SEALED AIR CORP/DE
Form 10-Q
August 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from to

Commission file number 1-12139

SEALED AIR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**65-0654331** (I.R.S. Employer Identification Number)
200 Riverfront Boulevard **Elmwood Park, New Jersey** (Address of Principal Executive Offices)	**07407** (Zip Code)

Registrant s Telephone Number, including Area Code: **(201) 791-7600**

Park 80 East

Saddle Brook, New Jersey 07663-5291

(Former Name or Former Address, If Changed Since Last Report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

There were 81,072,516 shares of the registrant s common stock, par value $0.10 per share, issued and outstanding as of July 31, 2006.

SEALED AIR CORPORATION AND SUBSIDIARIES
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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

SEALED AIR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In millions of dollars, except for per share data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	**2005**	**2006**	**2005**
Net sales	$ 1,081.9	$ 1,020.0	$ 2,101.0	$ 1,989.7
Cost of sales	774.6	724.1	1,510.1	1,416.3
Gross profit	307.3	295.9	590.9	573.4
Marketing, administrative and development expenses	176.4	169.5	343.7	328.8
Restructuring charges	12.0	0.2	12.3	1.2
Operating profit	118.9	126.2	234.9	243.4
Interest expense	(39.0)	(38.0)	(77.4)	(74.8)
Other income, net	5.1	5.8	9.5	9.0
Earnings before income tax expense	85.0	94.0	167.0	177.6
Income tax expense	27.2	31.3	53.4	59.0
Net earnings	$ 57.8	$ 62.7	$ 113.6	$ 118.6
Earnings per common share:				
Basic	$ 0.71	$ 0.75	$ 1.39	$ 1.42
Diluted	$ 0.62	$ 0.66	$ 1.21	$ 1.24

See accompanying Notes to Condensed Consolidated Financial Statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2006 and DECEMBER 31, 2005
(In millions of dollars, except share data)
(Unaudited)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 531.0	$ 455.8
Short-term investments available-for-sale securities	47.8	44.1
Accounts receivable, net of allowances for doubtful accounts of $17.5 in 2006 and $16.6 in 2005	673.3	674.0
Inventories	440.2	409.1
Other current assets	121.7	112.4
Total current assets	1,814.0	1,695.4
Property and equipment:		
Land and improvements	33.6	32.8
Buildings	505.1	508.6
Machinery and equipment	1,993.9	1,917.7
Other property and equipment	128.6	126.9
Construction-in-progress	87.4	66.7
	2,748.6	2,652.7
Accumulated depreciation and amortization	(1,824.0)	(1,741.5)
Property and equipment, net	924.6	911.2
Goodwill	1,946.8	1,908.8
Other assets	345.6	348.8
Total Assets	$ 5,031.0	$ 4,864.2

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SEALED AIR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
JUNE 30, 2006 and DECEMBER 31, 2005
(In millions of dollars, except share data)
(Unaudited)

	June 30, 2006	December 31, 2005
LIABILITIES & SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 16.3	$ 21.8
Current portion of long-term debt	255.2	241.4
Accounts payable	257.6	250.3
Asbestos settlement liability	512.5	512.5
Other current liabilities	450.7	434.1
Income taxes payable	65.5	73.4
Total current liabilities	1,557.8	1,533.5
Long-term debt, less current portion	1,832.4	1,813.0
Other liabilities	134.7	125.6
Total Liabilities	3,524.9	3,472.1
Commitments and Contingencies (Note 12)		
Shareholders equity:		
Preferred stock, $0.10 par value per share. Authorized 50,000,000 shares; no shares issued in 2006 and 2005		
Common stock, $0.10 par value per share. Authorized 400,000,000 shares; issued 86,313,157 shares in 2006 and 86,142,741 shares in 2005	8.6	8.6
Common stock reserved for issuance related to asbestos settlement, 9,000,000 shares, $0.10 par value per share in 2006 and 2005	0.9	0.9
Additional paid-in capital	1,066.2	1,075.5
Retained earnings	804.1	715.1
Deferred compensation		(17.8)
	1,879.8	1,782.3
Minimum pension liability, net of taxes	(5.3)	(5.3)
Cumulative translation adjustment	(145.8)	(169.7)
Unrecognized gain on derivative instruments, net of taxes	7.3	6.8
Accumulated other comprehensive loss	(143.8)	(168.2)
Cost of treasury common stock, 4,846,883 shares in 2006 and 4,691,086 shares in 2005	(229.9)	(222.0)
Total Shareholders Equity	1,506.1	1,392.1
Total Liabilities and Shareholders Equity	$ 5,031.0	$ 4,864.2

See accompanying Notes to Condensed Consolidated Financial Statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In millions of dollars)
(Unaudited)

	2006	2005
Cash flows from operating activities:		
Net earnings	$ 113.6	$ 118.6
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	84.3	88.0
Amortization of senior debt related items and other	1.5	1.6
Deferred tax provisions	(1.4)	(1.4)
Net gain on disposals of property and equipment	(2.2)	(1.1)
Changes in operating assets and liabilities, net of businesses acquired:		
Accounts receivable	18.3	(3.4)
Inventories	(26.7)	(46.0)
Other current assets	(5.3)	(0.9)
Other assets	5.1	2.7
Accounts payable	(2.3)	35.5
Income taxes payable	(8.0)	(18.4)
Other current liabilities	7.1	(11.3)
Other liabilities	0.9	(3.5)
Net cash provided by operating activities	184.9	160.4
Cash flows from investing activities:		
Capital expenditures for property and equipment	(68.2)	(41.3)
Purchases of available-for-sale securities	(169.4)	(133.2)
Sale of available-for-sale securities	165.7	187.3
Proceeds from sales of property and equipment	8.1	2.0
Businesses acquired in purchase transactions, net of cash acquired	(41.2)	(0.2)
Net cash (used in) provided by investing activities	(105.0)	14.6
Cash flows from financing activities:		
Proceeds from long-term debt	21.3	
Payment of long-term debt	(10.0)	(2.0)
Payment of senior debt issuance costs		(0.7)
Repurchases of common stock	(6.7)	(36.7)
Dividends paid on common stock	(24.4)	
Proceeds from stock option exercises	1.9	0.6
Net (payments of) proceeds from short-term borrowings	(6.1)	5.1
Net cash used in financing activities	(24.0)	(33.7)
Effect of exchange rate changes on cash and cash equivalents	19.3	(44.2)
Cash and cash equivalents:		
Net change during the period	75.2	97.1
Balance, beginning of period	455.8	358.0
Balance, end of period	$ 531.0	$ 455.1
Supplemental Cash Flow Items:		
Interest payments, net of amounts capitalized	$ 51.2	$ 49.7
Income tax payments	$ 61.8	$ 73.9

