

SEALED AIR CORP/DE  
Form 10-Q  
August 09, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended June 30, 2012**

**Or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 1-12139**

**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)

**07407-1033**

(Zip Code)

Registrant's telephone number, including area code:

**(201) 791-7600**

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

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to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

There were 194,160,105 shares of the registrant's common stock, par value \$0.10 per share, issued and outstanding as of July 31, 2012.

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**SEALED AIR CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2012**

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**Cautionary Notice Regarding Forward-Looking Statements**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our business, consolidated financial condition and results of operations. All statements other than statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. The SEC encourages companies to disclose forward-looking statements so that investors can better understand a company's future prospects and make informed investment decisions. Some of our statements in this report, in documents incorporated by reference into this report and in our future oral and written statements may be forward-looking. These statements reflect our beliefs and expectations as to future events and trends affecting our business, our consolidated financial condition and results of operations. These forward-looking statements are based upon our current expectations concerning future events and discuss, among other things, anticipated future financial performance and future business plans. Forward-looking statements are necessarily subject to risks and uncertainties, many of which are outside our control, which could cause actual results to differ materially from these statements. Forward-looking statements can be identified by such words as anticipates, believes, plan, assumes, could, should, estimates, expects, intends, potential, seek, predict, may, will and similar expressions. Example: forward-looking statements include projections regarding our 2012 guidance and other projections relating to our financial performance such as those in the Components of Change in Net Sales and Cost of Sales sections in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following are important factors that we believe could cause actual results to differ materially from those in our forward-looking statements: the implementation of our Settlement agreement (as defined in Note 14, Commitments and Contingencies) regarding the various asbestos-related, fraudulent transfer, successor liability, and indemnification claims made against the Company arising from a 1998 transaction with W. R. Grace & Co.; global economic conditions; changes in our credit ratings; changes in raw material pricing and availability; changes in energy costs; competitive conditions; currency translation and devaluation effects, including in Venezuela; the success of our financial growth, profitability, cash generation and manufacturing strategies and our cost reduction and productivity efforts; the effects of animal and food-related health issues; pandemics; consumer preferences; environmental matters; regulatory actions and legal matters; successful integration of Diversey and the other information referenced below in Part II, Item 1A, Risk Factors. Except as required by the federal securities laws, we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****SEALED AIR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In millions, except per share amounts)**

|  | <b>Three Months Ended<br/>June 30,</b> |                | <b>Six Months Ended<br/>June 30,</b> |                 |
|--|--|----------------|--------------------------------------|-----------------|
|  | <b>2012</b>                            | <b>2011</b>    | <b>2012</b>                          | <b>2011</b>     |
| Net sales:   |  |                |                                      |                 |
| Food Packaging   | \$ 499.7                               | \$ 501.9       | \$ 987.9                             | \$ 976.8        |
| Food Solutions   | 247.1                                  | 261.9          | 485.3                                | 490.7           |
| Protective Packaging   | 344.6                                  | 353.5          | 690.2                                | 688.6           |
| Diversey   | 816.3                                  |                | 1,567.2                              |                 |
| Other  | 96.7                                   | 95.3           | 191.4                                | 185.0           |
| <b>Total net sales</b>                                       | <b>2,004.4</b>                         | <b>1,212.6</b> | <b>3,922.0</b>                       | <b>2,341.1</b>  |
| Cost of sales  | 1,341.8                                | 888.3          | 2,609.6                              | 1,707.8         |
| <b>Gross profit</b>  | <b>662.6</b>                           | <b>324.3</b>   | <b>1,312.4</b>                       | <b>633.3</b>    |
| Marketing, administrative and development expenses           | 479.1                                  | 186.1          | 957.2                                | 369.6           |
| Amortization of intangible assets                            | 35.3                                   | 2.5            | 69.5                                 | 5.0             |
| Costs related to the acquisition of Diversey                 | 1.7                                    | 6.6            | 3.5                                  | 6.6             |
| Restructuring and other charges                              | 26.5                                   |                | 74.6                                 |                 |
| <b>Operating profit</b>                                      | <b>120.0</b>                           | <b>129.1</b>   | <b>207.6</b>                         | <b>252.1</b>    |
| Interest expense   | (97.6)                                 | (36.9)         | (195.4)                              | (73.9)          |
| Impairment of equity method investment                       | (23.5)                                 |                | (23.5)                               |                 |
| Other expense, net   | (5.6)                                  | (2.0)          | (9.7)                                | (6.1)           |
| <b>(Loss) earnings before income tax provision</b>           | <b>(6.7)</b>                           | <b>90.2</b>    | <b>(21.0)</b>                        | <b>172.1</b>    |
| Income tax provision (benefit)                               | 7.0                                    | 25.2           | (1.4)                                | 47.4            |
| <b>Net (loss) earnings available to common stockholders</b>  | <b>\$ (13.7)</b>                       | <b>\$ 65.0</b> | <b>\$ (19.6)</b>                     | <b>\$ 124.7</b> |
| <b>Net (loss) earnings per common share:</b>                 |  |                |                                      |                 |
| Basic  | \$ (0.07)                              | \$ 0.41        | \$ (0.10)                            | \$ 0.78         |
| Diluted  | \$ (0.07)                              | \$ 0.37        | \$ (0.10)                            | \$ 0.70         |
| Dividends per common share                                   | \$ 0.13                                | \$ 0.13        | \$ 0.26                              | \$ 0.26         |
| <b>Weighted average number of common shares outstanding:</b> |  |                |                                      |                 |
| Basic  | 193.0                                  | 159.2          | 192.4                                | 159.0           |
| Diluted  | 193.0                                  | 177.5          | 192.4                                | 177.2           |

