset impairment and the non-cash accruals, Adjusted EBITDA would have declined to \$58.3 million from \$89.2 million. The non-cash accruals consist primarily of \$183.0 million of goodwill impairment.

Reconciliation of Adjusted EBITDA to Net loss		
(In Millions)	December 31,	
	2003	2002
Net loss	\$ (220.5)	\$ (35.4)
Add back:		
Interest expense	34.2	7.0
Taxes	(11.4)	10.2
Depreciation	55.5	55.9
Cumulative effect of change in accounting for Goodwill		50.1
EBITDA	\$ (142.2)	\$ 87.8
Adjustments under Senior Secured Credit Agreement	200.5	1.4
Adjusted EBITDA under the Senior Secured Credit Agreement	\$ 58.3	\$ 89.2

Liquidity and Capital Resources

On November 20, 2002, the Company completed its public offering of \$175 million aggregate principal amount of 11% Senior Subordinated Notes (Notes) due 2012. The Notes were issued at 98.51% of face value and will mature on December 1, 2012. Interest on the Notes is payable semi-annually on each December 1 and June 1.

Concurrent with the closing of the Company's initial public offering of common stock and concurrent with the offering of the Notes, the Company entered into a senior secured credit agreement with a syndicate of lenders. The Senior Secured Credit Agreement consisted of a \$150 million seven-year term loan (Term B Loan) and a \$100 million five-year revolving loan (Revolver Loan). The Term B Loan carried interest at a rate of LIBOR plus 450 basis points with a 200 basis point LIBOR minimum. The Revolver Loan carried interest of LIBOR plus 375 basis points with a 200 basis point LIBOR minimum. After the \$25 million pay down discussed below, the Term B Loan required annual payments of \$1.3 million, with a final balloon payment of \$116.0 million due on the loan maturity date in November 2009. On December 23, 2003 the Company obtained a \$75 million Second Lien Term Loan (Second Lien Loan) due December 2010. Net of fees and expenses of approximately \$5.0 million, the proceeds from the Second Lien Loan were used to prepay \$25 million of the Term B Loan with the remainder used to paydown the Revolver. The pay down of the Term B Loan resulted in a permanent \$25 million reduction in the amount available under that facility. In addition, the total amount available under the Revolver Loan was reduced from \$100 million to \$90 million.

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As of December 31, 2004, there was \$122.0 million outstanding on the Term B Loan, \$75.0 million outstanding on the Second Lien Loan, \$17.0 million outstanding on the Revolver Loan and \$5.2 million outstanding on letters of credit. In addition, as of December 31, 2004, the Company had \$9.3 million of cash and cash equivalents on hand as well as \$67.8 million of availability under the Revolver Loan.

On February 11, 2005, the Company completed a refinancing which consisted of the sale of \$220 million of Senior Secured Floating Rate Notes due 2012 (Senior Notes) and entered into a new four year \$70 million

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Senior Secured Asset Based Revolving Credit Facility (Credit Agreement). The proceeds, net of expenses, from the refinancing were used to repay amounts outstanding under the revolving loan and two term loans. In connection with the repayment and termination of these facilities, the Company incurred approximately \$3.5 million of prepayment penalties. The Company completed its February 11, 2005 refinancing in part because it would not have been in compliance in 2005 with certain financial covenants included in the Revolver Loan, Term B Loan and Second Lien Loan. As a result of this February 11, 2005 refinancing, the Company has extended its debt maturities, reduced its effective interest borrowing rates and created less restrictive financial covenants. The Company's previously issued Notes were not refinanced.

The Senior Notes bear interest at the rate of LIBOR plus 3.375% per year. Interest on the notes will be reset quarterly. Interest on the Senior Notes will be payable quarterly on each February 15, May 15, August 15 and November 15, commencing on May 15, 2005. The Senior Notes will mature on February 15, 2012. The Company may redeem some or all of the Senior Notes at any time on or after February 15, 2007, under the circumstances and at the prices described in the indenture governing the Senior Notes, described below. In addition, prior to February 15, 2007, the Company may also redeem up to 35% of the Senior Notes with the net proceeds of certain equity offerings. If the Company experiences a change of control, holders of the Senior Notes may require the Company to repurchase the Senior Notes.

Each of the Company's current and future domestic and United Kingdom restricted subsidiaries will guarantee the Senior Notes. The Senior Notes and the guarantees will rank equally with the Company's existing and future senior debt and rank senior to its current and future subordinated debt. The Senior Notes and the guarantees thereof will be secured by a first priority lien on (i) the Company's and the note guarantors' real property located in the United States and the United Kingdom which is owned by them on February 11, 2005, (ii) certain of the real property located in the United States that the Company or a note guarantor leases on February 11, 2005, and (iii) substantially all of the equipment and other fixed assets related to such properties, in each case, subject to certain exceptions. The collateral does not include other types of assets, such as inventory, accounts receivable, investment property, instruments, chattel paper, documents, deposit accounts or other intangible assets, or the capital stock of our subsidiaries.

The Senior Notes have been issued under an indenture, dated as of February 11, 2005 with the Bank of New York, as trustee. The indenture governing the Senior Notes contains covenants that will limit the ability of the Company and the ability of its restricted subsidiaries to, among other things: incur or guarantee additional indebtedness; pay dividends or make other distributions or repurchase or redeem its stock; make investments; sell assets; create liens; enter into agreements restricting its restricted subsidiaries' ability to pay dividends; enter into transactions with affiliates; and consolidate, merge or sell all or substantially all of its assets. If an event of default, as specified in the indenture governing the Senior Notes, shall occur and be continuing, either the trustee or the holders of a specified percentage of Senior Notes may accelerate the maturity of all the Senior Notes. The covenants, events of default and acceleration rights described in this paragraph are subject to important exceptions and qualifications, which are described in the indenture filed herewith.

Under a registration rights agreement with the Senior Notes, the Company and the note guarantors have agreed to file and use their reasonable best efforts to cause to become effective a registration statement with respect to an offer to exchange the Senior Notes for new notes of the Company having terms substantially identical in all material respects to the Senior Notes (except that the exchange notes will not contain terms with respect to transfer restrictions). If the Company and the note guarantors are not able to effect this exchange offer, they have agreed to use their reasonable best efforts to file, and cause to become effective, a shelf registration statement relating to resales of the Senior Notes and the guarantees thereof. The Company will be obligated to pay additional interest on the Senior Notes if it does not file a registration statement within 90 days of February 11, 2005, have the registration statement declared effective within 210 days of February 11, 2005, consummate the exchange offer within 240 days of February 11, 2005 or maintain the effectiveness of the registration statement during specified periods.

In connection with this refinancing, the Company and its subsidiary Constar International U.K. Limited (Constar UK) entered into a Supplemental Indenture, dated as of February 11, 2005, among the Company,

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Constar UK, the Note Guarantors party thereto and Wells Fargo Bank, National Association, as trustee, to the Indenture, dated as of November 20, 2002, relating to the Company's previously existing Notes. The purpose of the Supplemental Indenture was to add Constar UK as a guarantor to the Notes issued pursuant to such indenture.

In connection with this refinancing, the Company also entered into the Credit Agreement among the Company, as the Borrower, the Subsidiary Guarantors named therein, Citicorp. USA, Inc., as Administrative Agent, and Citigroup Global Markets, Inc., as Book Manager and Arranger. The Credit Agreement consists of a \$70.0 million four-year revolving loan facility, \$25.0 million of which is available to provide for the issuance of letters of credit. The Credit Agreement also includes a \$15.0 million swing loan subfacility. The obligations under the Credit Agreement are guaranteed by each of the Company's existing and future domestic and United Kingdom subsidiaries (subject to certain exceptions). Borrowings under the Credit Agreement are limited to the lesser of (i) \$70.0 million or (ii) a borrowing base comprised of the sum of (i) up to 85% of the Company's and its domestic subsidiaries' eligible trade accounts receivable, (ii) up to 80% of eligible trade accounts receivable of Constar International U.K. Limited, (iii) the lesser of (A) up to 85% of the net orderly liquidation value of the Company's and its domestic subsidiaries' eligible inventory and (B) up to 75% of the Company's and its domestic subsidiaries' eligible inventory (valued at the lower of cost on a first-in, first-out basis and market), and (iv) the lesser of (A) up to 80% of the net orderly liquidation value of eligible inventory of Constar International U.K. Limited and (B) up to 70% of eligible inventory of Constar International U.K. Limited (valued at the lower of cost on a first-in, first-out basis and market), less in the case of both receivables and inventory discretionary eligibility reserves. In addition, the administrative agent under the revolving loan facility may impose discretionary reserves against the entire revolving loan facility. As of March 29, 2005, the Company's borrowing base was approximately \$89.1 million.

The Company will pay monthly a commitment fee equal to 0.5% per year on the undrawn portion of the revolving loan facility. The Company also will pay fees on any letters of credit outstanding under the Credit Agreement. The revolving loan facility will initially bear interest at a rate equal to LIBOR plus 2.25%, and after the delivery of financial statements for the fiscal quarter ending June 30, 2005, LIBOR plus a margin ranging from 2.00% to 2.50% depending on average monthly available credit under the revolving loan facility, or alternatively at Citibank's base rate plus a margin ranging from 1.00% to 1.50%.

Under the Credit Agreement, the Company pledged as collateral all of the capital stock of its domestic and United Kingdom subsidiaries and 65% of the voting stock of its other foreign subsidiaries, and all of the inventory, accounts receivable, investment property, instruments, chattel paper, documents, deposit accounts and certain intangibles of its domestic and United Kingdom subsidiaries.

The Credit Agreement also provides that the Company may request up to a \$30.0 million increase in the size of the facility. The lenders are not obligated to grant such increase, and even if it is obtained, our ability to borrow the increased amount will be subject to various conditions contained in the Credit Agreement and the indentures governing the Senior Notes and the Notes.

The Credit Agreement contains customary affirmative, financial and negative covenants relating to the Company's operations and its financial condition. The financial covenants require the Company to maintain a minimum level of available credit of \$10.0 million and a minimum interest coverage ratio to be tested only when available credit is less than \$15.0 million, and imposes maximum capital expenditures. As of March 29, 2005, the Company had borrowings under the Credit Agreement of \$17.2 million and available credit of \$48.4 million. The negative covenants contained in the Credit Agreement limit the Company's ability and the ability of its subsidiaries to, among other things, incur additional indebtedness and guarantee obligations, create liens, make equity investments or loans, sell, lease or otherwise dispose of assets, pay dividends, make distributions, redeem or repurchase any equity securities, prepay, redeem, repurchase or cancel certain indebtedness, engage in mergers, consolidations, acquisitions, joint ventures or the creation of subsidiaries and change the nature of the business.

Net cash and cash equivalents decreased to \$9.3 million during 2004. Net cash provided by operating activities of \$28.1 million was lower than net debt repayments and other financing activities of \$13.9 million

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and the Company's capital expenditures requirements of \$21.9 million. The Company's ratio of total debt to total capitalization was 93.7% at December 31, 2004 and 92.1% at December 31, 2003. The Company defines total capitalization as the sum of total debt, minority interests, and stockholders' equity.

The Company believes that cash available under its Credit Agreement combined with net cash provided by operating activities will be sufficient to finance its activities through 2005.

Cash Flow

The following table shows selected cash flow data.

	2004	2003	Increase (decrease)	
			Amount	%
(\$ in millions)				
Net cash provided by operating activities	\$ 28.1	\$ 25.0	\$ 3.1	12.4
Net cash used for investing activities	\$ (21.9)	\$ (50.9)	\$ (29.0)	(57.0)
Net cash (used for)/provided by financing activities	\$ (13.9)	\$ 20.5	\$ (34.4)	(167.8)

Net cash provided by operating activities increased \$3.1 million, or 12.4%, to \$28.1 million in 2004 from \$25.0 million in the 2003. The increase in net cash provided by operating activities during 2004 was primarily due to improved margins and \$25.1 million litigation proceeds, offset by a higher raw material costs, which led to an increased investment in inventory, increased accounts receivable and increased interest expense.

Net cash used for investing activities decreased to \$21.9 million in 2004 from \$50.9 million in 2003, reflecting a decrease in capital spending associated with capacity for conventional products.

Net cash used for financing activities was \$13.9 million in 2004 reflecting decreased borrowings under the Revolver Loan, the scheduled quarterly payments on the Term B Loan and the change in outstanding cash overdrafts. Net cash provided by financing activities was \$20.5 million in 2003 reflecting decreased borrowings under the Revolver Loan offset by financing obtained in the form of a \$75 million Second Lien Loan. This was combined with the proceeds from a \$1.5 million loan that was entered into by the Company's affiliate in Turkey.

Commitments

(\$ in millions)	Payments Due by Period				
	Total	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years

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Debt	\$ 388.4	\$ 2.7	\$ 19.6	\$ 118.2	\$ 247.9
Operating Leases	61.7	12.1	16.4	12.5	20.7
Other Long-Term Obligations	6.5	6.5			
Total Contractual Cash Obligations	\$ 456.6	\$ 21.3	\$ 36.0	\$ 130.7	\$ 268.6

At December 31, 2004, the Company had certain commitments that will require future outlays of cash. Commitments related to future minimum lease payments under long-term operating leases, principally for real estate, are \$12.1 million for 2005, \$9.9 million for 2006, \$6.5 million for 2007, \$5.7 million for 2008, \$6.8 million for 2009 and \$20.7 million thereafter. Commitments related to future expenditures on approved capital projects are \$6.5 million for 2005. Prior to the February 2005 refinancing, the Company was required to pay \$1.3 million of principal annually with respect to the Term B Loan. The Revolver Loan was to mature in 2007, the Term B Loan was to mature in 2009, and the Notes mature in 2012. In addition, the Second Lien Loan of \$75 million was to mature in 2010. Subsequent to the refinancing in February 2005, the Company's new Credit Agreement matures in 2009 and the Senior Notes mature in 2012. There are no required annual principal

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payments on either of these loans prior to their respective maturities. All amounts previously outstanding under the Revolver Loan, Term B Loan and Second Lien Loan were repaid. In connection therewith, the Company incurred approximately \$3.5 million of prepayment penalties.

These amounts exclude interest expense to be paid in connection with the loans discussed above. Annual interest expense, net for fiscal 2004 was approximately \$39.8 million. The Notes carry a fixed interest rate of 11% on the \$175 million outstanding. Annual cash payments will be \$19.3 million while these Notes are outstanding. The Company's borrowings under the new Credit Agreement and Senior Notes bear interest rates based on either a floating rate Base Rate or the LIBOR Rate. Therefore, the Company is not able to accurately predict future interest payments because of the variability of future interest rates and borrowing requirements. There were no other commitments outstanding at December 31, 2004 that were material to the Company's financial condition. See Note 10 to the accompanying Notes to Combined and Consolidated Financial Statements for information related to the Notes and the Senior Secured Credit Agreement.

In addition, the Company expects to make cash contributions to its domestic and foreign benefit plans of approximately \$9.0 million during 2005. Cash contributions in subsequent years will depend on a number of factors and assumptions including the performance of plan assets, discount rates, compensation increases, health care cost increases, mortality and employee turnover.

Capital Expenditures

Capital expenditures decreased \$24.9 million, or 52.9%, to \$22.2 million in 2004 from \$47.1 million in 2003.

New capital investments for 2004 included the following:

Acquisition of new equipment for productivity improvement and capacity expansion primarily in conventional products; and

Purchase of new molds.

Capital expenditures increased \$17.1 million, or 57.0%, to \$47.1 million in 2003 from \$30.0 million in 2002.

In order to serve its existing customers, and to participate in the conversion to PET from glass or aluminum that the Company expects in both the custom and conventional PET markets, Constar will require significantly greater rates of capital investment over the coming years than in the past. Generally, the Company intends to purchase new equipment only after entering into long-term customer contracts that justify additional capacity. A single high speed production unit costs approximately \$10 million and investments may occur in increments of two, three or more production units. It is Constar's experience from previous large-scale conversions to PET bottles that whole product lines generally convert at once in conjunction with regional or national marketing campaigns. The Company's customers require an ability to meet timelines for commitment of capacity expansion and implementation of project plans. Additionally, because of the large volumes controlled by the major consumer product companies that are its customers, many of the capacity investments the Company makes may be fully or largely committed to agreements with only one customer each.

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Constar's ability to make capital expenditures is limited by the financial covenants contained in its new Credit Agreement. These financial covenants impose maximum capital expenditures of \$45.0 million in 2005, \$42.5 million in 2006, \$47.5 million in 2007 and \$47.5 million in 2008. These covenants allow for the carry forward of a certain amount of spending below the covenant levels in previous periods.

Equipment suppliers to the Company's industry have continually made improvements in output and performance at lower capital cost per unit of output. Subject to demand for the capacity, the Company seeks to

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maintain and improve its competitive cost position by acquiring state of the art equipment that has the lowest operating and capital cost per unit of output on each occasion that the Company increases capacity. Constar believes that it is advantaged by opportunities that exist to deploy existing high speed equipment in some of the newly converting specialty custom applications, enhancing both operating efficiency and capital efficiency throughout its system.