See accompanying Notes to Condensed Consolidated Financial Statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(In millions of dollars)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Net earnings	$ 57.8	$ 62.7	$ 113.6	$ 118.6
Other comprehensive income (loss):				
Unrecognized income (loss) on derivative instruments, net of income tax expense (benefit) of $0.2 and $0.2 for the three and six months ended June 30, 2006, and $(0.1) and $(0.2) for the three and six months ended June 30, 2005, respectively	0.5	(0.2)	0.5	(0.5)
Foreign currency translation adjustments	27.5	(33.5)	23.9	(64.3)
Comprehensive income	$ 85.8	$ 29.0	$ 138.0	$ 53.8

See accompanying Notes to Condensed Consolidated Financial Statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in tables in millions of dollars, except share and per share data)
(Unaudited)

(1) Basis of Consolidation

The condensed consolidated financial statements include the accounts of Sealed Air Corporation and its subsidiaries, or the Company. All significant intercompany transactions and balances have been eliminated in consolidation. In management s opinion, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the condensed consolidated balance sheet as of June 30, 2006 and the condensed consolidated statements of operations for the three and six months ended June 30, 2006 and 2005 have been made. The results set forth in the condensed consolidated statements of operations for the three and six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year. All amounts are approximate due to rounding. Where appropriate, prior period amounts have been reclassified to conform to the current year s presentation.

The condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission, or the SEC, for interim reporting. As permitted under those rules, annual footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted.

The Company is responsible for the unaudited condensed consolidated financial statements included in this document. As these are condensed financial statements, they should be read in conjunction with the consolidated financial statements and notes included in the Company s latest Annual Report on Form 10-K and with the information contained in the Company s other publicly-available filings with the SEC.

(2) Business Segment Information

	For the Three Months Ended June 30,		**For the Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
Net sales				
Food Packaging	$ 681.2	$ 634.6	$ 1,306.8	$ 1,229.5
Protective Packaging	400.7	385.4	794.2	760.2
Total	$ 1,081.9	$ 1,020.0	$ 2,101.0	$ 1,989.7
Operating profit				
Food Packaging	$ 77.4	$ 83.1	$ 142.0	$ 159.0
Protective Packaging	53.7	43.4	105.5	86.0
Total segments	$ 131.1	$ 126.5	$ 247.5	$ 245.0
Restructuring charges(1)	(12.0)	(0.2)	(12.3)	(1.2)
Unallocated corporate operating expenses	(0.2)	(0.1)	(0.3)	(0.4)
Total	$ 118.9	$ 126.2	$ 234.9	$ 243.4
Depreciation and amortization				
Food Packaging	$ 29.8	$ 29.0	$ 57.8	$ 58.1
Protective Packaging	13.1	14.8	26.5	29.9
Total	$ 42.9	$ 43.8	$ 84.3	$ 88.0

(1) The three and six months ended June 30, 2006 include charges of $12.0 million and $12.3 million, respectively, related to Food Packaging and no charges related to Protective Packaging. The three and

SEALED AIR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in tables in millions of dollars, except share and per share data)
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six months ended June 30, 2005 include charges of $0.1 million and $0.5 million, respectively, related to Food Packaging and charges of $0.1 million and $0.7 million, respectively, related to Protective Packaging.

In accordance with Statement of Financial Accounting Standards, or SFAS, No. 131, Disclosures about Segments of an Enterprise and Related Information, and because the Company s management views goodwill as a corporate asset, the Company has allocated all of its goodwill to the corporate level rather than to the individual segments. However, in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, the Company has allocated goodwill to each reportable segment in order to perform its annual impairment review of goodwill, which it does during the fourth quarter of each year. The allocation of goodwill in accordance with SFAS No. 142 as of June 30, 2006 was as follows:

	Balance at Beginning of Period	Goodwill Acquired	Foreign Currency Translation	Balance at End of Period
Food Packaging	$ 540.4	$ 33.5	$ 4.2	$ 578.1
Protective Packaging	1,368.4		0.3	1,368.7
Total	$ 1,908.8	$ 33.5	$ 4.5	$ 1,946.8

See Note 16, Acquisitions, for additional information on the goodwill acquired during 2006.

(3) Short-Term Investments Available-for-Sale Securities

At June 30, 2006 and December 31, 2005, the Company s available-for-sale securities consisted of auction rate securities for which interest or dividend rates are generally re-set for periods of up to 90 days. At June 30, 2006, the Company held $47.8 million of auction rate securities which were investments in preferred stock with no maturity dates. At December 31, 2005, the Company held $44.1 million of auction rate securities, of which $34.7 million were investments in preferred stock with no maturity dates and $9.4 million were investments in other auction rate securities with contractual maturities in 2031.

At June 30, 2006 and December 31, 2005, the fair value of the available-for-sale securities held by the Company was equal to their cost. There were no gross realized gains or losses from the sale of available-for-sale securities in 2006 and 2005.

(4) Accounts Receivable Securitization

The Company s $125 million receivables program has an expiration date of December 7, 2007. The receivables program contains financial covenants relating to interest coverage and debt leverage. The Company was in compliance with these ratios at June 30, 2006.

The Company s receivables funding subsidiary did not sell any receivables interests under the receivables program during the first six months of 2006 and 2005, and neither the bank nor the issuer of commercial paper that are parties to the program held any receivables interests in such receivables as of June 30, 2006 and 2005. Therefore the Company did not remove any related amounts from the assets reflected on its condensed consolidated balance sheet at June 30, 2006.

The costs associated with the receivables program are reflected in other income, net, in the Company s condensed consolidated statements of operations for the three and six months ended June 30, 2006 and 2005. These costs primarily relate to program and commitment fees and other associated costs,

SEALED AIR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in tables in millions of dollars, except share and per share data)
(Unaudited)

which were $0.1 million for the three months ended June 30, 2006 and 2005, and $0.2 million for the six months ended June 30, 2006 and 2005.