See accompanying Notes to Condensed Consolidated Financial Statements.



**Table of Contents****SEALED AIR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME****(Unaudited)****(In millions)**

|  | <b>Three Months</b>       |             | <b>Six Months</b>         |             |
|--|---------------------------|-------------|---------------------------|-------------|
|  | <b>Ended<br/>June 30,</b> |             | <b>Ended<br/>June 30,</b> |             |
|  | <b>2012</b>               | <b>2011</b> | <b>2012</b>               | <b>2011</b> |
| Net (loss) earnings available to common stockholders   | \$ (13.7)                 | \$ 65.0     | \$ (19.6)                 | \$ 124.7    |
| Other comprehensive (loss) income, net of income taxes:  |                           |             |                           |             |
| Recognition of deferred pension items, net of taxes of \$0.6 for the three months ended June 30, 2012, \$0.4 for the three months ended June 30, 2011, \$2.1 for the six months ended June 30, 2012 and \$0.7 for the six months ended June 30, 2011 | 2.9                       | 1.0         | 3.1                       | 2.1         |
| Unrealized losses on derivative instruments, net of taxes of \$0.1 for the three months ended June 30, 2011, \$0.1 for the six months ended June 30, 2012 and \$0.2 for the six months ended June 30, 2011   |                           | (0.1)       | (0.2)                     | (0.3)       |
| Foreign currency translation adjustments   | (149.5)                   | 26.1        | (41.7)                    | 85.1        |
| Comprehensive (loss) income, net of income taxes   | \$ (160.3)                | \$ 92.0     | \$ (58.4)                 | \$ 211.6    |

See accompanying Notes to Condensed Consolidated Financial Statements.