Environmental Matters

The Company's Didam, Netherlands facility has been identified as having impacts to soil and groundwater from volatile organic compounds at concentrations that exceed those permissible under Dutch law. The main body of the groundwater plume is beneath the Company's Didam facility but it also appears to extend from an upgradient neighboring property. Following the results of recent testing, remediation is not required to begin until 2007. The Company records an environmental liability on an undiscounted basis when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. At December 31, 2004, the Company had an accrual of \$0.2 million for costs associated with completing the required investigations and certain other activities that may be required at the Didam facility. The Company has no other accruals for environmental matters.

Stockholders' Equity

Stockholders' equity decreased to \$24.0 million at December 31, 2004 from \$32.8 million at December 31, 2003. The decrease was primarily due to a net loss of \$6.8 million for the year.

Stockholders' equity decreased to \$32.8 million at December 31, 2003 from \$246.1 million at December 31, 2002. The decrease was primarily due to a net loss of \$220.5 million for the year.

Inflation

Inflation has not had a significant impact on the Company's operations over the past three years and Constar does not expect it to have a significant impact on its results of operations or financial condition in the foreseeable future.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

In the normal course of business, Constar is exposed to fluctuations in currency values, interest rates, commodity prices and other market risks.

The Company derived approximately 26% of total revenues from sales in foreign currencies during the year ending December 31, 2004. In the Company's financial statements operating results in local currency are translated into U.S. dollars based on average exchange rates during the period and balance sheet items are translated at rates on the balance sheet date. During periods of a strengthening dollar, the Company's U.S. dollar financial results related to operations conducted in foreign currencies are reduced because the local currency amounts are translated into fewer U.S. dollars. Conversely, as the dollar weakens, the Company's foreign results reported in U.S. dollars will increase accordingly. Approximately 2% of total revenues in 2004 were derived from sales in Turkey. These sales were made in Turkish lira and the invoiced sale prices are adjusted to account for fluctuations in the exchange rate between the lira and the dollar. The Company is exposed to fluctuations in such exchange rate from the date of the invoice until settlement. The Company may enter into foreign exchange contracts to reduce the effects of fluctuations in foreign currency exchange rates on assets, liabilities, firm commitments and anticipated transactions. However, Constar does not generally hedge its exposure to translation gains or losses on non-U.S. net assets because it reinvests the cash flows within the operations where they are generated. At December 31, 2004, there were no foreign currency derivatives outstanding.

The Company's borrowings under the new Credit Agreement and Senior Notes bear floating interest rates based on either a Base Rate or the LIBOR Rate. Therefore, the Company has an exposure to interest rate risk. The definitive extent of the Company's interest rate risk in connection with these loan facilities is not quantifiable or predictable because of the variability of future interest rates and borrowing requirements.

The principal raw materials used in the manufacture of the Company's products are resins that are petrochemical derivatives. The markets for these resins are cyclical, and are characterized by fluctuations in supply, demand and pricing. Substantially all of Constar's sales are made under contracts that allow for the pass through of changes in the price of resin, our principal raw material and a major component of cost of goods sold. When the Company adjusts its prices under these agreements to pass through changes in resin prices, its net sales change accordingly but its gross profit is unaffected. In the aggregate, the lag between effective date of resin price changes and the effective date of price adjustments to its customers under various pass-through mechanisms is approximately equal to the Company's inventory exposure.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSTAR INTERNATIONAL INC.

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

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Management's Report on Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control - Integrated Framework* (COSO). Based on our assessment, management has concluded that, as of December 31, 2004, the Company's internal control over financial reporting was effective based on those criteria.

Our assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm that audited the Company's financial statements, as stated in their report, which is included herein.

/s/ MICHAEL J. HOFFMAN

Michael J. Hoffman

President and Chief Executive Officer

/s/ WILLIAM S. RYMER

William S. Rymer

Executive Vice President and Chief

Financial Officer

March 31, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Boards of Directors and Stockholders of Constar International Inc.:

We have completed an integrated audit of Constar International Inc.'s 2004 combined and consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 combined and consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Combined and consolidated financial statements and financial statement schedule

In our opinion, the combined and consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Constar International Inc. (the Company) and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related combined and consolidated financial statements. The financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 7, the Company changed its method of accounting for goodwill in 2002. In addition, as discussed in Note 19, the Company has significant transactions with Crown Holdings, Inc., its former parent.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing on page 41, Item 8 of Form 10-K, that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control - Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe

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that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in

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accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania

March 31, 2005

Table of Contents**Constar International Inc.****Combined and Consolidated Balance Sheets****(in thousands, except share amounts)**

	As of December 31,	
	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 9,316	\$ 16,478
Accounts receivable, net (Note 4)	77,422	66,057
Accounts receivable - related party (Note 19)	6,894	922
Inventories, net (Note 5)	103,949	82,368
Deferred income taxes (Note 12)	8,346	6,755
Prepaid expenses and other current assets	8,608	6,887
Total current assets	214,535	179,467
Property, plant and equipment, net (Note 6)	194,512	223,925
Goodwill (Note 7)	148,813	148,813
Other assets (Note 8)	22,417	26,136
Total assets	\$ 580,277	\$ 578,341
Liabilities and Stockholders' Equity		
Current liabilities		
Short-term debt (Note 10)	\$ 19,788	\$ 1,248
Accounts payable	83,450	79,753
Accrued liabilities (Note 9)	37,968	35,001
Accounts payable - related party (Note 19)	6,987	4,146
Income taxes payable	1,272	2,146
Total current liabilities	149,465	122,294
Long-term debt, net of current portion (Note 10)	368,637	396,170
Pension and post-retirement liabilities (Note 13)	17,475	8,267
Deferred income taxes (Note 12)	11,829	10,944
Other liabilities (Note 14)	6,587	5,567
Total liabilities	553,993	543,242
Commitments and contingent liabilities (Note 22)		
Minority interests	2,287	2,285
Stockholders' equity		
Common stock, \$.01 par value 75,000,000 shares authorized at December 31, 2004 and 2003; 12,569,845 and 12,380,500 shares issued and outstanding at December 31, 2004 and 2003, respectively	125	120
Preferred stock, \$.01 par value 5,000,000 shares authorized; None issued or outstanding at December 31, 2004 and 2003		
Additional paid-in capital	276,403	275,070
Accumulated other comprehensive loss	(20,993)	(18,300)

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Treasury Stock, at cost	37,483 shares at December 31, 2004 and none at December 31, 2003	(210)	
Unearned compensation		(2,284)	(1,852)
Accumulated deficit		(229,044)	(222,224)
		<hr/>	<hr/>
Total stockholders' equity		23,997	32,814
		<hr/>	<hr/>
Total liabilities and stockholders' equity		\$ 580,277	\$ 578,341
		<hr/>	<hr/>

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

Table of Contents**Constar International Inc.****Combined and Consolidated Statements of Operations**

(in thousands, except per share data)

	For the Year Ended December 31,		
	2004	2003	2002
Net customer sales	\$ 839,786	\$ 739,657	\$ 700,490
Net related party sales (Note 19)	4,396	2,632	3,838
Net sales	844,182	742,289	704,328
Cost of products sold, excluding depreciation	746,684	657,869	589,259
Depreciation	51,060	55,488	55,863
Gross profit	46,438	28,932	59,206
Operating expenses:			
Selling and administrative expenses	28,107	23,040	10,809
Management charges			3,648
Research and technology expenses	5,725	5,220	12,129
Write off of deferred financing costs (Note 8)		751	
Interest expense, net	39,798	34,221	7,037
Foreign exchange adjustments	62	(1,468)	74
Provision for restructuring and asset impairment (Note 11)	1,095	11,557	
Goodwill impairment loss (Note 7)		183,000	
Other (income) expenses, net (Note 17)	(24,948)	4,429	550
Total operating expenses	49,839	260,750	34,247
Income (loss) before taxes and cumulative effect of change in accounting	(3,401)	(231,818)	24,959
(Provision) benefit for income taxes (Note 12)	(3,417)	11,362	(10,170)
Minority interests	(2)	(93)	(118)
Income (loss) before cumulative effect of change in accounting	(6,820)	(220,549)	14,671
Cumulative effect of change in accounting for goodwill			(50,059)
Net loss	\$ (6,820)	\$ (220,549)	\$ (35,388)
Per common share data:			
Basic and Diluted:			
Income (loss) before cumulative effect of change in accounting for goodwill	\$ (0.57)	\$ (18.38)	\$ 1.22
Cumulative effect of change in accounting for goodwill			(4.17)
Net loss	\$ (0.57)	\$ (18.38)	\$ (2.95)
Weighted Average Shares Outstanding:			
Basic	12,028	12,000	12,000
Diluted	12,028	12,000	12,002

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

Table of Contents**Constar International Inc.****Combined and Consolidated Statements of Stockholders' Equity**

(in thousands)

	Comprehen- sive Income (Loss)	Common Stock	Additional Paid-In- Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Unearned Compen- sation	Owner's Net Investment	Accumulated Deficit	Total
Balance, December 31, 2001				(32,403)			588,275		555,872
Net loss	\$ (35,388)						(33,713)	(1,675)	(35,388)
Translation adjustments	5,051			5,051					5,051
Minimum pension liability adjustment, net of tax	2,030			2,030					2,030
Comprehensive loss	\$ (28,307)								
Capital contributions from Crown							8,701		8,701
Dividends paid to Crown							(351,673)		(351,673)
Costs associated with initial public offering							(2,000)		(2,000)
Non-cash capital contribution from Crown							63,522		63,522
Earned compensation on restricted stock						7			7
Issuance of restricted stock			180			(180)			
Capitalization of owner's net investment as a result of the initial public offering		120	272,992				(273,112)		
Balance, December 31, 2002		120	273,172	(25,322)		(173)		(1,675)	246,122
Net loss	\$ (220,549)							(220,549)	(220,549)
Translation adjustments	6,124			6,124					6,124
Minimum pension liability adjustment, net of tax	898			898					898
Comprehensive loss	\$ (213,527)								
Issuance of restricted stock			1,898			(1,898)			
Earned compensation on restricted stock						219			219
Balance, December 31, 2003		\$ 120	\$ 275,070	\$ (18,300)		\$ (1,852)	\$	\$ (222,224)	\$ 32,814
Net loss	\$ (6,820)							(6,820)	(6,820)
Translation adjustments	3,854			3,854					3,854
Minimum pension liability adjustment, net of tax	(6,547)			(6,547)					(6,547)
Comprehensive loss	\$ (9,513)								
Issuance of restricted stock, net		5	1,333		(210)	(1,311)			(183)
Earned compensation on restricted stock						879			879

Balance, December 31, 2004	\$	125	\$	276,403	\$	(20,993)	\$	(210)	\$	(2,284)	\$		\$	(229,044)	\$	23,997

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

Table of Contents**Constar International Inc.****Combined and Consolidated Statements of Cash Flows****(in thousands)**

	For the Year Ended December 31,		
	2004	2003	2002
Cash flows from operating activities			
Net loss	\$ (6,820)	\$ (220,549)	\$ (35,388)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Goodwill impairment loss		183,000	
Depreciation and amortization	53,333	57,491	55,863
Provisions for restructuring and asset impairments	1,095	11,557	
Earned compensation on restricted stock	879	219	7
Deferred income taxes	2,747	(12,075)	(5,270)
Write off of deferred financing costs		751	
Write down of fixed assets and property dispositions	610	2,674	
Cumulative effect of a change in accounting for goodwill			50,059
Changes in assets and liabilities, net:			
Receivables	(15,215)	(8,064)	815
Inventory	(20,002)	6,078	(14,538)
Accounts payable related party, net	2,152	(861)	1,249
Accounts payable and accrued liabilities	3,563	15,173	(114)
Other, net	5,751	(10,405)	9,803
Net cash provided by operating activities	28,093	24,989	62,486
Cash flows from investing activities			
Purchases of property, plant and equipment	(22,154)	(47,067)	(29,963)
Proceeds from sale of property, plant and equipment	289	127	733
Acquisition of business		(4,000)	
Net cash used in investing activities	(21,865)	(50,940)	(29,230)
Cash flows from financing activities			
Net change in long-term balances due to related party			(36,704)
Capital contributions			8,701
Proceeds from issuance of Senior Subordinated Notes			172,392
Proceeds from Revolver Loan	112,000	130,000	55,000
Repayment of Revolver Loan	(120,000)	(160,000)	
Proceeds from Term B Loan			150,000
Repayment of Term B Loan	(1,248)	(26,437)	(375)
Proceeds from Second Lien Loan		75,000	
Proceeds from other debt		1,547	
Change in outstanding cash overdrafts	(4,614)	5,514	815
Dividends paid to Crown and its affiliates			(351,673)
Costs associated with initial public offering and debt financing		(4,102)	(13,700)
Minority dividends paid		(1,024)	(1,367)
Net cash provided by (used in) financing activities	(13,862)	20,498	(16,911)

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Effect of exchange rate changes on cash and cash equivalents	472	1,018	814
Net change in cash and cash equivalents	(7,162)	(4,435)	17,159
Cash and cash equivalents at beginning of period	16,478	20,913	3,754
Cash and cash equivalents at end of period	\$ 9,316	\$ 16,478	\$ 20,913
Supplemental Disclosure of Cash Flow Information			
Cash paid during the year for:			
Interest	\$ 37,133	\$ 32,509	\$ 4,342
Income taxes	\$ 1,767	\$ 416	\$ 12,307

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

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS

(All dollar amounts in thousands unless otherwise noted)

1. Basis of Presentation

These combined and consolidated financial statements include the accounts of Constar International Inc. (the Company or Constar), its wholly-owned subsidiaries and a majority interest in a joint venture.

Prior to its initial public offering on November 20, 2002 Constar had operated as a division of Crown Holdings, Inc. (Crown). Therefore, separate financial statements have not historically been prepared for its business. The combined financial statements prior to November 20, 2002 were derived from historical accounting records and are presented as if the operations within each country had been conducted exclusively within a separate subsidiary in that country. In connection with the initial public offering, Crown transferred ownership of certain of its affiliates to Constar and Constar transferred certain of its affiliates to Crown. Accordingly, the accompanying financial statements for periods after the transfer of these affiliates have been prepared on a consolidated basis. The accompanying financial statements for the periods prior to the transfer of ownership of the Crown and Constar affiliates have been prepared on a combined basis.

The Company operates 13 plants in the United States and 3 plants in Europe. The European plants are in the U.K., the Netherlands and Turkey. Constar produces polyethylene terephthalate (PET) plastic packaging for beverage, food and other consumer end-use applications. Two additional operations are located in plants that also contain other Crown businesses. The balances and results of the Salt Lake City PET bottle operations were included based on specific identification and, in some cases, management's estimates. The balances and results of the Voghera, Italy PET bottle operations, which principally serves one customer, were included based on specific identification, management's estimates and allocations to the Constar business using a method that Crown management believes is reasonable. After the initial public offering the equipment at these two facilities was leased to Crown. Crown will operate the facilities under agreements to manufacture and supply PET bottles and preforms to Constar, and to its customers on behalf of Constar. See Note 19 of Combined and Consolidated Financial Statements for Related Party Transactions.

2. Initial Public Offering

On November 20, 2002, the Company completed an initial public offering of 10,500,000 shares of its common stock for \$12.00 per share. Immediately prior to the closing of the initial public offering, Crown contributed to the capital of the Company its outstanding intercompany receivable due from the Company in the amount of \$63.5 million. Crown sold the Company shares in the initial public offering, retaining the proceeds from the transaction. Concurrent with the closing of the initial public offering, the Company repaid its \$350 million note payable to Crown.

3. Summary of Significant Accounting Policies

Basis of Combination

All significant intercompany balances and transactions have been eliminated. Transactions between Constar and other Crown operations have been identified in the Combined and Consolidated Financial Statements as transactions among related parties.

Cash and Cash Equivalents

Cash equivalents represent investments with maturities of three months or less from the time of purchase and are carried at cost which approximates fair value because of the short maturity of those instruments. Certain funds are held at financial institutions which amounts are in excess of federally insured limits.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Foreign Currency Translation**

For non-U.S. subsidiaries which operate in a local currency environment, assets and liabilities are translated into U.S. dollars at year-end exchange rates. Income and expense items are translated at average exchange rates prevailing during the year. Translation adjustments for these subsidiaries are recorded in accumulated other comprehensive loss as a separate component of stockholders' equity. Cumulative translation adjustments are not adjusted for income taxes as they relate to earnings permanently reinvested in foreign subsidiaries.

The U.S. dollar is the functional currency for Constar's operation in Turkey. Local currency inventories and plant and other property are translated into U.S. dollars at approximate rates prevailing when acquired; all other assets and liabilities are translated at year-end exchange rates. Inventories charged to cost of sales and depreciation are remeasured at historical rates; all other income and expense items are translated at average exchange rates prevailing during the year. Gains and losses which result from remeasurement are included in earnings.