(5) Inventories

	June 30, 2006	December 31, 2005
Inventories (at FIFO, which approximates replacement value):		
Raw materials	$ 107.5	$ 97.9
Work in process	99.3	90.1
Finished goods	269.3	256.7
Subtotal	476.1	444.7
Reduction of certain inventories to LIFO basis	(35.9)	(35.6)
Total	$ 440.2	$ 409.1

The Company determines the value of non-equipment U.S. inventories by the last-in, first-out or LIFO inventory method. The value of U.S. inventories determined by that method amounted to $136.7 million and $139.2 million at June 30, 2006 and December 31, 2005, respectively. If the Company had used the first-in, first-out or FIFO inventory method, which approximates replacement value, for these inventories, the balances would have been $35.9 million and $35.6 million higher at June 30, 2006 and December 31, 2005, respectively.

(6) Goodwill and Identifiable Intangible Assets

Goodwill

At June 30, 2006 and December 31, 2005, the Company had unamortized goodwill in the amount of $1,946.8 million and $1,908.8 million, respectively. See Note 2, Business Segment Information, for the allocation of goodwill by business segment.

Identifiable Intangible Assets

At June 30, 2006 and December 31, 2005, the Company had identifiable intangible assets with definite useful lives with a gross carrying value of $36.9 million and $59.4 million, respectively, less accumulated amortization of $26.1 million and $47.9 million, respectively. These identifiable intangible assets are included in other assets and are considered immaterial to the Company s condensed consolidated balance sheets. Amortization of identifiable intangible assets was approximately $2.1 million for the six months ended June 30, 2006. Assuming no change in the gross carrying value of identifiable intangible assets from the value at June 30, 2006, the estimated amortization for future periods is as follows: remainder of 2006 $1.9 million, 2007 $3.1million, 2008 $2.1 million, 2009 $1.3 million; and 2010 $0.5 million. At June 30, 2006 and December 31, 2005, there were no identifiable intangible assets other than goodwill with indefinite useful lives as defined by SFAS No. 142.

SEALED AIR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in tables in millions of dollars, except share and per share data)
(Unaudited)

(7) Debt and Credit Facilities

Lines of Credit

Revolving Credit Facilities

The Credit Facility The Company has not borrowed under its $500 million unsecured multi-currency revolving credit facility since its inception. This facility contains a provision under which the Company may request, prior to each of the first and second anniversaries of the facility, a one-year extension of the termination of the facility. The Company requested an extension effective on the first anniversary, July 26, 2006, and lenders with commitments for $457 million under the facility consented to the extension. Accordingly, on July 26, 2006 this extension became effective, as a result of which $43 million of the facility will terminate on July 26, 2010 and $457 million of the facility will terminate on July 26, 2011.

ANZ Facility The Company has an Australian dollar 170 million, dual-currency revolving credit facility, known as the ANZ facility, equivalent to U.S. $124.5 million at June 30, 2006. The amount outstanding under this facility at June 30, 2006 was U.S. $11 million compared with no amount outstanding at December 31, 2005.

Other Lines of Credit

The following table summarizes the Company s available lines of credit and committed and uncommitted lines of credit, including the credit lines discussed above, at June 30, 2006 and December 31, 2005:

	June 30, 2006	December 31, 2005
Used lines of credit	$ 37.4	$ 27.2
Unused lines of credit	775.7	797.6
Total available lines of credit	$ 813.1	$ 824.8
Available lines of credit committed	$ 634.6	$ 624.7
Available lines of credit uncommitted	178.5	200.1
Total available lines of credit	$ 813.1	$ 824.8

The Company s principal credit lines were all committed and consisted of the credit facility and the ANZ facility. The Company is not subject to any material compensating balance requirements in connection with its lines of credit.

Covenants

Each issue of the Company s outstanding senior notes imposes limitations on the Company s operations and those of specified subsidiaries. The principal limitations restrict liens, sale and leaseback transactions and mergers, acquisitions and dispositions. The Company s euro notes imposed similar limitations prior to the Company s retirement of the euro notes on July 19, 2006. The credit facility contains financial covenants relating to interest coverage, debt leverage and minimum liquidity and restrictions on the creation of liens, the incurrence of additional indebtedness, acquisitions, mergers and consolidations, asset sales, and amendments to the asbestos settlement agreement discussed in Note 12, Commitments and Contingencies. The ANZ facility contains financial covenants relating to debt

SEALED AIR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in tables in millions of dollars, except share and per share data)
(Unaudited)

leverage, interest coverage and tangible net worth and restrictions on the creation of liens, the incurrence of additional indebtedness and asset sales, in each case relating to the Australian and New Zealand subsidiaries of the Company that are borrowers under the facility. The Company was in compliance with the above financial covenants and limitations, as applicable, at June 30, 2006.

Senior Notes

During the six months ended June 30, 2006, the Company recorded adjustments to the fair value of its 5.375% senior notes due April 2008 as a result of the Company s interest rate hedging related to these senior notes. See Note 8, Derivatives and Hedging Activities.

5.625% Euro Notes

Included in the current portion of long-term debt at June 30, 2006 and December 31, 2005 are the 5.625% euro notes with a face value of 200 million, equivalent to U.S. $251.8 million at June 30, 2006. The 5.625% euro notes were classified as a current liability on the Company s condensed consolidated balance sheet at June 30, 2006 since the notes matured on July 19, 2006. The Company used available cash of $251.7 million to retire this debt when it matured. The carrying value of the 5.625% euro notes at June 30, 2006 and December 31, 2005 was $251.8 million and $238.1 million, respectively. The carrying value of the 5.625% euro notes increased $13.5 million during 2006 as a result of the strengthening of the euro compared with the U.S. dollar since December 31, 2005. Interest on the 5.625% euro notes was payable annually in arrears, with the final payment of $14.2 million made upon maturity of the euro notes.

(8) Derivatives and Hedging Activities

Foreign Currency Forward Contracts

The Company is exposed to market risk, such as fluctuations in foreign currency exchange rates. The Company s subsidiaries have foreign currency exchange exposure from buying and selling in currencies other than their functional currencies. The primary purpose of the Company s foreign currency hedging activities is to manage the potential changes in value associated with the amounts receivable or payable on transactions denominated in foreign currencies. At June 30, 2006 and December 31, 2005, the Company was party to foreign currency forward contracts with an aggregate notional amount of $475.1 million maturing through December 2006 and $309.3 million maturing through September 2006, respectively. The estimated fair values of these contracts, which represent the estimated net payments that would be paid or received by the Company in the event of termination of these contracts based on the then current foreign exchange rates, was a net receivable of $2.4 million at June 30, 2006 and a net receivable of $0.6 million at December 31, 2005. These contracts qualified and were designated as cash flow hedges and had original maturities of less than twelve months.