**Table of Contents****SEALED AIR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In millions, except share data)**

|  | <b>June 30,<br/>2012<br/>(Unaudited)</b> | <b>December 31,<br/>2011</b> |
|--|--|------------------------------|
| <b>ASSETS</b>  |  |                              |
| Current assets:  |  |                              |
| Cash and cash equivalents  | \$ 503.9                                 | \$ 722.8                     |
| Receivables, net of allowance for doubtful accounts of \$20.3 in 2012 and \$16.3 in 2011   | 1,359.9                                  | 1,385.8                      |
| Inventories  | 883.3                                    | 798.1                        |
| Deferred tax assets  | 148.0                                    | 165.5                        |
| Prepaid expenses and other current assets  | 144.0                                    | 125.6                        |
| <b>Total current assets</b>  | <b>3,039.1</b>                           | <b>3,197.8</b>               |
| Property and equipment, net  | 1,286.8                                  | 1,322.1                      |
| Goodwill   | 4,184.2                                  | 4,220.5                      |
| Intangible assets, net   | 2,019.6                                  | 2,103.2                      |
| Non-current deferred tax assets  | 126.5                                    | 129.3                        |
| Other assets, net  | 452.6                                    | 459.0                        |
| <b>Total assets</b>  | <b>\$ 11,108.8</b>                       | <b>\$ 11,431.9</b>           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |  |                              |
| Current liabilities:   |  |                              |
| Short-term borrowings  | \$ 50.0                                  | \$ 34.5                      |
| Current portion of long-term debt  | 1.2                                      | 1.9                          |
| Accounts payable   | 621.2                                    | 619.0                        |
| Deferred tax liabilities   | 19.1                                     | 16.0                         |
| Settlement agreement and related accrued interest  | 854.0                                    | 831.2                        |
| Accrued restructuring costs  | 54.5                                     | 37.1                         |
| Other current liabilities  | 722.8                                    | 843.8                        |
| <b>Total current liabilities</b>   | <b>2,322.8</b>                           | <b>2,383.5</b>               |
| Long-term debt, less current portion   | 4,935.6                                  | 5,010.9                      |
| Non-current deferred tax liabilities   | 411.5                                    | 467.2                        |
| Other liabilities  | 576.8                                    | 617.9                        |
| <b>Total liabilities</b>   | <b>8,246.7</b>                           | <b>8,479.5</b>               |
| Commitments and contingencies  |  |                              |
| Stockholders' equity:  |  |                              |
| Preferred stock, \$0.10 par value per share, 50,000,000 shares authorized; no shares issued in 2012 and 2011   |  |                              |
| Common stock, \$0.10 par value per share, 400,000,000 shares authorized; shares issued: 204,179,917 in 2012 and 202,528,616 in 2011; shares outstanding; 194,120,605 in 2012 and 192,062,185 in 2011 | 20.5                                     | 20.3                         |
| Common stock reserved for issuance related to Settlement agreement, \$0.10 par value per share, 18,000,000 shares in 2012 and 2011   | 1.8                                      | 1.8                          |
| Additional paid-in capital   | 1,687.3                                  | 1,689.6                      |
| Retained earnings  | 1,696.2                                  | 1,766.5                      |

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|   |             |             |
|---|-------------|-------------|
| Common stock in treasury, 10,059,312 in 2012 and 10,466,431 in 2011 | (353.1)     | (375.6)     |
| Accumulated other comprehensive loss, net of taxes:                 |             |             |
| Unrecognized pension items  | (40.1)      | (43.2)      |
| Cumulative translation adjustment                                   | (145.7)     | (104.0)     |
| Unrealized gain on derivative instruments                           | 1.9         | 2.1         |
| Total accumulated other comprehensive loss, net of taxes            | (183.9)     | (145.1)     |
| Total parent company stockholders' equity                           | 2,868.8     | 2,957.5     |
| Noncontrolling interests  | (6.7)       | (5.1)       |
| Total stockholders' equity  | 2,862.1     | 2,952.4     |
| Total liabilities and stockholders' equity                          | \$ 11,108.8 | \$ 11,431.9 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****SEALED AIR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

|   | <b>Six Months Ended<br/>June 30,</b> |               |
|---|--------------------------------------|---------------|
|   | <b>2012</b>                          | <b>2011</b>   |
| <b>Cash flows from operating activities:</b>  |                                      |               |
| Net (loss) earnings available to common stockholders  | \$ (19.6)                            | \$ 124.7      |
| <b>Adjustments to reconcile net (loss) earnings to net cash (used in) provided by operating activities:</b> |                                      |               |
| Depreciation and amortization   | 160.1                                | 72.9          |
| Share-based incentive compensation and profit sharing expense   | 20.1                                 | 17.9          |
| Costs related to the acquisition of Diversey  | 3.5                                  | 6.6           |
| Amortization of senior debt related items and other   | 11.0                                 | 0.3           |
| Impairment of equity method investment  | 25.8                                 |               |
| Provisions for bad debt   | 3.2                                  | 4.1           |
| Provisions for inventory obsolescence   | 8.2                                  | 5.7           |
| Deferred taxes, net   | (32.0)                               | 3.1           |
| Excess tax benefit from share-based incentive compensation  | (0.9)                                | (2.8)         |
| Net gain on disposals of property and equipment and other   | (0.3)                                | (0.2)         |
| <b>Changes in operating assets and liabilities:</b>   |                                      |               |
| Receivables, net  | (15.7)                               | (9.2)         |
| Inventories   | (101.6)                              | (89.3)        |
| Other assets, net   | (57.3)                               | (8.9)         |
| Accounts payable  | 6.5                                  | 23.0          |
| Other liabilities   | (71.8)                               | (27.8)        |
| <b>Net cash (used in) provided by operating activities</b>  | <b>(60.8)</b>                        | <b>120.1</b>  |
| <b>Cash flows from investing activities:</b>  |                                      |               |
| Capital expenditures for property and equipment   | (67.8)                               | (46.5)        |
| Businesses acquired in purchase transactions, net of cash and cash equivalents acquired                     | (3.6)                                |               |
| Proceeds from sales of property and equipment   | 0.6                                  | 0.6           |
| Other investing activities  | 1.9                                  | 1.1           |
| <b>Net cash used in investing activities</b>  | <b>(68.9)</b>                        | <b>(44.8)</b> |
| <b>Cash flows from financing activities:</b>  |                                      |               |
| Proceeds from short-term borrowings   | 17.1                                 | 1.0           |
| Excess tax benefit from share-based incentive compensation  | 0.9                                  | 2.8           |
| Payments of long-term debt  | (61.9)                               | (5.7)         |
| Acquisition of common stock for tax withholding obligations under our 2005 contingent stock plan            | (9.3)                                | (12.8)        |
| Net payments of short term borrowings   |                                      | (13.7)        |
| Dividends paid on common stock  | (50.4)                               | (41.6)        |
| Other financing payments  |                                      | (1.0)         |
| <b>Net cash used in financing activities</b>  | <b>(103.6)</b>                       | <b>(71.0)</b> |
| Effect of foreign currency exchange rate changes on cash and cash equivalents                               | 14.4                                 | 25.1          |
| <b>Cash and cash equivalents:</b>   |                                      |               |
| Balance, beginning of period  | \$ 722.8                             | \$ 675.6      |
| Net change during the period  | (218.9)                              | 29.4          |