Exchange rates used to translate the results of operations and the balance sheets were as follows:

	For the Year Ended December 31,		
	2004	2003	2002
Statements of operations			
British pound to USD	1.83	1.64	1.50
Euro to USD	1.24	1.13	0.95
	As of December 31,		
	2004	2003	2002
Balance sheets			
British pound to USD	1.92	1.78	1.61
Euro to USD	1.35	1.25	1.05

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

Revenue is recognized from product sales when the goods are shipped and the title and risk of loss pass to the customer. Provisions for discounts and rebates to customers, and returns and other adjustments, are provided in the same period that the related sales are recorded. During 2004, Constar sold products to Crown in conjunction with the Newark and Voghera Agreements. Constar recognized revenue related to sales under these agreements consistent with its revenue recognition policies to third parties. See Note 19 for a description of related party transactions.

Shipping and Handling Costs

Shipping and handling costs are included as a component of cost of products sold in the statements of operations.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivables are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Allowances for doubtful accounts are based on historical experience and known factors

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

regarding specific customers. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required. The current year expense to adjust the allowance for doubtful accounts is recorded within cost of products sold in the combined and consolidated statements of operations. Account balances are charged off against the allowance when it is probable the receivable will not be recovered.

Inventories

Inventories are stated at the lower of cost or market with the cost principally determined using an average cost method. Provisions for potentially obsolete or slow-moving inventory are made based on management's analysis of inventory levels, historical usage and market conditions.

Goodwill

Effective January 1, 2002, goodwill, which represents the excess of the purchase price over the estimated fair value of the identifiable net assets of companies acquired to date, is no longer being amortized, and will be tested for impairment on an annual basis, or more frequently if facts and circumstances indicate that goodwill may be impaired. Goodwill is impaired if the net book value of a reporting unit exceeds its estimated fair value. Fair value of the reporting units is estimated based upon discounted cash flow analyses and the use of market multiples. At least once per year and more routinely in the event that facts and circumstances indicate that the carrying value may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying amount of the asset is not recoverable from its undiscounted cash flows, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value. See Note 7 for a description of the Company's write-downs in accordance with this policy.

Property, Plant and Equipment

Property, plant and equipment is carried at cost and includes expenditures for new facilities and equipment and those costs which substantially increase the useful lives of existing assets. Maintenance and repairs are expensed as incurred. The Company capitalizes interest costs associated with significant capital projects using its average borrowing rate. When property, plant and equipment is retired or otherwise disposed, the net carrying amount is eliminated with any gain or loss on disposition recognized in earnings at that time.

Depreciation is provided on a straight-line basis for financial reporting purposes and an accelerated basis for tax purposes over the estimated useful lives of the assets.

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The range of estimated economic lives assigned to each significant asset category is as follows:

	<u>Years</u>
Land improvements	25
Building and building improvements	25 to 40
Machinery & equipment	10
Furniture, computer equipment, tools and molds	5 to 7

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that the cost of long-lived assets other than goodwill may be impaired, Constar performs a recoverability evaluation. If an evaluation is required, the estimated future undiscounted cash flows associated with the assets are compared to the assets' carrying amounts to determine whether a write-down to fair value is required in accordance with the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which became effective on January 1, 2002.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Restructuring**

As of January 1, 2003, the Company records restructuring charges in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 establishes accounting and reporting guidelines for the recognition and measurement of a liability at its fair value for the cost associated with an exit, including restructuring, or disposal activity in the period in which the liability is incurred, rather than at the date of a commitment to an exit or disposal plan. The Company followed these guidelines in connection with recording the impact of the shutdown of two manufacturing operations during the fiscal years 2004 and 2003. See Note 11 for additional discussion.

Risk Management Contracts

In the normal course of operations, the Company may enter into contracts to manage its exposure to fluctuations in foreign currency exchange rates. Such exposures may arise from foreign currency-denominated receivables and obligations, anticipated transactions or firm commitments. The gains or losses on these contracts generally offset changes in the value of the related exposures. At December 31, 2004 and 2003, the Company had no contracts outstanding to manage its exposure to fluctuations in foreign currency exchange rates.

Interest Expense

Subsequent to the closing of the Company's initial public offering, the Company records interest expense based on the actual interest rates and amounts outstanding under its debt agreements. Prior to the closing of the Company's initial public offering, interest expense was charged from Crown and principally reflects the interest cost on the net average intercompany indebtedness. Management believes the methodology was reasonable but it was not necessarily indicative of the cost that would have been incurred if Constar had been operated as a standalone entity. Interest rates charged by Crown were based on Crown's external rates. No such charges were made subsequent to the initial public offering at November 22, 2002. Interest rates charged in 2002 were as follows:

	For the Year Ended December 31, 2002
United States	4.1%
United Kingdom	6.0%
Netherlands	4.6%

Income Taxes

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Deferred income taxes are determined using the asset and liability method in accordance with SFAS No. 109, Accounting for Income Taxes. No provision is made for U.S. income taxes on the portion of undistributed earnings of foreign subsidiaries which are deemed to be permanently reinvested in those operations. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Prior to the initial public offering, Constar did not file separate tax returns in each of the various countries in which it operates, except for Turkey. Instead, the taxable income was included in the consolidated tax returns of Crown affiliates in each country. Subsequent to the initial public offering, Constar files separate tax returns and reflects the application of the asset and liability method for computing income taxes. The accompanying Combined and Consolidated Financial Statements through December 31, 2002 reflect tax computations through November 20, 2002 as if Constar filed separate tax returns in each of these jurisdictions and reflect the application of the asset and liability approach for all periods presented. The current tax provision, where applicable, is assumed to have been paid to the consolidated tax group in the period incurred.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock-based compensation**

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. See Note 23 for an additional discussion regarding the Company's stock plans.

The Company did not record compensation expense related to its stock option plan for the years ended December 31, 2004 and 2003 because grants were at 100% of the fair market value on the grant date. If the fair value based method prescribed in SFAS No. 123 Accounting for Stock-Based Compensation, had been applied to stock option grants in 2004, the Company's net loss and basic and diluted net loss per share would have increased as summarized below:

	<u>2004</u>	<u>2003</u>
Net loss		
As reported	\$ (6,820)	\$ (220,549)
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects.	571	142
Deduct: Total stock-based employee compensation expense determined under fair value base method for all awards, net of related tax effects	(721)	(319)
Pro forma	<u>\$ (6,970)</u>	<u>\$ (220,726)</u>
Basic loss per share		
As reported	\$ (0.57)	\$ (18.38)
Pro forma	(0.58)	(18.39)
Diluted loss per share		
As reported	\$ (0.57)	\$ (18.38)
Pro forma	(0.58)	(18.39)

In December 2004, the FASB issued a revised SFAS No. 123. The amended SFAS No. 123 supersedes APB Opinion No. 25 and eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. This statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. In addition, SFAS No. 123 clarifies guidance in several areas including measuring fair value, classifying an award as equity or as a liability, and attributing compensation cost to reporting periods. The provisions of this statement are effective beginning the first interim or annual reporting period that begins after June 15, 2005. The Company does not expect that the initial adoption of this statement will have a material impact on the Company's results of operations or financial position as stock option awards currently outstanding will fully vest soon after the effective date.

Net Loss per share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during each period. Net loss per share assuming dilution considers the potential issuance of common shares under the Company's stock option plan, based on the treasury stock method. The treasury stock method assumes use of exercise proceeds to repurchase common stock at the average fair market value in the period.

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Research and Technology

Research, development and engineering expenditures, which amounted to \$5.7 million, \$5.2 million and \$12.1 million in 2004, 2003 and 2002, respectively, are expensed as incurred and reported in research and technology expenses in the Combined and Consolidated Statements of Operations. Substantially all engineering and development costs are related to developing new products and designing significant improvements to existing products. Prior to the closing of the Company's initial public offering on November 20, 2002, research and technology expenses represented charges from CCK Technologies approximately equal to 1.8% of sales. In return, CCK Technologies provided the Company with access to CCK Technologies' intellectual property related to PET; paid for the Company's direct cost of research, development and engineering activities; provided the Company with legal services for the defense of rights for existing technologies; and provided the Company with support for customer claims resolution, supplier qualifications, spoilage reduction, and product and material specifications. As of November 20, 2002, this arrangement was discontinued and the Company's requirements were thereafter met through Constar employees, by outsourcing with unrelated third-party providers, and a research and development agreement with CCK Technologies. During the third quarter of 2003, the Company ceased outsourcing research and technology to CCK Technologies. See Note 19.

Recent Accounting Pronouncements

In December 2003, the FASB issued a revised version of FIN No. 46, Consolidation of Certain Variable Interest Entities (VIEs), which is an interpretation of Accounting Research Bulletin (ARB) No. 51, Consolidated Financial Statements. FIN No. 46 addresses the application of ARB No. 51 to VIEs, and generally would require that assets, liabilities and results of the activity of a VIE be consolidated into the financial statements of the enterprise that is considered the primary beneficiary. Public companies other than small business issuers must apply the revised FIN No. 46 by the end of the first reporting period beginning after December 15, 2003 (March 31, 2004 for calendar-year-end companies) to all entities that are not special purpose entities. The Company analyzed certain leasing arrangements with Crown Holdings, Inc. subsidiaries and concluded that the adoption of this standard had no impact on the Company's results of operations or financial position.

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. FAS 106-2 provides guidance on accounting for the effects of the new Medicare prescription drug legislation by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D. It also contains basic guidance on related income tax accounting, and complex rules for transition that permit various alternative prospective and retroactive approaches. For all public and non-public companies that sponsor one or more plans with more than 100 participants, FAS 106-2 was effective as of the first interim or annual period beginning after June 15, 2004 (third quarter 2004 for the Company). Based upon the review of the Company's prescription drug plan under the currently issued regulations, the Company concluded that its current plan is not actuarially equivalent to the benefits provided under Medicare Part D. As such the Company's prescription drug plan will not qualify for the federal subsidy and will not require any change in accounting to conform to the requirements of FAS 106-2.

In December 2004, the FASB issued a revised SFAS No. 123, Accounting for Stock Based Compensation. The amended SFAS No. 123 supersedes APB Opinion No. 25, Accounting for Stock Issued to Employers and eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS 123 as originally issued. This statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. In addition, SFAS 123 clarifies

guidance in several areas including measuring fair value, classifying an award as

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

equity or as a liability, and attributing compensation cost to reporting periods. The provisions of this statement are effective beginning the first interim or annual reporting period that begins after June 15, 2005. The Company does not expect that the initial adoption of this statement will have a material impact on the Company's results of operations or financial position as stock option awards currently outstanding will fully vest soon after the effective date.

In December 2004, the FASB issued SFAS No. 151, *Inventory Costs*. SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material. This statement requires that these items be recognized as current period charges regardless of whether they meet the criterion of so abnormal. In addition, this statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect that the adoption of this statement will have a material impact on the Company's results of operations or financial position.

In October of 2004, the American Job Creation Act of 2004 (AJCA) was signed into law. The AJCA allows companies to repatriate earnings from foreign subsidiaries at a reduced U.S. tax rate. Constar has evaluated the new §965 elements of the act and as a result of the Company's Net Operating Loss (NOL) carry forward and expectations to continue to generate NOL's into the foreseeable future, Constar does not expect to repatriate any foreign dividends in accordance with the AJCA. Constar evaluated the impact of the Qualified Domestic Production Deduction provision (§199 elements) of the AJCA and believes the 2005 impact will be immaterial. Constar will continue to evaluate the provisions of the AJCA and its impact on the Company on a going forward basis.

4. Accounts Receivable

	December 31,	
	2004	2003
Trade and note receivables	\$ 72,720	\$ 64,215
Less: allowance for doubtful accounts	(2,396)	(2,970)
Net trade receivables	70,324	61,245
Value added taxes recoverable	5,958	4,429
Miscellaneous receivables	1,140	383
	\$ 77,422	\$ 66,057

5. Inventories

	December 31,	
	2004	2003
Finished goods	\$ 68,366	\$ 48,346
Raw materials and supplies	35,583	34,022
	<u>\$ 103,949</u>	<u>\$ 82,368</u>

The inventory balance has been reduced by reserves for obsolete and slow-moving inventories of \$447 and \$918 as of December 31, 2004 and 2003, respectively.

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	December 31,	
	2004	2003
Buildings and improvements	\$ 70,167	\$ 70,208
Machinery and equipment	649,774	628,940
Less: accumulated depreciation and amortization	(536,182)	(493,751)
	183,759	205,397
Land and improvements	4,047	3,928
Construction in progress	6,706	14,600
	\$ 194,512	\$ 223,925

The Company did not capitalize any interest costs during 2004. However, during 2003, the Company capitalized approximately \$1.5 million of interest costs.

7. Goodwill

Effective January 1, 2002, Constar adopted the provisions of SFAS No. 142, which required companies to cease amortizing goodwill and certain intangible assets deemed to have an indefinite useful life. Instead, SFAS No. 142 requires that goodwill and intangible assets deemed to have an indefinite useful life be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. Under SFAS No. 142, goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. On an annual basis, or more frequently if facts and circumstances indicate that goodwill may be impaired, the Company performs an impairment review by comparing the fair value of a reporting unit, including goodwill, to its carrying value. The impairment review involves a number of assumptions and judgments including the identification of the appropriate reporting units and the calculation of fair value. The Company uses the market value of its common stock plus a control premium to calculate fair value.

Historically, Constar's operations were reported through Crown's Americas and Europe reporting segments. However, the operations within Europe and the U.S. are similar in the nature of their products, production processes, the types of classes of customers for products and the methods used to distribute products. Accordingly, Constar has only one reporting segment but has identified the following reporting units as of January 1, 2002: United States and Europe. In connection with Constar's transitional impairment review, recorded goodwill was determined to be impaired in the European reporting unit. During the second quarter of 2002, Constar completed its transitional impairment review of identified reporting units and recognized an impairment charge of approximately \$50 million as a cumulative effect of a change in accounting principle as

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of January 1, 2002. Subsequent to the Company's initial public offering in November 2002 and as of December 31, 2002, the Company identified that it had only one reporting unit.

Due to the trading price of the Company's common stock, operating results that reflect lower volumes of domestic conventional product sales, increased handling and shuttling costs and other factors, the Company determined that a goodwill impairment existed at June 30, 2003. Based on a preliminary assessment, the Company recognized an estimated impairment charge of \$183 million in the second quarter of 2003. The fair value of the Company was determined by quoted market prices of the Company's common stock plus a control premium. In accordance with SFAS No. 142, the Company performed a detailed analysis of the fair value of the Company's assets and liabilities, including obtaining appraisals for fixed assets and intangibles, during the third quarter of 2003. Based on the results of that analysis, the Company was not required to make any adjustments to the estimated impairment charge of \$183 million as recorded during the second quarter ended June 30, 2003. In 2004, the Company completed its annual test and based on that test, there was no impairment of goodwill.

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A reconciliation of goodwill is presented below:

Balance as of December 31, 2001	\$ 381,872
Fiscal 2002 impairment	(50,059)
	<hr/>
Balance as of December 31, 2002	331,813
Fiscal 2003 impairment	(183,000)
	<hr/>
Balance as of December 31, 2003 and 2004	\$ 148,813
	<hr/>

8. Other Assets

	December 31,	
	2004	2003
	<hr/>	<hr/>
Cash surrender value of life insurance	\$ 1,521	\$ 1,480
Deferred underwriter fees	11,403	12,974
Prepaid contract fees	3,498	5,333
Customer tooling	4,729	4,070
Pension intangible	1,203	1,302
Other	63	977
	<hr/>	<hr/>
	\$ 22,417	\$ 26,136
	<hr/>	<hr/>

The pension intangible at December 31, 2004 and December 31, 2003 was recognized in accordance with SFAS No. 87, Employers Accounting for Pensions. In accordance with that standard, an additional minimum pension liability was recognized to the extent of the unfunded accumulated benefit obligation, and an intangible asset of \$1,203 and \$1,302 at December 31, 2004 and December 31, 2003 respectively was recognized to the extent of the unrecognized prior service cost. The deferred underwriter fees related to Constar's Senior Secured Credit Agreements, Senior Subordinated Notes and the Second Lien Loan are being amortized over the remaining terms of the respective agreements. During fiscal 2003, the Company completed its appraisals of machinery and equipment purchased in connection with the acquisition of machinery and equipment as discussed in Note 25. The Company had originally allocated approximately \$2.1 million of the purchase price to a ten year supply agreement. The final allocation of the \$4 million purchase price resulted in the entire balance being applied to the manufacturing assets.

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In connection with certain customer sales agreements, the Company purchases tooling specific to that customer's products and the Company is reimbursed for these costs as product is sold to the customer. These assets are owned by the customer but the contracts stipulate that the Company will be fully reimbursed upon termination of the agreement.

During fiscal 2003, the Company made certain payments to customers in connection with obtaining or extending long term contracts. The Company amortizes these fees over the term of the agreement.