Interest Rate Swaps

2006 Interest Rate Swaps

At June 30, 2006, the Company had outstanding interest rate swaps with a total notional amount of $300 million that qualified and were designated as fair value hedges. The Company entered into these interest rate swaps to effectively convert its 5.375% senior notes due April 2008 into floating rate debt. At June 30, 2006, the Company recorded a mark to market adjustment to record a decrease of $13.6 million in the fair value of the 5.375% senior notes due April 2008 due to changes in interest rates and an offsetting

SEALED AIR CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Amounts in tables in millions of dollars, except share and per share data)
(Unaudited)

increase to other liabilities to record the fair value of the related interest rate swaps. There was no ineffective portion of the hedges recognized in earnings during the period.

During the first six months of 2006, under the terms of the $300 million outstanding interest rate swap agreements, the Company received interest at a fixed rate and paid interest at variable rates that were based on six-month London Interbank Offered Rate, or LIBOR. As a result, interest expense increased by $1.7 million and $2.9 million for the second quarter and first six months of 2006.

2005 Interest Rate Swaps

At June 30, 2005, the Company had outstanding interest rate swaps with a total notional amount of $300 million that qualified and were designated as fair value hedges. The Company entered into these interest rate swaps to effectively convert its 5.375% senior notes due April 2008 into floating rate debt. At June 30, 2005, the Company recorded a mark to market adjustment to record a decrease of $9.2 million in the fair value of the 5.375% senior notes due April 2008 due to changes in interest rates and an offsetting increase to other liabilities to record the fair value of the related interest rate swaps. There was no ineffective portion of the hedges recognized in earnings during the period.

In 2005, under the terms of the $300 million outstanding interest rate swap agreements, the Company received interest at a fixed rate and paid interest at variable rates that were based on six-month LIBOR. Interest expense increased by $0.4 million in the three months ended June 30, 2005 due to increases in six-month LIBOR. For the six months ended June 30, 2005, the outstanding interest rate swaps did not cause an increase or decrease to interest expense.

(9) Restructuring Programs

Global Manufacturing Strategy

The Company s global manufacturing strategy, when implemented, will expand production in countries where demand for the Company s products and services has been growing significantly. At the same time, the Company intends to realign its production into manufacturing centers of excellence. The goal of this multi-year program is to expand capacity in growing markets, further improve the Company s operating efficiencies, and implement new technologies more effectively. The Company expects this program, combined with the Company s supply chain initiative, to produce meaningful savings in future years. By taking advantage of new technologies and streamlining production on a global scale, the Company expects to continue to enhance its profitable growth and its global leadership position.

In July of 2006, the Company announced the first phase of this multi-year global manufacturing strategy. The Company plans to invest approximately $130 to $150 million in capital to implement this first phase, the majority of which will be spent during the remainder of 2006 and in 2007. In conjunction with this capital investment, the Company currently expects to incur $90 to $100 million in associated costs related to these projects, covering items such as equipment relocation, facility start-up and severance.

SEALED AIR CORPORATION AND SUBSIDIARIES
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One project in the first phase of this program includes ceasing manufacturing and some support operations at the Company s Mississauga, Ontario facility. The Mississauga facility s manufacturing operations will be moved to other facilities in North America. The Company estimates that it will incur approximately $11.8 million in severance costs in connection with this project. These costs will be future cash expenditures which will be incurred for one-time termination benefits for approximately 242 full-time employees. The Company currently expects to add approximately 120 full-time employees at other facilities as production is transferred. The expected completion date of this project is the third quarter of 2007. The Company reflected these costs in its condensed consolidated statement of operations for the second quarter of 2006 in restructuring charges, and the Company s condensed consolidated balance sheet at June 30, 2006 reflects $9.8 million in other current liabilities and $2 million in other liabilities. These costs relate to the Food Packaging segment.

2004 Restructuring Program

As of June 30, 2006, the Company had completed its reduction in headcount related to its 2004 restructuring program, which it announced in the fourth quarter of that year. At December 31, 2004, the Company expected to eliminate 473 full-time positions, which was increased to 475 during 2005. These actions affected principally production workers and members of the Company s sales force, primarily in Europe.

The components of the restructuring charges, spending and other activity through June 30, 2006 and the remaining accrual balance at June 30, 2006 were as follows:

	Employee Termination Costs	Facility Exit Costs	Total Cost
Restructuring accrual at December 31, 2005	$ 4.7	$ 0.7	$ 5.4
Cash payments during 2006	(3.3)	(0.1)	(3.4)
Restructuring accrual at June 30, 2006	$ 1.4	$ 0.6	$ 2.0

The Company expects to pay $1.7 million of the remaining $2.0 million accrual balance in the twelve months ending June 30, 2007 and $0.3 million thereafter.

For the first six months of 2006, the Company recorded an additional restructuring charge of $0.5 million which was related to the 2004 program. This amount includes an additional $0.5 million of costs related to the relocation of employees and assets from closed facilities.

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(10) Defined Benefit Pension Plans

U.S. Pension Plans

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Components of Net Periodic Benefit Cost:				
Service cost	$ 0.3	$ 0.3	$ 0.6	$ 0.6
Interest cost	0.5	0.4	1.0	0.9
Expected return on plan assets	(0.6)	(0.6)	(1.3)	(1.2)
Amortization of prior service cost	0.1	0.2	0.3	0.4
Amortization of net actuarial loss	0.3	0.2	0.4	0.3
Net periodic pension cost	$ 0.6	$ 0.5	$ 1.0	$ 1.0

The Company contributed $2.2 million to its U.S. defined benefit pension plans during the year ended December 31, 2005. The Company expects to contribute $0.4 million to its U.S. defined benefit pension plans in 2006.