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|  |    |       |    |       |
|--|----|-------|----|-------|
| Balance, end of period   | \$ | 503.9 | \$ | 705.0 |
| <b>Supplemental Cash Flow Information:</b>   |    |       |    |       |
| Interest payments, net of amounts capitalized  | \$ | 157.5 | \$ | 53.0  |
| Income tax payments  | \$ | 69.5  | \$ | 54.8  |
| <b>Non-cash items:</b>   |    |       |    |       |
| Transfers of shares of our common stock from treasury as part of our 2011 profit-sharing plan contribution | \$ | 18.6  | \$ |       |

See accompanying Notes to Condensed Consolidated Financial Statements.

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**SEALED AIR CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**(Amounts in tables are in millions, except per share data)**

**(1) Organization and Basis of Presentation**

***Organization***

We are a global leader in food safety and security, facility hygiene and product protection. We serve an array of end markets including food and beverage processing, food service, retail, health care and industrial, commercial and consumer applications. We have widely recognized and inventive brands such as Bubble Wrap® brand cushioning, Cryovac® brand food packaging solutions and, as a result of our acquisition of Diversey Holdings, Inc. and its subsidiaries ( Diversey ) on October 3, 2011, Diversey® brand cleaning and hygiene solutions. We offer efficient and sustainable solutions that create business value for customers, enhance the quality of life for consumers and provide a cleaner and healthier environment for future generations.

Throughout this report, when we refer to Sealed Air, the Company, we, our, or us, we are referring to Sealed Air Corporation and all of our subsidiaries, except where the context indicates otherwise.

We conduct our operations through the following four business segments: Food Packaging, Food Solutions, Protective Packaging, Diversey and an Other category. See Note 4, Segments, for further details of our segment structure. We conduct substantially all of our business through three wholly-owned subsidiaries, Cryovac, Inc., Sealed Air Corporation (US) and Diversey, Inc.

***Basis of Presentation***

Our condensed consolidated financial statements include all of the accounts of the Company and our subsidiaries. We have eliminated all significant intercompany transactions and balances in consolidation. In management's opinion, all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of our condensed consolidated balance sheet as of June 30, 2012 and our condensed consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 have been made. The results set forth in our condensed consolidated statements of operations for the three and six months ended June 30, 2012 and in our condensed consolidated statements of cash flows for the six months ended June 30, 2012 are not necessarily indicative of the results to be expected for the full year. All amounts are in millions, except per share amounts, and approximate due to rounding. Some prior period amounts have been reclassified to conform to the current year presentation. These reclassifications, individually and in the aggregate, had no impact on our consolidated financial condition, results of operations and cash flows.