In connection with the placement of the additional second lien term loan in December 2003 discussed in Note 10, there was a permanent reduction in the amounts available under the Company's seven year term loan and the revolving credit facility. As a result of these permanent reductions, the Company charged to expense a pro-rata share of the deferred financing costs related to these two facilities of approximately \$0.7 million during fiscal 2003. See Note 10 and Note 26 for a discussion regarding a refinancing that occurred during February 2005 which resulted in the write-off of certain deferred financing costs reflected in the Company's balance sheet as of December 31, 2004. In connection with that transaction the Company incurred additional costs and expenses that will be capitalized and amortized over the lives of the new facilities.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Accrued Liabilities**

	December 31,	
	2004	2003
Salaries, wages and other employee benefits	\$ 13,494	\$ 13,060
Accrued value added taxes	4,816	3,818
Interest	1,709	1,823
Pension	7,570	2,000
Restructuring	2,342	4,697
Environmental	180	198
Other accrued taxes	1,814	1,889
Postretirement	455	800
Other	5,588	6,716
	<u>\$ 37,968</u>	<u>\$ 35,001</u>

The balance in the environmental accrual represents costs which are expected to be incurred by the Company's Netherlands plant as discussed in Note 22.

10. Senior Subordinated Notes and Credit Facilities

Debt	December 31,	
	2004	2003
Short-term		
Revolver	\$ 17,000	\$
Term B Loan	1,248	1,248
Other	1,540	
Total Short-term debt	<u>\$ 19,788</u>	<u>\$ 1,248</u>
Long-term		
Revolver	\$	\$ 25,000
Term B Loan	120,693	121,940

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Senior Subordinated Notes	175,000	175,000
Unamortized debt discount	(2,056)	(2,317)
Second Lien Term Loan	75,000	75,000
Other		1,547
	<hr/>	<hr/>
Total Long-term debt, net of current portion	\$ 368,637	\$ 396,170
	<hr/>	<hr/>

Senior Secured Credit Agreement. Concurrent with the initial public offering of common stock and the issuance of \$175 million senior subordinate notes, the Company entered into a Senior Secured Credit Agreement. The Senior Secured Credit Agreement consisted of a \$150 million seven-year term loan (Term B Loan) and a \$100 million five-year revolving loan (Revolver Loan) facility. The Term B Loan had an interest rate of LIBOR plus 450 basis points with a 200 basis point LIBOR minimum. The Revolver Loan had an interest rate of LIBOR plus 375 basis points with a 200 basis point LIBOR minimum. On December 23, 2003, in consideration for the payment of fees and expenses of approximately \$5.0 million, the Company obtained a \$75 million Second Lien Term Loan due December 23, 2010 (Second Lien Loan). The Second Lien Loan had an interest rate of LIBOR plus 800 basis points. The net proceeds from the Second Lien Loan were used to prepay \$25 million of

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Term B Loan with the remainder used to pay down the Revolver Loan. The pay down of the Term B Loan resulted in a permanent \$25 million reduction in the amounts available under that facility. In addition, the total amount available under the Revolver Loan was reduced from \$100 million to \$90 million. See Note 26 regarding the February 2005 refinancing that resulted in the repayment of all amounts outstanding under the Revolver Loan, Term B Loan and Second Lien Loan.

At December 31, 2004, there was \$122.0 million outstanding on the Term B Loan, \$75.0 million outstanding on the Second Lien Loan, \$17.0 million outstanding on the Revolver Loan and \$5.2 million outstanding under letters of credit. In addition, the Company had \$9.3 million of cash and cash equivalents on hand as well as \$67.8 million of availability under the Revolver Loan.

The Term B Loan required annual principal payments of approximately \$1.3 million until final payment was due in November 2009. No other principal repayments were scheduled for the other loans until their respective maturity dates.

The Senior Secured Credit Agreement contained customary affirmative and negative covenants, including certain covenants requiring the Company to maintain Senior Leverage, Total Leverage, Interest Expense Coverage and Fixed Charge Leverage ratios. In addition, the Company's Senior Secured Credit Agreement limited the Company's ability to make capital expenditures.

In connection with obtaining the Second Lien Loan, the following financial covenants and financial covenant levels were amended from September 30, 2003 through June 30, 2005: (i) Minimum EBITDA; (ii) Maximum Senior Leverage; (iii) Minimum Interest Coverage; and (iv) Maximum Capital Expenditures. The Total Leverage and Fixed Charge Leverage ratios were eliminated until September 30, 2005. After June 30, 2005, Constar's financial covenant levels will be the same as originally set forth in the Senior Secured Credit Agreement. These covenants for the period after June 30, 2005, were based on the Company's forecasted profitability and business plan as of the initial public offering in November 2002. The Company was in compliance with all covenants at December 31, 2004.

As discussed further in Note 26, on February 11, 2005, the Company completed a refinancing which consisted of the sale of \$220 million of Senior Secured Floating Rate Notes due 2012 (Senior Notes) and entered into a new four year \$70 million Senior Secured Asset Based Revolving Credit Facility (Credit Agreement). The proceeds, net of expenses, from the refinancing were used to repay amounts outstanding under the Revolver Loan, Term B Loan and Second Lien Loan. In connection with the repayment and termination of these facilities, the Company incurred approximately \$3.5 million of prepayment penalties which will be charged to expenses in 2005. The Company completed its February 11, 2005 refinancing in part because it would not have been in compliance in 2005 with certain financial covenants included in the Revolver Loan, Term B Loan and Second Lien Loan. As a result of this February 11, 2005 refinancing, the Company has extended its debt maturities, reduced its effective interest costs and created less restrictive financial covenants. The Company's previously issued Notes were not refinanced.

The Senior Notes bear interest at the rate of LIBOR plus 3.375% per year. Interest on the notes will be reset quarterly. Interest on the Senior Notes will be payable quarterly on each February 15, May 15, August 15 and November 15, commencing on May 15, 2005. The Senior Notes will mature on February 15, 2012. The Company may redeem some or all of the Senior Notes at any time on or after February 15, 2007, under

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the circumstances and at the prices described in the indenture governing the Senior Notes, described below. In addition, prior to February 15, 2007, the Company may also redeem up to 35% of the Senior Notes with the net proceeds of certain equity offerings. If the Company experiences a change of control, holders of the Senior Notes may require the Company to repurchase the Senior Notes.

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Credit Agreement consists of a \$70.0 million four-year revolving loan facility, \$25.0 million of which is available to provide for the issuance of letters of credit. The Credit Agreement also includes a \$15.0 million swing loan subfacility. The obligations under the Credit Agreement are guaranteed by each of the Company's existing and future domestic and United Kingdom subsidiaries (subject to certain exceptions). Borrowings under the Credit Agreement are limited to the lesser of (i) \$70 million or (ii) a borrowing base comprised of the sum of (i) up to 85% of the Company's and its domestic subsidiaries' eligible trade accounts receivable, (ii) up to 80% of eligible trade accounts receivable of Constar International U.K. Limited, (iii) the lesser of (A) up to 85% of the net orderly liquidation value of the Company's and its domestic subsidiaries' eligible inventory and (B) up to 75% of the Company's and its domestic subsidiaries' eligible inventory (valued at the lower of cost on a first-in, first-out basis and market), and (iv) the lesser of (A) up to 80% of the net orderly liquidation value of eligible inventory of Constar International U.K. Limited and (B) up to 70% of eligible inventory of Constar International U.K. Limited (valued at the lower of cost on a first-in, first-out basis and market), less in the case of both receivables and inventory discretionary eligibility reserves. In addition, the administrative agent under the revolving loan facility may impose discretionary reserves against the entire revolving loan facility. As of March 29, 2005, the Company's borrowing base was approximately \$89.1 million.

The Company will pay monthly a commitment fee equal to 0.5% per year on the undrawn portion of the revolving loan facility. The Company also will pay fees on any letters of credit outstanding under the Credit Agreement. The revolving loan facility will initially bear interest at a rate equal to LIBOR plus 2.25%, and after the delivery of financial statements for the fiscal quarter ending June 30, 2005, LIBOR plus a margin ranging from 2.00% to 2.50% depending on average monthly available credit under the revolving loan facility, or alternatively at Citibank's base rate plus a margin ranging from 1.00% to 1.50%.

Under the Credit Agreement, the Company pledged as collateral all of the capital stock of its domestic and United Kingdom subsidiaries and 65% of the voting stock of its other foreign subsidiaries, and all of the inventory, accounts receivable, investment property, instruments, chattel paper, documents, deposit accounts and certain intangibles of its domestic and United Kingdom subsidiaries.

The Credit Agreement also provides that the Company may request up to a \$30.0 million increase in the size of the facility. The lenders are not obligated to grant such increase, and even if it is obtained, our ability to borrow the increased amount will be subject to various conditions contained in the Credit Agreement and the indentures governing the Senior Notes and Notes.

The Credit Agreement contains customary affirmative, financial and negative covenants relating to the Company's operations and its financial condition. The financial covenants require the Company to maintain a minimum level of available credit of \$10.0 million and a minimum interest coverage ratio to be tested only when available credit is less than \$15.0 million, and imposes maximum capital expenditures.

Constar's ability to make capital expenditures is limited by the financial covenants contained in its new Credit Agreement. These financial covenants impose maximum capital expenditures of \$45.0 million in 2005, \$42.5 million in 2006, \$47.5 million in 2007 and \$47.5 million in 2008. These covenants allow for the carry forward of a certain amount of spending below covenant levels in previous periods. In order to satisfy significant business awards, including those relating to conversions from other forms of packaging, the Company may need to purchase additional equipment. To the extent such purchases would cause the Company to exceed the capital expenditure restrictions of the new Credit Agreement, the Company would have to obtain the lenders' consent before making such purchases. There can be no assurances that the lenders would grant any such consent.

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Senior Subordinated Notes. On November 20, 2002, the Company completed its public offering of \$175 million aggregate principal amount of 11% Senior Subordinated Notes due 2012 (Notes). The Notes were issued at 98.51% of face value and will mature on December 1, 2012. Interest on the Notes is payable semi-annually on each December 1 and June 1.

The Company may not redeem the Notes prior to December 1, 2007. The Company may redeem the Notes, at its option, in whole at any time or in part from time to time, on and after December 1, 2007, at the following redemption prices, expressed as percentages of the principal amount thereof, if redeemed during the twelve-month period commencing on December 1 of any year set forth below:

Year	Percentage
2007	105.5%
2008	103.7%
2009	101.8%
2010 and 2011	100.0%

At any time, or from time to time, on or prior to December 1, 2005, the Company may, at its option, use the net cash proceeds of one or more Equity Offerings to redeem in the aggregate up to 35% of the aggregate principal amount of the Notes issued up to that time at a redemption price equal to 111% of the principal amount thereof; provided, that: (1) after giving effect to any such redemption at least 65% of the aggregate principal amount of the Notes issued up to that time remains outstanding; and (2) the Company shall make such redemption not more than 90 days after the consummation of such Equity Offering.

Guarantees. All of the existing and future U.S. subsidiaries of the Company that guarantee the Senior Secured Credit Agreement will guarantee the payment of the principal, premium and interest on the Notes on an unsecured senior subordinated basis.

11. Restructuring and Asset Impairments

In September 2003, the Company announced its plans to implement a cost reduction initiative under which it closed two facilities in Birmingham, Alabama and Reserve, Louisiana. Under the plan, approximately 130 positions were eliminated at the affected facilities and certain production assets at these locations were to be relocated to other manufacturing facilities. As a result of this initiative, the Company recognized restructuring provisions of approximately \$4.9 million and non-cash asset impairment charges of approximately \$6.7 million during 2003, primarily related to adjusting the assets to salvage value. The restructuring provisions consisted of approximately \$1.3 million for severance and termination benefits for both facilities and approximately \$3.6 million for contract and lease termination costs. During 2004, the Company recognized an additional \$1.1 million restructuring charge to account for the change in expected lease costs relating to the Birmingham facility. A summary of the 2003 initiative is presented below:

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	Contract and Lease Termination Costs	Severance and Termination Benefits	Total
Charges to income	\$ 3,574	\$ 1,285	\$ 4,859
Payments	(273)	(936)	(1,209)
Balance at December 31, 2003	3,301	349	3,650
Charges to income	1,085	10	1,095
Payments	(1,805)	(349)	(2,154)
Balance at December 31, 2004	\$ 2,581	\$ 10	\$ 2,591

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The balance in the restructuring reserves at December 31, 2004 represent the expected severance costs, lease costs and other exit costs from certain operations closed in 2003 and will be paid over the next two years. The short-term portion of the restructuring balance, which is expected to be paid in 2005 is \$1,279 and is reported in Accrued Liabilities on the Combined and Consolidated Balance Sheets. The expected payment for 2006 is \$1,314 and is reported in Other Liabilities on the Combined and Consolidated Balance Sheets.

In 2002, the U.S. operations recorded a charge through selling and administrative expenses of \$941. This was related to the excess of expected lease costs over the related sublease income for certain operations closed in 1997. At December 31, 2004 and 2003, the balance for the 1997 restructuring reserve was \$1,063 and \$1,717, respectively. The Company expects that all payments pertaining to this initiative will be paid out in 2005.

12. Income Taxes

Pre-tax income/(loss) was generated under the following jurisdictions:

	Year Ended December 31,		
	2004	2003	2002
U.S.	\$ (1,409)	\$ (235,305)	\$ 27,558
Europe	(1,992)	3,487	(2,599)
	<u>\$ (3,401)</u>	<u>\$ (231,818)</u>	<u>\$ 24,959</u>

The benefit (provision) for income taxes consists of the following:

	Year Ended December 31,		
	2004	2003	2002
Current tax (provision) benefit:			
U.S.	\$ (250)	\$ 653	\$ (15,193)
Europe	(420)	(1,366)	(247)

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	(670)	(713)	(15,440)
Deferred tax (provision) benefit:			
U.S.	(3,453)	12,106	5,146
Europe	706	(31)	124
	(2,747)	12,075	5,270
Total benefit (provision) for income taxes	\$ (3,417)	\$ 11,362	\$ (10,170)

The provision for income taxes differs from the amount of income tax determined by applying the applicable U.S. federal statutory tax rate of 35% to pre-tax income/(loss) as a result of the following differences:

	Year Ended December 31,		
	2004	2003	2002
Pre-tax income/(loss) at 35%	\$ 1,190	\$ 81,136	\$ (8,736)
Non-U.S. operations at different rates	20	(24)	(210)
Goodwill impairment		(64,050)	
Foreign exchange gains	(102)	(195)	(620)
Valuation allowance	(4,674)	(5,383)	(135)
Other, net	149	(122)	(469)
Benefit (provision) for income taxes	\$ (3,417)	\$ 11,362	\$ (10,170)

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Constar paid income taxes of \$1,767, \$416 and \$12,307 in 2004, 2003 and 2002, respectively. Income taxes paid in 2002 include amounts paid through Crown in accordance with the tax sharing agreement.

The components of deferred tax assets and (liabilities) were:

	December 31,	
	2004	2003
Current deferred tax assets:		
Employee benefits	\$ 6,304	\$ 3,663
Restructuring reserves	819	1,809
Other operating accruals	1,223	1,283
Net current deferred tax asset	8,346	6,755
Long-term deferred tax assets (liabilities):		
Property, plant and equipment	(22,463)	(24,382)
Net operating loss carryforwards	14,425	15,022
Employee benefits	5,942	4,019
Valuation allowance	(10,192)	(5,518)
Restructuring	459	(85)
Net long-term deferred tax liability	(11,829)	(10,944)
Net deferred tax liability	\$ (3,483)	\$ (4,189)

During 2004, the Company recorded an additional valuation allowance of approximately \$4.6 million to cover the increase in deferred tax assets. During 2003, the Company recorded a valuation allowance of approximately \$5.5 million to cover a portion of the net operating loss generated during fiscal 2003. The majority of the Company's federal tax net operating losses will expire in 2018. The Company also has net operating losses of up to \$36 million in various states. The Company does not currently anticipate realizing deferred tax assets to the extent the assets exceed deferred tax liabilities.

13. Pension and Postretirement Benefits

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Substantially all of the U.S. salaried and hourly personnel participate in a defined benefit pension plan. The benefits under this plan for salaried employees are based primarily on years of service and remuneration near retirement. The benefits for hourly employees are based primarily on years of service and a fixed monthly multiplier. Plan assets consist principally of common stocks and fixed income securities.

In the U.S., the Company sponsors unfunded plans to provide health care and life insurance benefits to pensioners and survivors. Generally, the medical plans pay a stated percentage of medical expenses reduced by deductibles and other coverage. Life insurance benefits are generally provided by insurance contracts. The Company reserves the right, subject to existing agreements, to change, modify or discontinue the plans.

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NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A measurement date of December 31 was used for all plans presented below.