Non-U.S. Pension Plans

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Components of Net Periodic Benefit Cost:				
Service cost	$ 1.8	$ 1.8	$ 3.7	$ 3.5
Interest cost	3.2	3.0	6.3	6.0
Expected return on plan assets	(3.4)	(3.2)	(6.7)	(6.4)
Amortization of net actuarial loss	1.6	1.4	3.2	2.8
Net periodic pension cost	$ 3.2	$ 3.0	$ 6.5	$ 5.9

The Company contributed $6.4 million to its non-U.S. defined benefit pension plans during the year ended December 31, 2005. The Company expects to contribute $4 million to its non-U.S. defined benefit pension plans in 2006.

(11) Income Taxes

The Company s effective income tax rate was 32.0% and 33.3% for the three months ended June 30, 2006 and 2005, respectively, and 32.0% and 33.3% for the six months ended June 30, 2006 and 2005, respectively.

For the three and six months ended June 30, 2006 and 2005, the effective income tax rate was lower than the statutory U.S. federal income tax rate of 35.0% primarily due to the lower net effective income tax rate on foreign earnings, partially offset by the effect of state income taxes. In addition, the 2006 effective income tax rate was lower than the statutory U.S. federal income tax rate due to the expected utilization of tax loss carry forwards in 2006 by some foreign subsidiaries.

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(12) Commitments and Contingencies

Asbestos Settlement and Related Costs

On November 27, 2002, the Company reached an agreement in principle with the committees appointed to represent asbestos claimants in the bankruptcy case of W. R. Grace & Co., known as Grace, to resolve all current and future asbestos-related claims made against the Company and its affiliates, the fraudulent transfer claims, successor liability claims, and indemnification claims by Fresenius Medical Care Holdings, Inc. and affiliated companies in connection with the Cryovac transaction referred to below. On December 3, 2002, the Company s Board of Directors approved the agreement in principle. The Company received notice that both of the committees had approved the agreement in principle as of December 5, 2002. The parties to the agreement in principle signed a definitive settlement agreement as of November 10, 2003 consistent with the terms of the agreement in principle. The Company recorded a charge of $850.1 million as a result of the asbestos settlement in its consolidated statement of operations for the year ended December 31, 2002. These matters are described more fully in the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

On June 27, 2005, the U.S. Bankruptcy Court in the District of Delaware, where the Grace bankruptcy case is pending, signed an order approving the definitive settlement agreement. Although Grace is not a party to the settlement agreement, under the terms of the order, Grace is directed to comply with the settlement agreement subject to limited exceptions. The order also provides that the Court will retain jurisdiction of any dispute involving the interpretation or enforcement of the terms and provisions of the definitive settlement agreement. The Company expects that the settlement agreement will become effective upon Grace s emergence from bankruptcy with a plan of reorganization that is consistent with the terms of the settlement agreement.

In January 2005, Grace filed a proposed plan of reorganization and related documents with the Bankruptcy Court. There were a number of objections filed, and the Company does not know whether the final plan will be consistent with the terms of the settlement agreement or if the other conditions to the Company s obligation to pay the settlement amount will be met. If these conditions are not satisfied or not waived by the Company, the Company will not be obligated to pay the settlement amount. However, if the Company does not pay the settlement amount, the Company and its affiliates will not be released from the various asbestos-related, fraudulent transfer, successor liability and indemnification claims made against them, and all of these claims would remain pending and would have to be resolved through other means, such as through agreement on alternative settlement terms or trials. In that case, the Company could face liabilities that are significantly different from its obligations under the settlement agreement. The Company cannot estimate at this time what those differences or their magnitude may be. In the event these liabilities are materially larger than the current existing obligations, they could have a material adverse effect on the Company s financial condition and results of operations. The Company cannot predict when a final plan of reorganization will become effective or whether the final plan will be consistent with the terms of the settlement agreement.

Cryovac Transaction; Contingencies Related to the Cryovac Transaction

On March 31, 1998, the Company completed a multi-step transaction that brought the Cryovac packaging business and the former Sealed Air Corporation s business under the common ownership of the Company. In its Annual Report on Form 10-K for the year ended December 31, 2005, the Company

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described the Cryovac transaction, contingencies related to the Cryovac transaction, the cases of *Thundersky v. The Attorney General of Canada, et al.,* and *Her Majesty the Queen in Right of the Province of Manitoba v. The Attorney General of Canada, et al.* and six additional putative class proceedings that had been brought in various provincial and federal courts in Canada seeking recovery from the Company and its subsidiaries Cryovac, Inc. and Sealed Air (Canada) Co./Cie as well as other defendants, including Grace, for asbestos-related injuries.

In April 2001, Grace s subsidiary Grace Canada, Inc. had obtained an order of the Superior Court of Justice, Commercial List, Toronto, Ontario, Canada (Court File No. 01-CL-4081) recognizing the Chapter 11 actions in the United States of America involving Grace Canada, Inc. s U.S. parent corporation and other U.S. affiliates of Grace Canada, Inc., and enjoining all new actions and staying all current proceedings against Grace Canada, Inc. related to asbestos under the Canadian *Companies Creditors Arrangement Act.* That order has been renewed repeatedly. In November 2005, upon motion by Grace Canada, Inc., the court ordered an extension of the injunction and stay to actions involving asbestos against the Company and its Canadian affiliate and the Attorney General of Canada, which had the effect of staying all of the Canadian actions referred to above. The stay has been extended through October 1, 2006. Grace s proposed plan of reorganization provides that these claims will be paid by the trusts to be established under Section 524(g) of the Bankruptcy Code as part of Grace s plan of reorganization, and it is anticipated that the defendants will ask the Canadian courts to enforce the terms of the plan of reorganization. However, if Grace s final plan does not include comparable provisions or if the Canadian courts refuse to enforce Grace s final plan of reorganization in the Canadian courts, and if in addition Grace is unwilling or unable to defend and indemnify the Company and its subsidiaries in these cases, then the Company could be required to pay substantial damages, which the Company cannot estimate at this time and which could have a material adverse effect on the Company s financial condition and results of operations.

On September 15, 2003, the case of *Senn v. Hickey, et al.* (Case No. 03-CV-4372) was filed in the U.S. District Court for the District of New Jersey (Newark). This lawsuit seeks class action status on behalf of all persons who purchased or otherwise acquired securities of the Company during the period from March 27, 2000 through July 30, 2002. The lawsuit names the Company and five current and former officers and directors of the Company as defendants. The Company is required to provide indemnification to the other defendants, and accordingly the Company s counsel is also defending them. On June 29, 2004, the court granted plaintiff Miles Senn s motion for appointment as lead plaintiff and for approval of his choice of lead counsel. The plaintiff s amended complaint makes a number of allegations against the defendants. The principal allegations are that during the above period the defendants materially misled the investing public, artificially inflated the price of the Company s common stock by publicly issuing false and misleading statements and violated U.S. GAAP by failing to properly account and accrue for the Company s contingent liability for asbestos claims arising from past operations of Grace. The plaintiffs seek compensatory damages and other relief. The Company is vigorously defending the lawsuit, since the Company believes that it properly disclosed its contingent liability for Grace s asbestos claims and properly accounted for its contingent liability for such claims under U.S. GAAP.