The condensed consolidated financial statements and information included in this Quarterly Report on Form 10-Q ( Form 10-Q ) include the financial results of Diversey for the period beginning January 1, 2012 through June 30, 2012 and as of December 31, 2011 for the condensed consolidated balance sheet. The financial results included in this Form 10-Q related to the acquisition method accounting for the Diversey transaction are subject to change as the acquisition method accounting is not yet finalized and dependent upon the finalization of management's review of certain independent valuations and studies that are still in process. See Note 3, Acquisition of Diversey Holdings, Inc., for further information about the acquisition.

Our condensed consolidated financial statements were prepared in accordance with the interim reporting requirements of the Securities and Exchange Commission, or the SEC. 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 U.S. GAAP, have been condensed or omitted. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

We are responsible for the unaudited condensed consolidated financial statements and notes included in this report. As these are condensed financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and with the information contained in other publicly-available filings with the SEC.

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During the three months ended March 31, 2012, we identified a misclassification in our December 31, 2011 consolidated balance sheet included in our 2011 Annual Report on Form 10-K. This misclassification, which has been corrected on our December 31, 2011 consolidated balance sheet included in this Form 10-Q, decreased our current deferred tax assets and non-current deferred tax liabilities by \$65 million, decreasing our current deferred tax assets from \$230 million to \$165 million and decreasing our non-current deferred tax liabilities from \$532 million to \$467 million. This misclassification had no impact on our net deferred tax liability balance at December 31, 2011 and it did not impact our consolidated statements of operations or cash flows. Accordingly, we do not consider this correction to be material to our consolidated financial condition or results of operations.

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### **(2) Recently Issued Accounting Standards**

Unless necessary to clarify a point to readers, we will refrain from citing specific topic and section references when addressing new or pending accounting standard changes or discussing application of U.S. GAAP in this Form 10-Q.

#### *Adopted in 2012*

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-04. The amendments in this ASU generally represent clarifications of fair value measurement, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements. On January 1, 2012, we adopted these amendments on a prospective basis and there was no impact on our consolidated financial condition or results of operations.

In June 2011, the FASB issued authoritative guidance on the presentation of comprehensive income that became effective for us beginning January 1, 2012. This standard eliminates the option to report other comprehensive income and its components in the statement of changes in equity. The adoption of this guidance did not impact our consolidated financial condition and results of operations.

In September 2011, the FASB issued authoritative guidance on testing goodwill for impairment that became effective for us beginning January 1, 2012. The revised standard is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The adoption of this guidance did not impact our consolidated financial condition or results of operations.

#### *Pending Adoption*

In July 2012, the FASB issued ASU No. 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This standard, which amends the guidance on testing indefinite-lived intangible assets, other than goodwill, for impairment, provides companies with the option to first perform a qualitative assessment before performing the two-step quantitative impairment test. If the company determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not to exceed its carrying amount, then the company would not need to perform the two-step quantitative impairment test. This standard does not revise the requirement to test indefinite-lived intangible assets annually for impairment. This standard becomes effective for annual and interim impairment tests performance for fiscal years beginning after September 15, 2012, with early adoption allowed. We do not expect the adoption of this standard will have a material effect on our consolidated financial condition or results of operations.

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, which creates new disclosure requirements about the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. The disclosure requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods therein, with retrospective application required. The new disclosures are designed to make financial statements that are prepared under U.S. GAAP more comparable to those prepared under International Financial Reporting Standards. We are currently evaluating the impact of ASU 2011-11 on our Condensed Consolidated Financial Statements.

### **(3) Acquisition of Diversey Holdings, Inc.**

#### **Description of Transaction**

On October 3, 2011, we completed the acquisition of 100% of the outstanding stock of Diversey. Under the terms of the acquisition agreement, we paid in aggregate \$2.1 billion in cash consideration and an aggregate of approximately 31.7 million shares of Sealed Air common stock to the shareholders of Diversey. We financed the payment of the cash consideration and related fees and expenses through (a) borrowings under our new Credit Facility, (b) proceeds from our issuance of the Notes and (c) cash on hand. In connection with the acquisition, we also used our new borrowings and cash on hand to retire \$1.6 billion of existing indebtedness of Diversey. The new Credit Facility and Notes are described in Note 10, Debt and Credit Facilities.

We acquired Diversey to position us to capture growth opportunities by developing end-to-end service-based solutions for the food processing and food service industries, to leverage combined research and development investments to develop broader growth initiatives in the food processing and food service industries and to improve access to under-developed markets and increase access to developing regions.

#### **Summary Unaudited Pro Forma Financial Information**

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The following table presents unaudited supplemental pro forma information as if the acquisition of Diversey had occurred on January 1, 2010 for the period presented below.