The components of the pension and postretirement benefit expense/(income) for the U.S. plans were as follows:

	2004		2003		2002	
	Post-		Post-		Post-	
	Pension	retirement	Pension	retirement	Pension	retirement
Service cost	\$ 1,742	\$	\$ 1,772	\$ 43	\$ 1,374	\$ 266
Interest cost	4,083	508	3,649	657	5,242	801
Expected return on plan assets	(4,323)		(3,790)		(4,724)	
Recognized actuarial loss	3,003	943	2,005	647	2,506	469
Recognized prior service cost	153	(194)	159		164	(288)
Curtailment			145			
Special termination benefits			22			
Total pension and postretirement expense	\$ 4,658	\$ 1,257	\$ 3,962	\$ 1,347	\$ 4,562	\$ 1,248

Changes in the benefit obligation for Constar U.S.:

	2004		2003	
	Post-		Post-	
	Pension	retirement	Pension	retirement
Benefit obligation at January 1	\$ 61,288	\$ 7,261	\$ 54,475	\$ 10,314
Service cost	1,742		1,772	43
Interest cost	4,083	508	3,649	657
Amendments				(3,497)
Actuarial (gain)/loss	12,816	(54)	3,507	555
Special termination benefits			22	
Benefits paid	(2,971)	(420)	(2,137)	(811)
Projected benefit obligation at December 31	\$ 76,958	\$ 7,295	\$ 61,288	\$ 7,261

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Accumulated benefit obligation at December 31	\$ 72,960	\$ 57,939
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Changes in pension plan assets for Constar U.S.:

	2004	2003
	<u> </u>	<u> </u>
Plan assets at January 1	\$ 52,022	\$ 45,875
Actual returns on plan assets	4,630	5,900
Employer contributions	1,069	2,384
Benefits paid	(2,971)	(2,137)
	<u> </u>	<u> </u>
Plan assets at December 31	\$ 54,750	\$ 52,022
	<u> </u>	<u> </u>

Reconciliation of funded status for Constar U.S.:

	2004		2003	
	<u> </u>		<u> </u>	
	Post-		Post-	
	Pension	retirement	Pension	retirement
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Plan assets less than benefit obligation	\$ (22,208)	\$ (7,295)	\$ (9,266)	\$ (7,261)
Unrecognized actuarial loss	42,845	4,611	33,295	5,607
Unrecognized prior service cost	1,225	(3,303)	1,302	(3,497)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net amount recognized	\$ 21,862	\$ (5,987)	\$ 25,331	\$ (5,150)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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U.S. Plan Assets	Target Allocation	Percentage of Plan Assets at December 31,	
		2004	2003
Equity Securities	45%-70%	61%	62%
Debt Securities	30%-50%	36%	36%
Other	0%-10%	3%	2%
Total		100%	100%

The expected long-term rates of return are determined at each measurement date based on a review of the actual plan assets and the historical returns of the capital markets adjusted for certain interest rates as appropriate. Equity securities are expected to return 10% to 11% over the long-term, while debt securities are expected to return between 4% and 7%. The Company expects that the Plan's asset manager will provide a modest (0.5% to 1.0% per annum) premium to the respective market benchmark indices.

The Company's investment policy is to provide for growth of capital with a moderate level of volatility by investing in assets per the target allocation stated above. The asset allocation and the investment policy are reviewed semi-annually to determine if changes are necessary.

Constar estimates that its expected contributions to the U.S pension and postretirement plans for the 2005 fiscal year will aggregate \$8.0 million.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the fiscal year(s) ending:

	Pension	Post
		Retirement
(a) 2005	\$ 3,136	\$ 455
(b) 2006	\$ 3,132	\$ 461
(c) 2007	\$ 3,204	\$ 434
(d) 2008	\$ 3,382	\$ 439
(e) 2009	\$ 3,530	\$ 461
(f) 2010-2014	\$ 21,885	\$ 2,589

Employees of the U.K. operation may participate in a contributory pension plan with a benefit based on years of service and final salary. Participants contribute 5% of their salary each year and the U.K. operation contributes the balance, which is currently approximately 8% of salary. The assets of the plan are held in a trust and are primarily invested in equity securities.

The components of pension expense for the U.K. plan were:

	Years Ended December 31,		
	2004	2003	2002
Service cost	\$ 373	\$ 194	\$ 200
Interest cost	413	364	280
Expected return on plan assets	(370)	(287)	(274)
Recognized loss	74	78	44
Total pension expense	\$ 490	\$ 349	\$ 250

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in the benefit obligation for the U.K. pension plan were:

	December 31,	
	2004	2003
Benefit obligation at January 1	\$ 6,335	\$ 4,680
Service cost	373	194
Interest cost	413	364
Actuarial loss	1,092	438
Participant contributions	128	98
Benefits paid	(55)	(16)
Foreign currency rate changes	577	577
Projected benefit obligation at December 31	\$ 8,863	\$ 6,335
Accumulated benefit obligation at December 31	\$ 6,559	\$ 4,687

Changes in the plan assets for the U.K. pension plan were:

	December 31,	
	2004	2003
Plan assets at January 1	\$ 3,983	\$ 2,589
Actual returns on plan assets	428	635
Employer contributions	437	318
Participant contributions	128	98
Benefits paid	(55)	(16)
Foreign currency rate changes	350	359
Plan assets at December 31	5,271	3,983
Plan assets less than benefit obligation	(3,592)	(2,352)
Unrecognized actuarial loss	3,372	2,206
Net amount recognized as non-current asset (liability)	\$ (220)	\$ (146)

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U.K. Plan Assets	Target	Percentage of Plan Assets	
	Allocation	at December 31,	
	2005	2004	2003
Equity Securities	N/A	86%	86%
Debt Securities	N/A	12%	12%
Other	N/A	2%	2%
Total		100%	100%

Equity securities are expected to return 8% to 9% over the long-term, while debt securities are expected to return between 4.5% and 6.5%. The Company expects that the Plan's asset manager will provide a modest (0.5% to 1.0% per annum) premium to the respective market benchmark indices.

The investment policy is to maintain a balanced but pro-equity approach to maximize the long term return on the plan's assets while paying proper attention to the liability profile, funding requirements and investment risks. The Company annually reviews its agreement to ensure that the investments held are suitable for the plan and are appropriately diversified.

Constar estimates that its expected contributions to the U.K pension plan for the 2005 fiscal year will aggregate \$0.5 million.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the plan for the fiscal year(s) ending:

(a) 2005	\$ 59
(b) 2006	\$ 62
(c) 2007	\$ 64
(d) 2008	\$ 67
(e) 2009	\$ 69
(f) 2010-2014	\$ 390

Employees in the Netherlands operation are entitled to a retirement benefit based on years of service and final salary. The plan is financed via participating annuity contracts and the values of the participation rights approximate the unfunded service obligation based on future compensation increases. Premiums are expensed as incurred and were \$476, \$437 and \$198 in 2004, 2003 and 2002, respectively.

The components of pension expense for the Netherlands plan were:

	Year Ended December 31, 2004
Service cost	\$ 473
Interest cost	81
Expected return on plan assets	(80)
Total pension expense	\$ 474

Changes in the benefit obligation for the Netherlands pension plan were:

	December 31, 2004
Benefit obligation at January 1	\$
Service cost	473
Interest cost	81
Actuarial loss	401
Participant contributions	120

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Benefits paid	(620)
Acquisition/Other	1,455
Foreign currency rate changes	169
	<hr/>
Projected benefit obligation at December 31	\$ 2,079
	<hr/>
Accumulated benefit obligation at December 31	\$

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in the plan assets for the Netherlands pension plan were:

	December 31, 2004
Plan assets at January 1	\$
Actual returns on plan assets	45
Employer contributions	467
Participant contributions	120
Acquisition/Other	1,455
Benefits paid	(620)
Foreign currency rate changes	130
Plan assets at December 31	1,597
Plan assets less than benefit obligation	(482)
Unrecognized actuarial loss	474
Net amount recognized as non-current asset (liability)	\$ (8)

	Target	
	Allocation	Percentage of Plan Assets
Netherlands Plan Assets	2005	at December 31, 2004
Other	100%	100%
Total	100%	100%

The Netherlands plan is funded via an insurance contract. The expected long-term rate reflects the Company's estimate of the annual return that will be awarded by the insurance company in respect of the participation right inherent in the contract.

Constar estimates that its expected contributions to the Netherlands pension plan for the 2005 fiscal year will aggregate \$0.5 million.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the fiscal year(s) ending:

(a) 2005	\$ 702
(b) 2006	\$ 730
(c) 2007	\$ 760
(d) 2008	\$ 790
(e) 2009	\$ 822
(f) 2010-2014	\$ 4,621

Consolidated amounts recognized in the balance sheet consist of:

	Years Ended December 31,			
	2004		2003	
	Pension	Post-retirement	Pension	Post-retirement
Current liability	\$ (7,570)	(455)	\$ (2,000)	\$ (800)
Non-current liability	(11,935)	(5,540)	(3,917)	(4,350)
Intangible asset	1,203		1,302	
Minimum pension included in Stockholders' Equity	39,936		29,946	
Net amount recognized	\$ 21,634	\$ (5,995)	\$ 25,331	\$ (5,150)

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tax effects of minimum pension liabilities of \$13,924 in 2004 and \$10,481 in 2003 were also included as a component of accumulated other comprehensive loss.

The weighted average actuarial assumptions for the plans were as follows:

	2004	2003	2002
	—	—	—
U.S.			
Discount rate	5.75%	6.25%	6.75%
Compensation increase	3.00%	3.00%	3.00%
Long-term rate of return	8.50%	8.50%	9.50%
U.K.			
Discount rate	5.25%	6.25%	7.25%
Compensation increase	4.00%	5.50%	5.50%
Long-term rate of return	8.50%	8.50%	9.50%
Netherlands			
Discount rate	4.50%	N/A	N/A
Compensation increase	3.50%	N/A	N/A
Long-term rate of return	5.50%	N/A	N/A

The health care accumulated postretirement benefit obligation was determined at December 31, 2004 and 2003 using a health care cost trend rate of 7.0% for both years, decreasing to 4.9% over eight years for both 2004 and 2003. The discount rate was 5.75% for December 31, 2004 and 6.75% for December 2003 and 2002. This plan was closed to new participants as of December 31, 2002. Only employees as of that date that met certain employment experience and were of a certain age will be allowed to receive benefits under this plan at time of retirement. Changing the assumed health care cost trend by one percentage point would change the accumulated postretirement benefit obligation by approximately \$883 and the total of service and interest cost by approximately \$60. A 1.0% change in the expected rate of return on plan assets would have changed 2004 U.S. pension expense by approximately \$508. A 0.5% change in the discount rate would have changed 2004 U.S. pension expense by approximately \$526 and 2004 postretirement expense by approximately \$60.

Prior to November 21, 2002, Crown sponsored a Savings and Investment Plan and an Employee Stock Purchase Plan that covered substantially all U.S. employees. Since November 21, 2002, Constar has maintained its own like plans. The Company's contributions to the Savings Investment Plan were \$994, \$874 and \$302 in 2004, 2003 and 2002, respectively.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was signed into law. The Act expands Medicare, primarily by adding a prescription drug benefit for Medicare-eligibles starting in 2006. The Act provides employers currently sponsoring prescription drug programs for Medicare-eligibles with a range of options for coordinating with the new government-sponsored program potentially to reduce program cost. These options include supplementing the government program on a secondary payor basis or

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accepting a direct subsidy from the government to support a portion of the cost of the employer's program.

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. FAS 106-2 provides guidance on accounting for the effects of the new Medicare prescription drug legislation by employers whose prescription drug benefits are actuarially equivalent to the drug benefit under Medicare Part D.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

It also contains basic guidance on related income tax accounting, and complex rules for transition that permit various alternative prospective and retroactive approaches. For all public and non-public companies that sponsor one or more plans with more than 100 participants, FAS 106-2 was effective as of the first interim or annual period beginning after June 15, 2004 (third quarter 2004 for the Company). Based upon the review of the Company's prescription drug plan under the currently issued regulations, the Company concluded that its current plan is not actuarially equivalent to the benefits provided under Medicare Part D. As such the Company's prescription drug plan will not qualify for the federal subsidy and will not require any change in accounting to conform to the requirements of FAS 106-2.

14. Other Liabilities

	December 31,	
	2004	2003
Postemployment benefits	\$ 1,991	\$ 2,142
Restructuring	1,312	1,167
Asset retirement obligation	691	628
Accrued rent	2,193	74
Other	400	1,556
	\$ 6,587	\$ 5,567

Postemployment benefits consist primarily of disability and severance benefits for U.S. personnel. Accrued rent consists primarily of the additional expense recognized for operating leases on a straight-line basis over the lease term.

15. Capital Stock

As of December 31, 2004 and 2003, the Company's authorized capital stock consists of 75 million shares of common stock, par value \$.01 per share, and 5 million shares of preferred stock, par value \$.01. During 2002, the Company issued 15 thousand shares of restricted common stock to certain executives, increasing the number of issued and outstanding shares of common stock to 12.015 million at December 31, 2002. Shares outstanding for all periods presented reflect a 120,000 for one stock split that the Company effected on November 4, 2002.

During 2003, the Company granted 360,000 shares of restricted stock to certain officers and 7,000 shares of restricted stock to the non-employee directors of the Company, of which 1,500 shares were forfeited, in 2003, and 667 shares were forfeited in 2004. One third of the shares granted to non-employee directors will vest on each of the first three anniversaries of the grant date. With respect to the grants made to officers, 20% of

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the shares will vest on each anniversary of the grant date, provided that no more than 25% of the shares will vest until Constar stock achieves a \$7.00 price target and no more than 55% of the shares will vest until Constar stock achieves a \$12.00 price target. In addition, each grant may vest more rapidly than at the rate of 20% per year if the Company's stock reaches certain price targets. If Constar stock achieves price targets of \$7.00, \$12.00, and \$15.00, then 25%, 55%, and 100% of the shares, respectively, would immediately vest. Seven years after the grant date or upon an earlier change of control of the Company, any unvested shares will vest.

During February 2004, an additional 118,000 shares of restricted stock were issued to employees, of which 10,001 have been forfeited in connection with termination of employment. No executive officers of the Company received shares in connection with this grant. One-third of the shares vest on each of the first three anniversaries of the grant date.

In April 2004, the Company granted 15,000 shares of restricted stock to one officer and 3,500 shares of restricted stock to an employee. During August 2004, the Company granted an additional 158,500 shares of

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

restricted stock to certain other officers. These shares vest in the same manner described above with respect to the 2003 grants, except that the price targets for the officer's grants are set at \$6.00, \$9.00 and \$12.00 instead of \$7.00, \$12.00 and \$15.00. In August 2004, the Company also granted 5,500 shares to non-employee directors of the Company of which 750 shares were forfeited in 2004. These shares vest one-third per year over three years.

During 2004, 77,671 shares of restricted stock were forfeited and another 33,484 shares were surrendered to satisfy federal income tax obligations. The Company applied 75,172 of the forfeited shares to satisfy awards granted in 2004.

On February 17, 2005, the Company issued 55,205 restricted stock units to certain officers in connection with the Company's incentive compensation plan for fiscal 2004. When these units vest on February 17, 2008, they may be paid, at the discretion of the Compensation Committee of the Company's Board of Directors, in (i) cash or (ii) stock. Any payments in stock would be made from shares authorized under the 2002 Stock Based Incentive Compensation Plan.

For the years ended December 31, 2004, 2003 and 2002, the Company recorded an expense of approximately \$879, \$219 and \$7, respectively related to the amortization of the vesting period of these grants.

The holders of the Company's common stock are entitled to one vote per share with respect to each matter on which the holders of our common stock are entitled to vote. Additional shares of the Company's authorized common stock may be issued, as determined by the board of directors of our company from time to time, without approval of holders of the common stock, except as may be required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. The Board of Directors also has the authority to issue up to 5 million shares of preferred stock without approval of the Company's holders of common stock.

There were no shares of preferred stock issued or outstanding at December 31, 2004 or 2003.

16. Lease Commitments

Constar leases certain property, including warehousing facilities that are classified as operating leases and, as such, are not capitalized. Terms of the leases, including purchase options, renewals, maintenance costs and escalation clauses, vary by lease.

The following is a schedule of future minimum lease payments under long-term operating leases:

Year Ending December 31,

2005	\$ 12,089
2006	9,952
2007	6,516
2008	5,716
2009	6,767
Thereafter	20,683
Net minimum lease payments	\$ 61,723

Rental commitments in 2005 have been reduced by minimum sublease rentals of \$30 due in the future under non-cancelable subleases.

Total rental expense was \$11,493, \$10,244 and \$9,217 in 2004, 2003 and 2002, respectively.

Crown is the guarantor or co-obligor of four of Constar's real property leases, which have total expected future rent payments of approximately \$2.6 million.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****17. Other Expense (Income):**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Bad debt expense	\$ 228	\$ 2,198	\$ 660
Property, plant and equipment net write offs	385	2,469	
Legal settlement	(25,100)		
Royalty income, net	(1,278)	(158)	
Restricted stock compensation expense	879	219	
Other	(62)	(299)	(110)
	<u>\$ (24,948)</u>	<u>\$ 4,429</u>	<u>\$ 550</u>

On November 1, 2004, Constar settled its Oxbar® patent infringement action against Continental PET Technologies, Inc. and received \$25.1 million proceeds as discussed in Note 22.

18. Earnings Per Share

The following table summarizes the basic and diluted earnings per share computations for 2004, 2003 and 2002:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net income before cumulative effect of a change in accounting	\$ (6,820)	\$ (220,549)	\$ 14,671
Cumulative effect of a change in accounting			(50,059)
Net income/(loss)	<u>\$ (6,820)</u>	<u>\$ (220,549)</u>	<u>\$ (35,388)</u>
Weighted average shares	12,028	12,000	12,002
Basic and diluted EPS	\$ (0.57)	\$ (18.38)	\$ (2.95)

Basic EPS excludes all potentially dilutive securities and is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS includes the assumed exercise and conversion of potentially dilutive securities, including stock options and preferred stock, in periods when they are not anti-dilutive; otherwise, it is the same as basic EPS.