On March 14, 2005, the Company and the individual defendants filed a motion to dismiss the amended complaint in the *Senn v. Hickey, et al.* case for failure to state a claim. On December 19, 2005, the Court granted in part and denied in part defendants motion to dismiss. The Court determined that the Complaint failed adequately to allege scienter as to the four individual defendants other than T.J. Dermot Dunphy, and therefore dismissed the lawsuit with respect to these four individual defendants, but

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adequately alleged scienter as to Mr. Dunphy and the Company. Mr. Dunphy is a current director of the Company and was formerly Chairman of the Board and Chief Executive Officer of the Company. On December 28, 2005, the defendants requested that the Court reconsider the portion of the December 19, 2005 order denying defendants motion to dismiss with regard to the Company s arguments other than scienter, or, in the alternative, that the Court certify the matter for interlocutory appeal. On April 7, 2006, the Court heard oral argument on this motion, and on July 10, 2006, the Court denied the motion on the ground that issues of fact prevent the Court from granting a motion to dismiss based on the Company s arguments other than scienter. Although the Company believes that neither it nor Mr. Dunphy should have any liability in this lawsuit, until the lawsuit has progressed beyond its current, still preliminary, stage, the Company cannot estimate the potential cost of an unfavorable outcome, if any.

Compliance Matters

In late 2005, the Company identified travel and related expenses that had been paid by some of the Company s foreign subsidiaries for trips by government officials who oversee the regulation of the Company s medical products in a foreign country. Although these expenses were accurately recorded as travel and entertainment expenses in the Company s books and records, these activities appeared to have breached the Company s Code of Conduct. More importantly, the Company was concerned that these payments may have violated the Foreign Corrupt Practices Act, and therefore outside counsel was retained and promptly began an internal investigation. In March 2006, the Company voluntarily disclosed to the United States Department of Justice, or the DOJ, and the United States Securities and Exchange Commission, or the SEC, the factual information obtained to date in the Company s internal investigation, including that these payments were made between 2003 and 2005 and totaled less than $0.2 million. The internal investigation is ongoing, and the Company is cooperating with the DOJ and the SEC. The Company cannot predict when this matter will be resolved or the terms upon which this matter will be resolved, although the Company currently does not expect this matter to be material to its consolidated results of operations, financial position or cash flows. In connection with the investigation, the Company is evaluating remedial measures and will take timely and appropriate action where necessary.

Cash Dividend

The Company used cash of $12.2 million on each of March 17 and June 16, 2006 to pay a quarterly cash dividend of $0.15 per common share to shareholders of record at the close of business on March 3 and June 2, 2006, respectively. The payment of these dividends was reflected as a reduction to retained earnings in the Company s condensed consolidated balance sheet.

(13) Stock Based Compensation

In December 2004, the Financial Accounting Standards Board, commonly referred to as the FASB, issued SFAS No. 123 (revised), Share-Based Payment which replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123 (revised) covers a wide range of share-based compensation arrangements and requires that the compensation cost related to these types of payment transactions be recognized in financial statements. Cost will be measured based on the fair value of the equity or liability instruments issued. The Company adopted SFAS No. 123 (revised) in the first quarter of 2006 as required using the modified prospective application. Under the modified prospective application, SFAS No. 123 (revised) applies to all awards granted, modified, repurchased or cancelled by the Company since

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January 1, 2006 and to unvested awards at the date of adoption. The Company was also required to eliminate any unearned or deferred compensation related to earlier awards against the appropriate equity account. At December 31, 2005, the Company had $17.8 million of deferred compensation recorded in the shareholders equity section of the condensed consolidated balance sheet. This amount was eliminated against additional paid-in capital on January 1, 2006. The adoption of SFAS No. 123 (revised) did not have a material impact on the condensed consolidated statement of operations as the amounts previously recognized by the Company for stock awards under the 1998 and 2005 Contingent Stock Plans are essentially the same as under SFAS No. 123.

Contingent Stock Plans

At the Company s annual meeting of the stockholders held on May 20, 2005, the stockholders approved the 2005 Contingent Stock Plan of Sealed Air Corporation. The 2005 Contingent Stock Plan replaced the contingent stock plan that was approved by the Company s stockholders in 1998. The 2005 Contingent Stock Plan is the Company s sole long-term equity compensation program for officers and employees, except that prior grants under the 1998 Contingent Stock Plan remain subject to that plan s provisions. The 2005 Contingent Stock Plan provides for awards of equity-based compensation, including restricted stock, restricted stock units, performance share units and cash awards measured by share price, to executive officers and other key employees of the Company and its subsidiaries, as well as U.S.-based key consultants to the Company. During 2006, under the 2005 Contingent Stock Plan, the Company has granted restricted stock, restricted stock units and cash awards. An employee or consultant selected by the Organization and Compensation Committee of the Company s Board of Directors to receive an award may accept the award during the 60-day period beginning when written notice of the award has been sent to the participant, provided the participant s relationship to the Company has not changed.

The Company s 1998 Contingent Stock Plan provided for the grant to employees of awards to purchase common stock during the succeeding 60-day period. The Organization and Compensation Committee of the Company s Board of Directors had set the price to purchase the common stock pursuant to the grants under the 1998 Contingent Stock Plan at $1.00 per share, subject to appropriate adjustments in the event of any stock dividend, split-up, recapitalization, merger, or other events affecting the Company s common stock. There is no similar purchase price under the 2005 Contingent Stock Plan.