Basic and diluted EPS are the same for the twelve months ended December 31, 2004, 2003 and 2002. Common shares contingently issuable upon the exercise of outstanding stock options amounted to 181,676 and restricted shares outstanding amounted to 467,075 for 2004. Since the exercise prices of the then outstanding options were above the average market price for the related period, these shares and the restricted shares were excluded from the computation of earnings per share because the impact of their inclusion would be anti-dilutive.

19. Related Party Transactions

Concurrently with the completion of the Company's initial public offering, the Company entered into lease agreements with Crown for its Philadelphia headquarters, a research facility in Alsip, Illinois, and a warehouse facility in Belcamp, Maryland. For the years ended December 31, 2004, 2003 and 2002, the Company paid Crown \$1,477, \$1,422 and \$123, respectively, under these lease agreements. The current Philadelphia lease agreement expires on December 31, 2005 and the current Alsip lease agreement expires on December 31, 2006. The Belcamp lease is on a month to month basis. In addition, the Company also entered into a transition services agreement with Crown. Under the transition services agreement, Crown provided services that included payroll, systems for accounting reporting, tax, information technology, benefits administration, purchasing and logistics. This agreement expired at the end of 2003 and was extended on similar terms (excluding certain services that Constar no longer purchases from Crown), which has since expired and is being renegotiated. The Company

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

recorded an expense of \$5,159, \$4,864 and \$504 during the years ended December 31, 2004, 2003 and 2002, respectively, related to the transition services agreement and had a \$266 and \$333 payable to Crown at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, one of the Company's subsidiaries, Constar, Inc. and a subsidiary of Crown called Crown Cork & Seal Company (USA), Inc., or Crown USA, entered into the Salt Lake City PET Products Supply and Lease of Related Assets Agreement ("SLC Agreement"). Under the SLC Agreement, Crown USA supplies Constar, Inc. with PET preforms and containers manufactured at Crown USA's facility. The products are manufactured using equipment that Constar, Inc. leases to Crown USA which are maintained at Crown USA's Salt Lake City facility. The SLC Agreement expired on November 19, 2004 but the Company and Crown USA continue to operate under its terms. The Company purchased approximately \$15,888, \$13,977 and \$1,089 of PET preforms and containers from Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company had a net payable to Crown of approximately \$597 and \$362 related to the SLC Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, Constar, Inc. and Crown USA entered into the Newark Component Supply and Lease of Related Assets Agreement ("Newark Agreement"). Under the Newark Agreement, Constar, Inc. supplies Crown USA with rings, bands and closures manufactured at Constar Inc.'s facilities. The products are manufactured using equipment that Crown USA leases to Constar, Inc. and operates at the Company's facilities. The Newark Agreement expired on November 19, 2004 but the Company and Crown USA continue to operate under its terms. The Company sold approximately \$3,811, \$1,613 and \$130 of rings, bands and closures to Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company had a net receivable from Crown of approximately \$585 and \$231 related to the Newark Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, one of the Company's subsidiaries, Constar Plastics of Italy, S.R.L., or Constar Italy, and a subsidiary of Crown called Crown Cork Italy S.p.A., or Crown Italy, entered into the Voghera PET Preform Supply and Lease of Related Assets Agreement ("Voghera Agreement"). Under the Voghera Agreement, Constar Italy supplies Crown Italy with resin and Crown Italy supplies Constar Italy with PET preforms manufactured at Crown Italy's facility. The products are manufactured using equipment that Constar Italy leases to Crown Italy and maintains at Crown Italy's facility. The Voghera Agreement expired on December 31, 2003, and an extension is being negotiated. Net of resin sales, the Company purchased approximately \$3,199, \$1,277 and \$1717 of PET preforms from Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company had approximately a \$15 net receivable due from Crown and approximately a \$3,348 net payable to Crown related to the Voghera Agreement at December 31, 2004 and 2003, respectively.

Concurrently with the completion of the Company's initial public offering, Constar Italy and Crown Faba Sirma S.p.A., or Crown Faba, entered into the Faba Supply Agreement ("Faba Agreement"). Under the Faba Agreement, Crown Faba blows preforms into bottles and sells the bottles to Constar Italy. Constar Italy sells preforms to Crown Faba. The Faba Agreement expired on December 31, 2003 and an extension is being negotiated. The Company purchased approximately \$2,395, \$2,418 and \$275 of bottles from Crown during the years ended December 31, 2004, 2003 and 2002, respectively. The Company sold approximately \$857 and \$1,909 of preforms to Crown during the years ended December 31, 2004 and 2003, respectively. The Company had a net receivable from Crown of approximately \$170 and \$691 related to the Faba Agreement at December 31, 2004 and 2003, respectively.

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Concurrently with the completion of our initial public offering, Crown Cork & Seal Technologies Corporation granted Constar International U.K. Limited a royalty-bearing license to certain closures

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

technologies. For the years ended December 31, 2004, 2003 and 2002, Constar International U.K. Limited paid to Crown Cork & Seal Technologies Corporation approximately £284, £315 and £297, respectively, in royalties under this license and had a net payable to Crown of approximately £68 and £41 related to this license agreement at December 31, 2004 and 2003, respectively.

The Company had a Research and Development agreement with two subsidiaries of Crown, CarnaudMetalbox plc and CCK Technologies, which governed Constar's use of Crown's Research and Development centers in Alsip, Illinois and Wantage, England. CCK Technologies and CarnaudMetalbox guaranteed access to the services of specific employees at their standard rate. During the third quarter of 2003, the Company ceased outsourcing research and technology to CCK Technologies. The Company incurred costs of approximately \$1,071 and \$226 related to the Research and Development Agreement during the years ended December 31, 2003 and 2002, respectively. The Company had a net payable to Crown of approximately \$13 at December 31, 2003 and none at December 31, 2004.

Concurrently with the completion of our initial public offering, the Company entered into a Benefits Allocation Agreement with Crown, under which the Company and Crown allocated responsibility for certain employee benefit liabilities. The Company retained or assumed all liability for compensation and benefits owed to the Company's active or former employees, and assumed sponsorship of the Crown pension plan previously maintained for the Company's hourly employees. The Company also expanded this plan to include the Company's active salaried employees, establish savings and welfare plans for its active employees that are substantially equivalent to plans previously provided by Crown, and assume the stand-alone pension plans in the United Kingdom and Holland, including the corresponding assets and liabilities. As of December 31, 2004, the Company had an under-funded benefit obligation of approximately \$33.6 million under such plans. See Note 13 for Pension and Postretirement disclosures.

Pursuant to the provisions of our Amended and Restated Certificate of Incorporation, legal expenses incurred by certain current and former directors in connection with a putative securities class action lawsuit, as described in Item 3 of this Annual Report on Form 10-K, are being advanced on behalf of those directors by the Company or the relevant insurer. Because the claims are against both the Company and the defendant directors, we cannot determine what portion of those legal expenses would be attributable to the directors rather than the Company. In addition, pursuant to a Corporate Agreement entered into with Crown concurrently with our initial public offering, we have incurred certain indemnification obligations to Crown with respect to this lawsuit.

20. Segment Information

Constar has only one reportable segment. The operations within Europe and the U.S. are similar in the nature of their products, production processes, the types or classes of customers for products and the methods used to distribute products. Historically, Constar's operations were reported through Crown's Americas and Europe reportable segments.

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Net customer sales and long-lived assets for the countries in which Constar operated were:

	Years Ended December 31,					
	Net Customer Sales			Long-lived Assets		
	2004	2003	2002	2004	2003	2002
United States	\$ 621,765	\$ 560,182	\$ 546,085	\$ 146,284	\$ 173,284	\$ 188,982
United Kingdom	120,977	94,497	83,041	31,512	34,294	31,745
Other	97,044	84,978	71,364	16,716	15,538	14,395
	<u>\$ 839,786</u>	<u>\$ 739,657</u>	<u>\$ 700,490</u>	<u>\$ 194,512</u>	<u>\$ 223,116</u>	<u>\$ 235,122</u>

Constar's financial systems do not produce complete financial information on a product line basis.

21. Major Customer Sales

Generally, Constar supplies its customers pursuant to contracts with terms of one year or longer. The Company typically protects itself from fluctuations in the price of PET resin through customer contracts that contain price adjustments based on the price of resin. In 2004, the Company's top five customers accounted for an aggregate of 60% of the Company's sales, while the Company's top ten customers accounted for an aggregate of 75% of the Company's sales.

During the same period, purchases by PepsiCo accounted for an aggregate of 30% of the Company's sales while Coca-Cola accounted for 13%. Other than these two customers, no customer accounted for more than 10% of the Company's sales in 2004.

22. Commitments and Contingencies

On November 1, 2004, Constar settled its Oxbar® patent infringement action against Continental PET Technologies, Inc. Constar was paid \$25.1 million, which was applied to Constar's revolving loan facility. In addition, Constar granted Continental PET Technologies, Inc. and its former parent company, Owens-Illinois, Inc., global licenses to multilayer applications of the Oxbar® patents. Constar also settled the related dispute

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with Chevron Phillips Chemical Company LP. Constar and Rexam have entered into a new license going forward that grants Chevron rights to practice the Oxbar® patents, but not for rigid polyester packages such as PET containers. The original license agreement with Chevron survives only for purposes of a sublicense agreement between Chevron and a third party.

Constar is also one of 42 defendants in a patent infringement action seeking unspecified monetary damages brought on August 3, 1999 by North American Container, Inc. in the U.S. District Court for the Northern District of Texas based on its patent for a certain plastic container base design. The other defendants include many of the principal plastic container manufacturers, various food and beverage companies, and three grocery store chains. On November 28, 2003, the Court granted summary judgment in favor of the defendants. The parties dismissed without prejudice certain remaining unadjudicated claims in order to position the case for appeal to the Federal Circuit Court of Appeals by the plaintiff. On February 24, 2004, judgment was entered in accordance with the November 28, 2003 ruling and an appeal was filed. Briefing in the Federal Circuit was completed December 15, 2004, and argument has been scheduled for April 4, 2005.

The Company and certain of its present and former directors, along with Crown Holdings, Inc., as well as various underwriters, have been named as defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Eastern District of Pennsylvania, In re Constar International, Inc. Securities Litigation (Master File No. 03-CV-05020). This action consolidates previous lawsuits, namely

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Parkside Capital LLC v. Constar International Inc, et al.(Civil Action No. 03-5020), filed on September 5, 2003 and Walter Frejek v. Constar International Inc. et al. (Civil Action No.03-5166), filed on September 15, 2003. The consolidated and amended complaint, filed June 17, 2004, generally alleges that the registration statement and prospectus for the Company's initial public offering of its common stock on November 14, 2002 contained material misrepresentations and/or omissions. Plaintiffs claim that defendants in these lawsuits violated Sections 11 and 15 of the Securities Act of 1933. Plaintiffs seek class action certification and an award of damages and litigation costs and expenses. Under the Company's charter documents, an agreement with Crown and an underwriting agreement with Crown and the underwriters, Constar has incurred certain indemnification and contribution obligations to the other defendants with respect to this lawsuit. The Company believes the claims in the action are without merit and intends to defend against them vigorously.

The Company is a defendant in a lawsuit that was filed in the Ninth Judicial Circuit of Florida on January 9, 2001 by former and current employees of its Orlando, Florida facility seeking unspecified monetary damages. The lawsuit alleges bodily injury as a result of exposure to off-gasses from polyvinyl chloride (PVC) during the manufacture of plastic bottles from 1980-1987. PVC suppliers and a manufacturer of the manufacturing equipment used to process the PVC are also defendants. The litigation is currently in the discovery stage. The Company believes the claims are without merit and is aggressively defending against the claims. A trial with respect to one of the plaintiffs, which had been docketed for the fourth quarter of 2004, has been removed from the court's calendar. A new date has not been scheduled.

The Company is subject to other lawsuits and claims in the normal course of business and related to businesses operated by predecessor corporations. Management believes that the ultimate liabilities resulting from these lawsuits and claims will not materially impact its results of operations or financial position.

Constar has various commitments, totaling \$6.5 million, to complete ongoing capital projects and purchase materials and supplies as part of the continuing conduct of business.

Constar has received requests for information or notifications of potential responsibility from the Environmental Protection Agency, or EPA, and certain state environmental agencies for certain off-site locations. Constar has not incurred any significant costs relating to these matters. Constar has been identified by the Wisconsin Department of Natural Resources as a potentially responsible party at three related sites in Wisconsin and agreed to share in the remediation costs with one other party. Remediation is ongoing at two of these sites and remediation has been completed at the third site. Constar has also been identified as a potentially responsible party at the Bush Valley Landfill site in Abingdon, Maryland and entered into a settlement agreement with the EPA in July 1997. The activities required under that agreement are ongoing. Constar's share of the remediation costs has been minimal thus far and no accrual has been recorded for future remediation at these sites.

The Didam, Netherlands facility has been identified as having impacts to soil and groundwater from volatile organic compounds at concentrations that exceed those permissible under Dutch law. The main body of the groundwater plume is beneath the Didam facility but it also appears to extend from an upgradient neighboring property. Following the results of recent testing, remediation is not required to begin until 2007. The Company records an environmental liability on a undiscounted basis when it is probable that a liability has been incurred and the amount of the liability is reasonably estimable. Constar has recorded an accrual of \$0.2 million for costs associated with completing the required investigations and certain other activities that may be required at the Didam facility. As more information becomes available relating to what additional actions may be required at the site, including potential remediation activities, this accrual may be adjusted, as necessary, to reflect the

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new information. There are no other accruals for environmental matters.

Environmental exposures are difficult to assess for numerous reasons, including the identification of new sites, advances in technology, changes in environmental laws and regulations and their application, the scarcity

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of reliable data pertaining to identified sites, the difficulty in assessing the involvement and financial capability of other potentially responsible parties and the time periods over which site remediation occurs. It is possible that some of these matters, the outcomes of which are subject to various uncertainties, may be decided in a manner unfavorable to Constar. However, management does not believe that any unfavorable decision will have a material adverse effect on our financial position, cash flows or results of operations.

As of December 31, 2004 there were seven letters of credit outstanding under the Senior Secured Credit Agreement with a total outstanding balance of approximately \$5.2 million. These letters of credit are being used as guarantees of insurance obligations, lease security guarantees, a payment guarantee to a vendor and loan obligations of a foreign affiliate.

23. Stock Option Plan

The Company has a stock-based incentive compensation plan (the 2002 Plan) under which employees may be granted deferred stock, restricted stock, stock appreciation rights (SAR) and incentive or non-qualified stock options. The Company also has a plan (the Directors Plan) under which non-employee directors may be granted restricted stock or non-qualified stock options to purchase shares of Common Stock. The 2002 Plan and the Directors Plan, together, are referred to hereafter as the Option Plans.

Options granted are to be issued at prices equal to at least fair market value and expire up to ten years after the grant date in the case of the 2002 Plan and up to five years after the grant date in the case of the Directors Plan. The plan is administered by the Compensation Committee of the Board of Directors, which determines the vesting provisions, the form of payment for shares and all other terms of the options or grants. The maximum number of shares reserved under the 2002 Plan is 850,000 shares. At December 31, 2004, 74,578 shares were available for future grants. The maximum number of shares reserved under the Directors Plan is 25,000. At December 31, 2004, 15,417 shares were available for future grants.

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2003:	214,665	
Granted		\$ 12.00
Exercised		
Forfeited	(32,989)	\$ 12.00
Outstanding at December 31, 2004	181,676	\$ 12.00

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The following table summarizes information about the stock options outstanding under the Option Plans as of December 31, 2004:

Options Outstanding				Options Exercisable	
Range of Exercise Price	Number	Weighted Average Remaining	Weighted Average	Number	Weighted Average
	Outstanding at 12/31/04	Contractual Life	Exercise Price	Exercisable at 12/31/04	Exercise Price
\$12.00	181,676	0.9 years	\$ 12.00	121,105	\$ 12.00

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The fair value of each stock option has been estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2002
Risk-free interest rate	1.21%
Expected life of option (years)	2.5
Expected stock price volatility	50.0%
Expected dividend yield	

During 2003, the Company granted 360,000 shares of restricted stock to certain officers and 7,000 shares of restricted stock to the non-employee directors of the Company, of which 1,500 shares were forfeited in 2003 and 667 shares were forfeited in 2004. One third of the shares granted to non-employee directors will vest on each of the first three anniversaries of the grant date. With respect to the grants made to officers, 20% of the shares will vest on each anniversary of the grant date, provided that no more than 25% of the shares will vest until Constar stock achieves a \$7.00 price target and no more than 55% of the shares will vest until Constar stock achieves a \$12.00 price target. In addition, each grant may vest more rapidly than at the rate of 20% per year if the Company's stock reaches certain price targets. If Constar stock achieves price targets of \$7.00, \$12.00, and \$15.00, then 25%, 55%, and 100% of the shares, respectively, would immediately vest. Seven years after the grant date or upon an earlier change of control of the Company, any unvested shares will vest.