Awards made under the 2005 Contingent Stock Plan and shares issued under the 1998 Contingent Stock Plan are restricted as to disposition by the holders for a period of at least three years after award. In the event of termination of employment of a participant prior to lapse of the restriction, the awards under the 2005 Contingent Stock Plan are forfeited on the date of termination unless (i) the termination results from the participant s death or permanent and total disability, or (ii) the Organization and Compensation Committee affirmatively determines not to seek forfeiture of the award in whole or in part. Likewise, shares of restricted stock awarded under the 1998 Contingent Stock Plan are subject to a repurchase option by the Company at the price at which the shares were issued. The forfeiture provision of the 2005 Contingent Stock Plan and the repurchase provision of the 1998 Contingent Stock Plan expire upon vesting of the awards, except that these provisions lapse sooner if specified events occur that affect the existence or control of the Company.

For restricted stock awards, the Company records compensation expense and credits additional paid-in capital within shareholders equity based on the fair value of the award at the grant date. For restricted stock unit awards, the Company records compensation expense and credits additional paid-in capital

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within shareholders equity based on the fair value of the award at the end of each reporting period. The amount of the deferred compensation related to the restricted stock unit awards is re-measured at each reporting period based on the then current stock price and the effects of the stock price changes are recognized as compensation expense. For cash awards, the Company records a liability, which is reflected in other liabilities in the condensed consolidated balance sheet, and records compensation expense based on the fair value of the award at the end of each reporting period. The amount of the liability is re-measured at each reporting period based on the then current stock price and the effects of the stock price changes are recognized as compensation expense. At June 30, 2006, the liability related to cash awards was immaterial to the Company s condensed consolidated balance sheet. The Company has not settled any cash awards during 2006.

Compensation expense related to restricted stock, restricted stock units and cash awards is recognized, net of estimated forfeitures in 2006 under SFAS No. 123 (revised) and net of actual forfeitures in 2005 under SFAS No. 123, over a three-year period on a straight-line basis. These charges are included in marketing, administrative and development expenses and amounted to $3.5 million and $6.3 million for the three and six months ended June 30, 2006 and $2.9 million and $5.5 million for the three and six months ended June 30, 2005, respectively.

At June 30, 2006, the weighted-average remaining contractual life of outstanding restricted stock, restricted stock units and cash awards was approximately 1.5 years, 2.4 years, and 2.4 years, respectively, and had terms expiring up to 2009. The total compensation cost related to nonvested restricted stock, restricted stock units and cash awards not yet recognized was $21.4 million as of June 30, 2006. At June 30, 2006, there were 732,975 shares of nonvested restricted stock, 60,350 shares of nonvested restricted stock units and nonvested cash awards measured by 1,700 shares.

The 2005 Contingent Stock Plan and the 1998 Contingent Stock Plan permit tax withholding attributable to awards and other charges that may be required by law to be paid by withholding a portion of the shares attributable to such awards.

A summary of the changes in shares available for the 2005 Contingent Stock Plan during 2006 follows:

Changes in the 2005 Contingent Stock Plan shares:		
Number of shares available at December 31, 2005	2,332,350	
Restricted stock shares issued for new awards under the 2005 Contingent Stock Plan	(118,450	)
Restricted stock units awarded under the 2005 Contingent Stock Plan	(20,800	)
Restricted stock shares forfeited under the 2005 Contingent Stock Plan	2,000	
Restricted stock units forfeited under the 2005 Contingent Stock Plan	1,250	
Number of shares available at June 30, 2006	2,196,350	
Weighted average per share market value of stock on grant date	$ 58.17	

Directors Stock Plan

Non-cash compensation comprises shares issued to non-employee directors in the form of awards under the Company s 2002 Stock Plan for Non-Employee Directors, which stockholders of the Company approved at the 2002 annual meeting. The 2002 Directors Stock Plan provides for annual grants of shares

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to non-employee directors, and interim grants of shares to eligible directors elected at times other than at an annual meeting, at a price per share equal to the par value of the shares, as all or part of the annual or interim retainer fees for non-employee directors. During 2002, the Company adopted a plan that permits non-employee directors to elect to defer all or part of their annual retainer until the non-employee director retires from the Board. The non-employee director can elect to defer the portion of the annual retainer payable in shares of stock. If a non-employee director makes this election, the non-employee director may also elect to defer the portion, if any, of the annual retainer payable in cash. Cash dividends on deferred shares are credited to the non-employee director s deferred cash account on the applicable dividend payment date. The Company charges the excess of fair value over the price at which shares are issued under this plan to operations. This charge is included in marketing, administrative and development expenses and amounted to $0.1 million and $0.2 million for the three and six months ended June 30, 2006 and 2005, respectively.

A summary of the changes in shares available for the Directors Stock Plan during 2006 follows:

Changes in Directors Stock Plan shares:	
Number of shares available at December 31, 2005	71,553
Shares granted and issued	(4,983)
Shares granted and deferred	(2,846)
Number of shares available at June 30, 2006	63,724
Weighted average per share market value of stock on grant date	$ 52.72

Other Common Stock Issuances

During 2004 the Company issued 50,000 shares of its common stock, par value $0.10 per share, to a non-employee under an intellectual property purchase agreement as prepaid royalties under that agreement. These shares vest ratably over a five-year period. The Company amortizes the cost associated with these shares on a straight-line basis. Amortization expense related to this issuance was $0.1 million and $0.3 million for the three and six months ended June 30, 2006 and $0.1 million and $0.2 million for the three and six months ended June 30, 2005, respectively.

Stock Options

Stock option plans in which specified employees of the Cryovac packaging business participated were terminated effective March 31, 1998 in connection with the Cryovac transaction, except with respect to options that remained outstanding as of that date. All of these options had been granted at an exercise price equal to their fair market value on the date of grant. All options outstanding upon the termination of the stock option plans in 1998 had fully vested prior to December 31, 2000. Since such options were fully vested, SFAS No. 123 (revised) is not applicable. Since 1997, the Company has not issued any stock option awards and has no plans to do so in the future. At June 30, 2006, these options had a per share exercise price of $42.19, a weighted-average remaining contractual life of approximately 0.7 years, and terms expiring up to March 2007.

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During 2006, the holders exercised options to purchase 46,983 common shares, with an aggregate exercise price of $1.9 million. At June 30, 2006, the cumulative number of options to purchase 50,574 shares of common stock had expired. At June 30, 2006, options to purchase 40,089 shares of common stock were outstanding with a per share exercise price of $42.19.

(14) Earnings Per Common Share

Basic and diluted earnings per common share were $0.71 and $0.62, respectively, for the three months ended June 30, 2006 compared with $0.75 and $0.66, respectively, for the three months ended June 30, 2005. Basic and diluted earnings per common share were $1.39 and $1.21, respectively, for the first six months of 2006 compared with basic and diluted earnings per common share of $1.42 and $1.24, respectively, for the first six months of 2005.