During February 2004, an additional 118,000 shares of restricted stock were issued to employees, of which 10,001 have been forfeited in connection with termination of employment. No executive officers of the Company received shares in connection with this grant. One-third of the shares vest on each of the first three anniversaries of the grant date.

In April 2004, the Company granted 15,000 shares of restricted stock to one officer and 3,500 shares of restricted stock to an employee. During August 2004, the Company granted an additional 158,500 shares of restricted stock to certain other officers. These shares vest in the same manner described above with respect to the 2003 grants, except that the price targets for the officer's grants are set at \$6.00, \$9.00 and \$12.00. In August 2004, the Company also granted 5,500 shares to non-employee directors of the Company of which 750 shares were forfeited in 2004. These shares vest one-third per year over three years.

During 2004, 77,671 shares of restricted stock were forfeited and another 33,484 shares were surrendered to satisfy federal income tax obligations. The Company applied 75,172 of the forfeited shares to satisfy awards granted in 2004.

For the years ended December 31, 2004, 2003 and 2002, the Company recorded an expense of approximately \$879, \$219 and \$7, respectively related to the amortization of the vesting period of these grants.

24. Accumulated Other Comprehensive Loss

As of December 31, accumulated other comprehensive loss consisted of the following, net of tax:

	2004	2003
Minimum pension liability	\$ (26,012)	\$ (19,465)
Cumulative translation adjustment	5,019	1,165
Total	\$ (20,993)	\$ (18,300)

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

25. Acquisition

On September 26, 2003, the Company acquired certain manufacturing assets from Carolina Packaging, Inc. and entered into a ten year supply agreement with privately-held Pepsi bottler Carolina Canners, Inc. (Carolina Canners) for \$4 million. Based on final asset appraisals, the entire purchase price was allocated amongst the machinery and equipment acquired in this transaction. In addition, the Company agreed to purchase on-hand inventory of approximately \$2.2 million, which was used to supply Carolina Canners subsequent to the acquisition.

26. Subsequent Event

On February 11, 2005, the Company completed a refinancing which consisted of the sale of \$220 million of Senior Secured Floating Rate Notes due 2012 and entered into a new four year \$70 million Senior Secured Asset Based Revolving Credit Facility. The proceeds, net of expenses, from the refinancing were used to repay amounts outstanding under the Revolver Loan, Term B Loan and Second Lien Loan. In connection with the repayment and termination of these facilities, the Company incurred approximately \$3.5 million of prepayment penalties. The Company's previously issued \$175 million 11% Senior Subordinated Notes were not refinanced. See Note 10 for additional information related to the new loan facilities.

27. Condensed Combining and Consolidating Financial Information

In connection with the initial public offering of Constar's stock, Constar issued senior subordinated notes that are guaranteed on an unsecured basis by each of Constar's domestic subsidiaries. The guarantor subsidiaries are 100% owned and the guarantees are made on a joint and several basis and are full and unconditional. The following condensed combining and consolidating financial statements are required in accordance with Regulation S-X Rule 3-10:

statements of operations and cash flows for the years ended December 31, 2004, December 31, 2003 and December 31, 2002, and

balance sheets as of December 31, 2004 and December 31, 2003.

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATING BALANCE SHEET

As of December 31, 2004

(in thousands)

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
Assets					
Current assets					
Cash and cash equivalents	\$	\$ 3,369	\$ 5,947	\$	\$ 9,316
Intercompany receivable		44,073		(44,073)	
Accounts receivable, net		50,879	26,543		77,422
Accounts receivable affiliate		585	6,309		6,894
Inventories, net		77,841	26,108		103,949
Prepaid expenses and other current assets		16,278	676		16,954
Total current assets		193,025	65,583	(44,073)	214,535
Property plant and equipment, net		146,284	48,228		194,512
Goodwill		148,813			148,813
Investments	436,756	53,950		(490,706)	
Other assets	11,323	10,712	382		22,417
Total Assets	\$ 448,079	\$ 552,784	\$ 114,193	\$ (534,779)	\$ 580,277
Liabilities and Stockholders' Equity					
Current liabilities					
Short-term debt	\$ 18,248	\$	\$ 1,540	\$	\$ 19,788
Intercompany payable	35,488		8,585	(44,073)	
Accounts payable and accrued liabilities	1,709	83,766	35,943		121,418
Accounts payable affiliate		814	6,173		6,987
Income taxes payable		1,137	135		1,272
Total current liabilities	55,445	85,717	52,376	(44,073)	149,465
Long-term debt, net of current portion	368,637				368,637
Pension and postretirement liabilities		16,173	1,302		17,475
Deferred income taxes		8,026	3,803		11,829
Other liabilities		6,112	475		6,587
Total liabilities	424,082	116,028	57,956	(44,073)	553,993

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Minority interest			2,287		2,287
Stockholders' equity	23,997	436,756	53,950	(490,706)	23,997
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Stockholders' Equity	\$ 448,079	\$ 552,784	\$ 114,193	\$ (534,779)	\$ 580,277
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED CONSOLIDATING BALANCE SHEET****As of December 31, 2003****(in thousands)**

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
Assets					
Current assets					
Cash and cash equivalents	\$	\$ 6,564	\$ 9,914	\$	\$ 16,478
Intercompany receivable	10,606	14,127		(24,733)	
Accounts receivable, net		40,225	25,832		66,057
Accounts receivable affiliate		922			922
Inventories, net		59,143	23,225		82,368
Prepaid expenses and other current assets		12,841	801		13,642
Total current assets	10,606	133,822	59,772	(24,733)	179,467
Property plant and equipment, net		174,093	49,832		223,925
Goodwill		148,813			148,813
Investments	406,271	52,664		(458,935)	
Other assets	12,881	12,280	975		26,136
Total Assets	\$ 429,758	\$ 521,672	\$ 110,579	\$ (483,668)	\$ 578,341
Liabilities and Stockholders' Equity					
Current liabilities					
Short-term debt	\$ 1,248	\$	\$	\$	\$ 1,248
Intercompany payable		10,606	14,127	(24,733)	
Accounts payable and accrued liabilities	2,073	79,516	33,165		114,754
Accounts payable affiliate		4,146			4,146
Income taxes payable	(1,000)	1,823	1,323		2,146
Total current liabilities	2,321	96,091	48,615	(24,733)	122,294
Long-term debt, net of current portion	394,623		1,547		396,170
Pension and postretirement liabilities		8,267			8,267
Deferred income taxes		6,755	4,189		10,944
Other liabilities		4,288	1,279		5,567
Total liabilities	396,944	115,401	55,630	(24,733)	543,242

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Minority interest			2,285		2,285
Stockholders' equity	32,814	406,271	52,664	(458,935)	32,814
Total Liabilities and Stockholders' Equity	\$ 429,758	\$ 521,672	\$ 110,579	\$ (483,668)	\$ 578,341

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the Year ended December 31, 2004

(in thousands)

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
Net sales	\$	\$ 626,161	\$ 218,021	\$	\$ 844,182
Cost of products sold, excluding depreciation		542,021	204,663		746,684
Depreciation		40,318	10,742		51,060
Gross profit		43,822	2,616		46,438
Operating expenses:					
Selling and administrative expenses		24,890	3,217		28,107
Research and technology expenses		4,920	805		5,725
Interest expense, net	39,005		793		39,798
Foreign exchange adjustments		386	(324)		62
Provision for restructuring and asset impairment		1,095			1,095
Other expenses, net		(25,065)	117		(24,948)
Total operating expenses	39,005	6,226	4,608		49,839
Income (loss) before taxes	(39,005)	37,596	(1,992)		(3,401)
Benefit (provision) for income taxes		(3,704)	287		(3,417)
Equity earnings	32,185	(1,707)		(30,478)	
Minority interest			(2)		(2)
Net income (loss)	\$ (6,820)	\$ 32,185	\$ (1,707)	\$ (30,478)	\$ (6,820)

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the Year ended December 31, 2003

(in thousands)

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net sales	\$	\$ 562,815	\$ 179,474	\$	\$ 742,289
Cost of products sold, excluding depreciation		495,560	162,309		657,869
Depreciation		45,982	9,506		55,488
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Gross profit		21,273	7,659		28,932
Operating expenses:					
Selling and administrative expenses		19,878	3,162		23,040
Research and technology expenses		4,536	684		5,220
Write off of deferred financing costs	751				751
Interest expense, net	33,520		701		34,221
Foreign exchange adjustments		(646)	(822)		(1,468)
Provision for restructuring and asset impairment		11,557			11,557
Goodwill impairment loss		183,000			183,000
Other expenses, net		3,982	447		4,429
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total operating expenses	34,271	222,307	4,172		260,750
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (loss) before taxes	(34,271)	(201,034)	3,487		(231,818)
Benefit (provision) for income taxes	12,732	27	(1,397)		11,362
Equity earnings	(199,010)	1,997		197,013	
Minority interest			(93)		(93)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net income (loss)	\$ (220,549)	\$ (199,010)	\$ 1,997	\$ 197,013	\$ (220,549)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINING STATEMENT OF OPERATIONS

For the Year ended December 31, 2002

(in thousands)

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
Net sales	\$	\$ 549,736	\$ 154,592	\$	\$ 704,328
Cost of products sold, excluding depreciation		449,069	140,190		589,259
Depreciation		46,334	9,529		55,863
Gross profit		54,333	4,873		59,206
Operating expenses:					
Selling and administrative expenses		7,812	2,997		10,809
Management charges		2,075	1,573		3,648
Research and technology expenses		9,620	2,509		12,129
Interest expense, net	5,293	1,474	270		7,037
Foreign exchange adjustments		6	68		74
Other expenses, net		496	54		550
Total operating expenses	5,293	21,483	7,471		34,247
Income (loss) before taxes and cumulative effect of change in accounting	(5,293)	32,850	(2,598)		24,959
Provision for income taxes	1,853	(11,899)	(124)		(10,170)
Equity earnings	18,111	(2,840)		(15,271)	
Minority interest			(118)		(118)
Income (loss) before cumulative effect of change in accounting	14,671	18,111	(2,840)	(15,271)	14,671
Cumulative effect of change in accounting	(50,059)	(50,059)	(50,059)	100,118	(50,059)
Net income (loss)	\$ (35,388)	\$ (31,948)	\$ (52,899)	\$ 84,847	\$ (35,388)

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CONSTAR INTERNATIONAL INC.

NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED COMBINING STATEMENT OF CASH FLOWS

For the Year ended December 31, 2004

(in thousands)

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
Cash flows from operating activities					
Net (loss) income	\$ (6,820)	\$ 32,185	\$ (1,707)	(30,478)	\$ (6,820)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization	2,273	40,314	10,746		53,333
Provisions for restructuring and asset impairments		1,095			1,095
Earned compensation on restricted stock		879			879
Write down of fixed assets and property dispositions		713	(103)		610
Deferred income taxes		3,453	(706)		2,747
Equity earnings	(32,185)	1,707		30,478	
Change in assets and liabilities, net:					
Receivables		(10,317)	(4,898)		(15,215)
Inventory		(18,698)	(1,304)		(20,002)
Trade payable related party, net		(3,332)	5,484		2,152
Accounts payable and accrued liabilities	(114)	6,513	(2,836)		3,563
Other, net		3,358	2,393		5,751
Net cash provided by (used in) operating activities	(36,846)	57,870	7,069		28,093
Cash flows from investing activities					
Purchases of property, plant and equipment, net		(14,009)	(8,145)		(22,154)
Proceeds from sale of property, plant and equipment		150	139		289
Net cash used in investing activities		(13,859)	(8,006)		(21,865)
Cash flows from financing activities					
Repayment of Revolver Loan	(120,000)				(120,000)
Proceeds from Revolver Loan	112,000				112,000
Repayment of Term B Loan	(1,248)				(1,248)
Change in outstanding cash overdrafts		(4,614)			(4,614)
Net change in Constar intercompany loans	46,094	(42,592)	(3,502)		
Net cash provided by (used in) financing activities	36,846	(47,206)	(3,502)		(13,862)

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Effect of exchange rate changes on cash and cash equivalents			472		472
Net change in cash and cash equivalents		(3,195)	(3,967)		(7,162)
Cash and cash equivalents at beginning of period		6,564	9,914		16,478
Cash and cash equivalents at end of period	\$	\$ 3,369	\$ 5,947	\$	\$ 9,316

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED COMBINING STATEMENT OF CASH FLOWS****For the Year ended December 31, 2003****(in thousands)**

	Parent	Guarantor	Non-Guarantor	Eliminations	Total Company
Cash flows from operating activities					
Net (loss) income	\$ (220,549)	\$ (199,010)	\$ 1,997	\$ 197,013	\$ (220,549)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Goodwill impairment loss		183,000			183,000
Depreciation and amortization	1,659	46,315	9,517		57,491
Provisions for restructuring and asset impairments		11,557			11,557
Write off of deferred financing costs	751				751
Write off of fixed assets		2,674			2,674
Deferred income taxes		(12,106)	31		(12,075)
Equity earnings	199,010	(1,997)		(197,013)	
Change in assets and liabilities, net:					
Receivables		(1,885)	(6,179)		(8,064)
Inventory		9,770	(3,692)		6,078
Accounts payable and accrued liabilities		8,847	5,465		14,312
Other, net	2,701	(4,471)	(8,416)		(10,186)
Net cash provided by (used in) operating activities	(16,428)	42,694	(1,277)		24,989
Cash flows from investing activities					
Purchases of property, plant and equipment, net		(42,264)	(4,803)		(47,067)
Acquisition of a business		(4,000)			(4,000)
Proceeds from sale of property, plant and equipment		14	113		127
Net cash used in investing activities		(46,250)	(4,690)		(50,940)
Cash flows from financing activities					
Repayment of Revolver Loan	(30,000)				(30,000)
Proceeds from Second Lien Loan	75,000				75,000
Repayment of Term B Loan	(26,437)				(26,437)
Proceeds from other debt			1,547		1,547
Costs associated with debt financing	(4,102)				(4,102)
Change in outstanding cash overdrafts		5,514			5,514
Net change in Constar intercompany loans	1,967	(5,552)	3,585		
Intercompany dividends paid		1,252	(1,252)		

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Minority dividends paid			(1,024)		(1,024)
Net cash provided by (used in) financing activities	16,428	1,214	2,856		20,498
Effect of exchange rate changes on cash and cash equivalents			1,018		1,018
Net change in cash and cash equivalents		(2,342)	(2,093)		(4,435)
Cash and cash equivalents at beginning of period		8,906	12,007		20,913
Cash and cash equivalents at end of period	\$	\$ 6,564	\$ 9,914	\$	\$ 16,478

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****CONDENSED COMBINING STATEMENT OF CASH FLOWS****For the Year ended December 31, 2002****(in thousands)**

	<u>Parent</u>	<u>Guarantor</u>	<u>Non-Guarantor</u>	<u>Eliminations</u>	<u>Total Company</u>
Cash flows from operating activities					
Net (loss) income	\$ (35,388)	\$ (31,948)	\$ (52,899)	\$ 84,847	\$ (35,388)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation and amortization		46,334	9,529		55,863
Deferred income taxes		(5,146)	(124)		(5,270)
Equity earnings	(18,111)	2,840		15,271	
Cumulative effect of a change in accounting	50,059	50,059	50,059	(100,118)	50,059
Change in assets and liabilities, net:					
Receivables		2,331	(1,516)		815
Inventory		(14,983)	445		(14,538)
Trade payable - affiliate, net		1,249			1,249
Accounts payable and accrued liabilities		(1,279)	1,165		(114)
Other, net	2,696	8,936	(1,822)		9,810
Net cash provided by (used in) operating activities	<u>(744)</u>	<u>58,393</u>	<u>4,837</u>	<u></u>	<u>62,486</u>
Cash flows from investing activities					
Purchases of property, plant and equipment, net		(26,103)	(3,860)		(29,963)
Proceeds from sale of property, plant and equipment		367	366		733
Net cash used in investing activities	<u></u>	<u>(25,736)</u>	<u>(3,494)</u>	<u></u>	<u>(29,230)</u>
Cash flows from financing activities					
Net change in long-term balances due to affiliates		(27,298)	(9,406)		(36,704)
Capital contributions			8,701		8,701
Proceeds from issuance of senior subordinated debt	172,392				172,392
Proceeds from Revolver Loan	55,000				55,000
Proceeds from Term B loan	150,000				150,000
Repayment of Term B loan	(375)				(375)
Dividends paid to Crown and its affiliates	(350,000)		(1,673)		(351,673)
Costs associated with initial public offering and debt financing	(13,700)				(13,700)
Change in outstanding cash overdrafts		815			815
Net change in Constar intercompany loans	(12,573)	2,701	9,872		
Minority dividends paid			(1,367)		(1,367)

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Net cash provided by (used in) financing activities	<u>744</u>	<u>(23,782)</u>	<u>6,127</u>	<u>(16,911)</u>
Effect of exchange rate changes on cash and cash equivalents			814	814
Net change in cash and cash equivalents	8,875	8,284	17,159	
Cash and cash equivalents at beginning of period	31	3,723	3,754	
Cash and cash equivalents at end of period	<u>\$ 8,906</u>	<u>\$ 12,007</u>	<u>\$ 20,913</u>	

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****28. Quarterly Data (unaudited)**

		2004			
		First	Second	Third	Fourth
Net sales		\$ 191,738	\$ 226,084	\$ 224,530	\$ 201,830
Gross profit		9,400	13,895	12,953	10,190
Net income (loss)		(8,912)	(3,886)	(5,474)	11,452
Per share data:					
Basic:					
Net income (loss)		\$ (0.74)	\$ (0.32)	\$ (0.45)	\$ 0.95
Diluted:					
Net income (loss)		\$ (0.74)	\$ (0.32)	\$ (0.45)	\$ 0.92
Weighted average shares outstanding	basic	12,000	12,000	12,036	12,017
Weighted average shares outstanding	diluted	12,000	12,000	12,036	12,512
		2003			
		First	Second	Third	Fourth
Net sales		\$ 168,791	\$ 203,434	\$ 198,900	\$ 171,164
Gross profit		12,057	8,509	4,778	3,588
Net loss		(1,831)	(186,978)	(19,617)	(12,123)
Per share data:					
Net loss basic and diluted		\$ (0.15)	\$ (15.58)	\$ (1.63)	\$ (1.01)
Weighted average shares outstanding	basic	12,000	12,000	12,000	12,000
Weighted average shares outstanding	diluted	12,000	12,000	12,000	12,000

1. The fourth quarter of 2004 includes a pre-tax charge of \$1.9 million for operating lease costs related to prior periods.