In calculating diluted earnings per common share, the Company s calculation of the weighted average number of common shares for 2006 and 2005 provides for the conversion of the Company s 3% convertible senior notes due June 2033 due to the application of Emerging Issues Task Force, or EITF, Issue No. 04-08, The Effect of Contingently Convertible Debt on Diluted Earnings per Share, the assumed issuance of nine million shares of common stock reserved for the Company s previously announced asbestos settlement referred to in Note 12, Commitments and Contingencies, under the caption Asbestos Settlement and Related Costs, and the exercise of dilutive stock options, net of assumed treasury stock repurchases**.**

The following table sets forth the calculation of the basic and diluted earnings per common share computations for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2006	**2005**	**2006**	**2005**
Basic EPS:				
Numerator				
Net earnings ascribed to common shareholders basic	$ 57.8	$ 62.7	$ 113.6	$ 118.6
Denominator				
Weighted average number of common shares outstanding basic	81.5	83.3	81.5	83.5
Basic earnings per common share	$ 0.71	$ 0.75	$ 1.39	$ 1.42
Diluted EPS:				
Numerator				
Net earnings ascribed to common shareholders basic	$ 57.8	$ 62.7	$ 113.6	$ 118.6
Add: Interest on 3% convertible senior notes, net of income taxes	1.9	1.9	3.9	3.9
Net earnings ascribed to common shareholders diluted	$ 59.7	$ 64.6	$ 117.5	$ 122.5
Denominator				
Weighted average number of common shares outstanding basic	81.5	83.3	81.5	83.5
Effect of conversion of 3% convertible senior notes	6.2	6.2	6.2	6.2
Effect of assumed issuance of asbestos settlement shares	9.0	9.0	9.0	9.0
Weighted average number of common shares outstanding diluted	96.7	98.5	96.7	98.7
Diluted earnings per common share	$ 0.62	$ 0.66	$ 1.21	$ 1.24

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(15) Other Income, Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Interest and dividend income	$ 4.9	$ 2.7	$ 9.0	$ 5.1
Net foreign exchange transaction (losses) gains	(1.0)	0.8	(2.6)	(1.0)
Other, net	1.2	2.3	3.1	4.9
Other income, net	$ 5.1	$ 5.8	$ 9.5	$ 9.0

(16) Acquisitions

On January 3, 2006, the Company acquired Nelipak Holdings B.V. for cash in the amount of $41.2 million, net of cash acquired, and assumed debt of approximately $9.6 million. The Company accounted for this acquisition under the purchase method of accounting which resulted in a preliminary allocation of goodwill of $33.5 million. The Company allocated the purchase price to the assets acquired and liabilities assumed using estimated fair values. This allocation is subject to revisions based on the results of the final determination of estimated fair values. The Company does not expect subsequent revisions to the purchase price allocation, if any, to be material to the condensed consolidated financial statements. This acquisition was not material to the Company s condensed consolidated financial statements.

(17) New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, Inventory Costs, which amends the guidance in Accounting Research Bulletin, or ARB, No. 43, Chapter 4, Inventory Pricing. This amendment clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). SFAS No. 151 requires that those items be recognized as current-period charges regardless of whether they meet the criteria specified in ARB No. 43 of so abnormal. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on normal capacity of the production facilities. SFAS No. 151 was effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of this standard did not have a significant impact on the Company s consolidated financial statements.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN No. 48) Accounting for Uncertainty in Income Taxes. The interpretation prescribes a consistent recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The interpretation also requires expanded disclosure with respect to the uncertainty in income taxes. FIN No. 48 is effective for financial statements for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of this interpretation on its consolidated financial statements.

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

The information in this Management s Discussion and Analysis of Financial Condition and Results of Operations should be read together with the Company s condensed consolidated financial statements and related notes set forth in Item 1 of Part I of this quarterly report on Form 10-Q, Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2005, and the Company s consolidated financial statements and related notes set forth in Item 8 of Part II of the Company s Annual Report on Form 10-K for the year ended December 31, 2005. All amounts and percentages are approximate due to rounding. Where appropriate, prior period amounts have been reclassified to conform to the current year s presentation.

Introduction

Highlights for the Company s second quarter and first six months of 2006 compared with the corresponding 2005 periods were (dollars in millions):

	For the Second Quarter of			**For the First Six Months of**		
	2006	**2005**	**% Change**	**2006**	**2005**	**% Change**
Net Sales:						
U.S.	$ 519.1	$ 491.1	5.7 %	$ 1,010.4	$ 954.0	5.9 %
As a% of total net sales	*48.0 %*	*48.1 %*		*48.1 %*	*47.9 %*	
International	562.8	528.9	6.4 %	1,090.6	1,035.7	5.3 %
As a% of total net sales	*52.0 %*	*51.9 %*		*51.9 %*	*52.1 %*	
Total net sales	$ 1,081.9	$ 1,020.0	6.1 %	$ 2,101.0	$ 1,989.7	5.6 %
Gross profit	$ 307.3	$ 295.9	3.9 %	$ 590.9	$ 573.4	3.1 %
As a% of total net sales	*28.4 %*	*29.0 %*		*28.1 %*	*28.8 %*	
Marketing, administrative and development expenses	$ 176.4	$ 169.5	4.1 %	$ 343.7	$ 328.8	4.5 %
As a% of total net sales	*16.3 %*	*16.6 %*		*16.4 %*	*16.5 %*	
Restructuring charges	$ 12.0	$ 0.2		$ 12.3	$ 1.2	
Operating profit	$ 118.9	$ 126.2	(5.8)%	$ 234.9	$ 243.4	(3.5)%
As a% of total net sales	*11.0 %*	*12.4 %*		*11.2 %*	*12.2 %*	

Net Sales

Net sales for the second quarter of 2006 increased 6% to $1,081.9 million compared with $1,020 million in the second quarter of 2005. The components of the increase in net sales for the second quarter were as follows (dollars in millions):

	Food Packaging Segment		**Protective Packaging Segment**		**Total Company**	
Volume Units	2.6 %	$ 16.5	0.5 %	$ 1.9	1.8 %	$ 18.4
Volume Acquired Businesses, net of dispositions	3.4	21.6				