* The total of the quarterly data does not equal the annual results presented in the Combined and Consolidated Statements of Operations as a result of rounding.

Table of Contents**CONSTAR INTERNATIONAL INC.****NOTES TO COMBINED AND CONSOLIDATED FINANCIAL STATEMENTS (Continued)****29. Fair Value of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments.

Cash and cash equivalents: The carrying amount approximates fair value because of the short maturity of these instruments.

Term B Loan, Revolver Loan and Second Lien Loan: The carrying amount approximates fair value because interest payments are based on floating rates.

Senior Subordinated Notes: Fair value is estimated based on quoted market values of the instruments.

	2004		2003	
	Carrying	Fair	Carrying	Fair
	Amount	Value	Amount	Value
Cash and cash equivalents	9,316	9,316	16,478	16,478
Term B Loan	121,941	121,941	123,188	123,188
Revolver Loan	17,000	17,000	25,000	25,000
Second Lien Loan	75,000	75,000	75,000	75,000
Senior Subordinated Notes	172,944	181,563	172,683	147,875

Table of Contents**Schedule II Valuation and Qualifying Accounts and Reserves**

(dollars in thousands)

Allowances deducted from assets to which they apply:

	Balance at			Balance at
	Beginning			End of Period
	of Period	Additions	Deductions	End of Period
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
For the Year Ended December 31, 2004				
Trade accounts receivable	\$ 2,970	\$ 351	\$ (925)	\$ 2,396
Inventory	918	420	(891)	447
Deferred tax assets	5,518	4,674		10,192
For the Year Ended December 31, 2003				
Trade accounts receivable	941	2,198	(169)	2,970
Inventory	262	1,003	(347)	918
Deferred tax assets	135	5,383		5,518
For the Year Ended December 31, 2002				
Trade accounts receivable	335	660	(54)	941
Inventory	385	746	(869)	262
Deferred tax assets	0	135		135

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The company maintains a system of disclosure controls and procedures for financial reporting to give reasonable assurance that information required to be disclosed in the company's reports submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. These controls and procedures also give reasonable assurance that information required to be disclosed in such reports is accumulated and communicated to management to allow timely decisions regarding required disclosures.

As of December 31, 2004, the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), together with management, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the CEO and CFO concluded that these disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

The company has completed its evaluation of its internal controls versus the standards adopted by the Public Company Accounting Oversight Board (PCAOB) and has concluded that the company's system of internal controls was effective as of December 31, 2004 (see page 41).

Changes in Internal Controls over Financial Reporting

The Company's CEO and CFO, together with management, have evaluated whether any change in the Company's internal control over financial reporting occurred during the fourth quarter of 2004. Based on that evaluation, management concluded that there has been no change in the Company's internal control over financial reporting that occurred during the fourth quarter of 2004 that has materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The Company's management, including the CEO and CFO, does not expect that the Company's Disclosure Controls or its internal control over financial reporting will prevent or detect all errors and fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met. The design of a control system must reflect the fact that there

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are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud within the Company have been detected. These inherent limitations include the realities of faulty judgment in decision making and human error. The design of any system of controls is based in part on certain assumptions about the likelihood of future events; there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or a decreased level of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item is set forth in the Company's Proxy Statement relating to the Company's 2005 Annual Meeting of Stockholders (the "Proxy Statement") in the sections entitled "Election of Directors," "Executive Officers of the Registrant" and "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is set forth in the Company's Proxy Statement in the section entitled "Executive Compensation" and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is set forth in the Company's Proxy Statement in the section entitled "Security Ownership of Certain Beneficial Owners and Management" and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

The information required by this Item is set forth in the Company's Proxy Statement in the section entitled "Certain Relationships and Related Transactions" and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is set forth in the Company's Proxy Statement in the section entitled "Appointment of Independent Auditors" and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

(1) All Financial Statements:

The Financial Statements listed in the Index to Consolidated and Combined Financial Statements Schedules are filed as part of this report (See Part II Item 8).

(2) Financial Statement Schedules:

The Financial Statement Schedules listed in the Index to Consolidated and Combined Financial Statements Schedules are filed as part of this report (See Part II Item 8).

(3) Exhibits:

The following is a list of exhibits filed as part of this annual report on Form 10-K. Where so indicated by footnote, exhibits which were previously filed are incorporated by reference.

- 1.1 Underwriting Agreement, dated November 14, 2002, among Constar International Inc., Crown Cork & Seal Company, Inc. and Salomon Smith Barney Inc., Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc., as representatives of the several Underwriters listed on Schedule I thereto (incorporated by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 1.2 Underwriting Agreement, dated November 15, 2002, among Constar International Inc., Crown Cork & Seal Company, Inc., the Subsidiary Guarantors and Salomon Smith Barney Inc., Deutsche Bank Securities Inc. and J.P. Morgan Securities Inc., as representatives of the several Underwriters listed on Schedule I thereto (incorporated by reference to Exhibit 1.2 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).
- 3.2 Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).
- 4.1 Indenture, dated as of November 20, 2002, between Constar International Inc., the Note Guarantors party thereto and Wells Fargo Bank Minnesota, National Association, as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on November 27, 2002).

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- 4.2 Specimen common stock certificate (incorporated by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).
- 4.3 Specimen of 11% Senior Subordinated Note due 2012 (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).
- 4.4 Indenture, dated as of February 11, 2005 among Constar International Inc., the Note Guarantors party thereto, and the Bank of New York, as Trustee, relating to the Company's Senior Secured Floating Rate Notes due 2012 (incorporated by reference to exhibit 4.1 of the Company's current report on Form 8-K, filed on February 17, 2005)
- 4.5 Supplemental Indenture, dated as of February 11, 2005, among Constar International UK Ltd, Constar International Inc., the Note Guarantors party thereto, and Wells Fargo Bank, National Association, as Trustee, to the Indenture dated as of November 20, 2002, relating to the Companies 11% Senior Subordinated Notes due 2012 (incorporated by reference to Exhibit 4.2 of the Companies Current report on Form 8-K filed on February 17, 2005)

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- 4.6 Registration Rights Agreement, dated as of February 11, 2005 among Constar International Inc., the Guarantors party thereto, and the initial purchasers named therein (incorporated by reference to exhibit 4.3 of the Company's current report on Form 8-K, filed on February 17, 2005)
- 4.7 U. S. Security Agreement, dated as of February 11, 2005 among Constar International Inc., the Domestic Restricted Subsidiaries party thereto, as Grantors, and the Bank of New York, as Trustee (incorporated by reference to exhibit 4.4 of the Company's current report on Form 8-K, filed on February 17, 2005)
- 4.8 Access, Use and Intercreditor Agreement, dated as of February 11, 2005, by and among Citicorp USA Inc., as Administrative Agent for the Revolving Secured Parties (as defined), Citibank N.A., London Branch, as Security Trustee for the Revolving Secured Parties, The Bank of New York, as Trustee, for the First Mortgage Secured Parties, (incorporated by reference to exhibit 4.5 of the Company's current report on Form 8-K, filed on February 17, 2005)
- 4.9 Debenture, dated as of February 11, 2005, between Constar International UK Ltd, as Chargor, and the Bank of New York (acting out of its London office) as Security Trustee (incorporated by reference to exhibit 4.6 of the Company's current report on Form 8-K, filed on February 17, 2005)
- 10.1 Services Agreement, dated as of January 1, 2004, by and between Constar International Inc. and Crown Cork & Seal Company, Inc (incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
- 10.2 Corporate Agreement, dated as of November 20, 2002, by and between Constar International Inc. and Crown Cork & Seal Company, Inc. (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.3 Non-Competition Agreement, dated as of November 20, 2002, by and between Constar International Inc. and Crown Cork & Seal Company, Inc. (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.4 Technical Services Agreement, dated as of November 20, 2002, by and between Constar International Inc. and Crown Cork & Seal Company, Inc. (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.5 Salt Lake City PET Products Supply and Lease of Related Assets Agreement, dated as of November 20, 2002, between Crown Cork & Seal Company (USA), Inc. and Constar, Inc. (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.6 Newark Component Supply and Lease of Related Assets Agreement, dated as of November 20, 2002, between Crown Cork & Seal Company (USA), Inc. and Constar, Inc. (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.7 Registration Rights Agreement, dated as of November 20, 2002, by and between Constar International Inc. and Crown Cork & Seal Company, Inc. (incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.8 Settlement Agreement dated October 31, 2004 between Constar International Inc. and Continental PET Technologies Inc. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 3, 2004)
- 10.9 License and Royalty Sharing Agreement, dated as of November 20, 2002, between Constar International Inc. and Crown Cork & Seal Technologies Corporation (incorporated by reference to Exhibit 10.9 of the Company's Current Report on Form 8-K filed on November 27, 2002).
- 10.10 Benefits Allocation Agreement, dated as of November 20, 2002, by and between Crown Cork & Seal Company, Inc. and Constar International Inc. (incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q filed for the quarter ending June 30, 2004).

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10.11	Voghera PET Preform Supply and Lease of Related Assets Agreement, dated as of November 12, 2002, by and among Crown Cork Italy S.p.A. and Constar Plastics of Italy S.R.L. (incorporated by reference to Exhibit 10.11 of the Company's Current Report on Form 8-K filed on November 27, 2002).
10.12	Faba Supply Agreement, dated as of November 12, 2002, by and among Faba Sirma S.p.A. and Constar Plastics of Italy S.R.L. (incorporated by reference to Exhibit 10.12 of the Company's Current Report on Form 8-K filed on November 27, 2002).
10.13	Tax Sharing and Indemnification Agreement, dated as of November 20, 2002, by and among Crown Cork & Seal Company, Inc. and Constar International Inc. (incorporated by reference to Exhibit 10.13 of the Company's Current Report on Form 8-K filed on November 27, 2002).
10.14	Lease Agreement, dated as of January 1, 2005, by and between Crown Cork & Seal Company Inc. and Constar, Inc.
10.15	Supply Agreement between Constar, Inc. and New Century Beverage Company, dated as of October 17, 2002 (incorporated by reference to Exhibit 10.15 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).
10.15a	Amendment, dated October 6, 2004, to Supply Agreement between Constar, Inc. and New Century Beverage Company dated as of October 17, 2002 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 3, 2004).
10.18	Lease Agreement, dated as of January 1, 2004, by and between Crown Packaging Technology Inc. and Constar, Inc.
10.19	Closures Patent License Agreement between Crown Cork & Seal Technologies Corporation and Constar International UK Limited (incorporated by reference to Exhibit 10.19 of the Company's Current Report on Form 8-K filed on November 27, 2002).
10.19a	Amendment No.1 to License Agreement, dated as of November 10, 2003, between Crown Cork & Seal Corporation and Constar International UK Limited. (incorporated by reference to Exhibit 10.19a filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.20	Amended and Restated Purchase Agreement, dated as of February 3, 2005, among Constar International Inc., Citicorp Global Markets Inc. and, Credit Suisse First Boston LLC (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 9, 2005).
10.21	Constar International Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.21 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).*
10.22	Constar International Inc. Non-Employee Directors' Equity Incentive Plan. (incorporated by reference to Exhibit 10.22 filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003). *
10.23	Constar International Inc. 2002 Stock-Based Incentive Compensation Plan (incorporated by reference to Exhibit 10.23 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).*
10.24	Amended and Restated Executive Employment Agreement, dated as of May 23, 2003, by and between Constar International Inc. and Michael J. Hoffman (incorporated by reference to Exhibit 10.24 of the Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2003).*
10.25	Reserved
10.26	Amended and Restated Executive Employment Agreement, dated as of May 23, 2003, by and between Constar International Inc. and James C.T. Bolton (incorporated by reference to Exhibit 10.26 of the Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2003).*

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10.27	Change of Control Agreement (incorporated by reference to Exhibit 10.27 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).*
10.28	Constar International Inc. Short-Term Incentive Plan (incorporated by reference to Exhibit 10.28 of the Company's Registration Statement on Form S-1 (Reg. No. 333-88878)).*
10.29	Credit Agreement, dated as of February 11, 2005, among Constar International Inc., as Borrower, the Lenders and Issuers party thereto, and Citicorp USA, Inc. as Administrative Agent (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on February 17, 2005).
10.29a	Amendment No. 1, dated as of March 11, 2005, to Credit Agreement dated as of February 11, 2005, among Constar International Inc., as Borrower, the Lenders and Issuers party thereto, and Citigroup USA, Inc. as Administrative Agent (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 18, 2005).
10.30	Pledge and Security Agreement, dated as of February 11, 2005, among Constar International Inc., as a Grantor, each other Grantor from time to time a party thereto, and Citicorp USA, Inc. as Administrative Agent (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on February 17, 2005).
10.31	Security Trust Deed, dated as of February 11, 2005, among Constar International UK Ltd., Citicorp USA, Inc., Citicorp North America, Inc., Citibank, N.A. and Citibank, N.A. London Branch, as Trustee for the Secured Parties (as defined) (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on February 17, 2005).
10.32	Debenture, dated as of February 11, 2005, between Constar International UK Ltd., Citibank, N.A. London Branch, as Trustee (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on February 17, 2005).
10.33	Executive Employment Agreement, dated as of July 21, 2003 by and between Constar International Inc. and David J. Waksman (incorporated by reference to Exhibit 10.37 of the Company's Quarterly Report on Form 10-Q filed for the quarter ended June 30, 2003).*
10.34	Agreement, dated December 1, 2003 between Constar International Inc. and Jerry Hatfield (incorporated by reference to Exhibit 10.38 filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003).*
10.35	Constar International Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.40 filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2003).*
10.36	Constar International Inc. Annual Incentive and Management Stock Purchase Plan (incorporated by reference to Exhibit 10.41 of the Company's Quarterly Report on Form 10-Q filed for the quarter ended March 31, 2004).*
10.37	Executive Employment Agreement, dated as of August 13, 2004 by and between Constar International Inc. and William S. Rymer (incorporated by reference to Exhibit 10.42 of the Company's Quarterly Report on Form 10-Q filed for the quarter ended September 30, 2004).*
10.38	Description of 2005 base salaries and target bonus levels for named Executive Officers (incorporated by reference to Item 1.01 of the Company's Current Report on Form 8-K/1A filed on March 10, 2005).*
21.1	Subsidiaries of Constar International Inc.
23.1	Consent of PricewaterhouseCoopers LLP.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

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- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Executive Vice President and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 14(c) of this Report.
Confidential treatment granted.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

Constar International Inc.

Dated: March 31, 2005

By: /s/ WILLIAM S. RYMER

William S. Rymer

Executive Vice President and

Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ MICHAEL J. HOFFMAN</u> Michael J. Hoffman	President, Chief Executive Officer and Director (principal executive officer)	March 31, 2005
<u>/s/ WILLIAM S. RYMER</u> William S. Rymer	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	March 31, 2005
<u>/s/ JAMES A. LEWIS</u> James A. Lewis	Director	March 31, 2005
<u>/s/ WILLIAM G. LITTLE</u> William G. Little	Director	March 31, 2005
<u>/s/ FRANK J. MECHURA</u> Frank J. Mechura	Director	March 31, 2005
<u>/s/ JOHN P. NEAFSEY</u> John P. Neafsey	Director	March 31, 2005
<u>/s/ ANGUS F. SMITH</u>	Director	March 31, 2005

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Angus F. Smith

/s/ A. ALEXANDER TAYLOR II

Director

March 31, 2005

A. Alexander Taylor II