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|   | Three Months Ended<br>June 30, 2011 | Six Months Ended<br>June 30, 2011 |
|---|-------------------------------------|-----------------------------------|
| Net sales   | \$ 2,088.7                          | \$ 3,980.9                        |
| Operating profit                                      | \$ 202.3                            | \$ 338.6                          |
| Net earnings from continuing operations               | \$ 68.0                             | \$ 80.3                           |
| Weighted average number of common shares outstanding: |                                     |                                   |
| Basic   | 190.9                               | 190.7                             |
| Diluted   | 209.2                               | 208.9                             |
| Net earnings per common share:                        |                                     |                                   |
| Basic   | \$ 0.36                             | \$ 0.42                           |
| Diluted   | \$ 0.33                             | \$ 0.38                           |

There were no material non-recurring pro forma adjustments.

**(4) Segments**

The following table shows net sales, depreciation and amortization and operating profit by our segment reporting structure:

|  | Three Months Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 2012                           | 2011       | 2012                         | 2011       |
| Net sales  |                                |            |                              |            |
| Food Packaging   | \$ 499.7                       | \$ 501.9   | \$ 987.9                     | \$ 976.8   |
| Food Solutions   | 247.1                          | 261.9      | 485.3                        | 490.7      |
| Protective Packaging   | 344.6                          | 353.5      | 690.2                        | 688.6      |
| Diversey   | 816.3                          |            | 1,567.2                      |            |
| Other  | 96.7                           | 95.3       | 191.4                        | 185.0      |
| Total  | \$ 2,004.4                     | \$ 1,212.6 | \$ 3,922.0                   | \$ 2,341.1 |
| Depreciation and amortization on property, plant and equipment and intangible assets |                                |            |                              |            |
| Food Packaging   | \$ 16.0                        | \$ 16.9    | \$ 37.3                      | \$ 33.2    |
| Food Solutions   | 7.9                            | 8.2        | 15.8                         | 15.7       |
| Protective Packaging   | 5.8                            | 6.4        | 11.7                         | 13.4       |
| Diversey   | 42.8                           |            | 85.0                         |            |
| Other  | 5.3                            | 5.4        | 10.3                         | 10.6       |
| Total  | \$ 77.8                        | \$ 36.9    | \$ 160.1                     | \$ 72.9    |
| Operating profit   |                                |            |                              |            |
| Food Packaging   | \$ 46.4                        | \$ 62.3    | \$ 106.3                     | \$ 124.9   |
| Food Solutions   | 26.3                           | 25.2       | 52.8                         | 44.6       |
| Protective Packaging   | 42.8                           | 46.3       | 89.3                         | 86.3       |
| Diversey   | 29.8                           |            | 30.6                         |            |

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|  |          |          |          |          |
|--|----------|----------|----------|----------|
| Other  | 2.9      | 1.9      | 6.7      | 2.9      |
| Total segments and other                     | 148.2    | 135.7    | 285.7    | 258.7    |
| Costs related to the acquisition of Diversey | 1.7      | 6.6      | 3.5      | 6.6      |
| Restructuring and other charges (1)          | 26.5     |          | 74.6     |          |
| Total  | \$ 120.0 | \$ 129.1 | \$ 207.6 | \$ 252.1 |

(1) Restructuring and other charges by our segment reporting structure were as follows:

|                      | Three Months Ended<br>June 30, 2012 | Six Months Ended<br>June 30, 2012 |
|----------------------|-------------------------------------|-----------------------------------|
| Food Packaging       | \$ 9.9                              | \$ 27.4                           |
| Food Solutions       | 2.2                                 | 5.7                               |
| Protective Packaging | 3.4                                 | 6.7                               |
| Diversey             | 10.8                                | 31.5                              |
| Other                | 0.2                                 | 3.3                               |
| Total                | \$ 26.5                             | \$ 74.6                           |

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The restructuring and other charges in 2012 primarily relate to the 2011-2014 Integration and Optimization Program. See Note 9, Restructuring Activities.

**Assets by Reportable Segments**

The following table shows assets allocated by our segment reporting structure. Only assets which are identifiable by segment and reviewed by our chief operating decision maker by segment are allocated to the reportable segment assets, which are trade receivables, net, and finished goods inventories, net. All other assets are included in Assets not allocated.

|   | June 30,<br>2012   | December 31,<br>2011 |
|---|--------------------|----------------------|
| <b>Assets:</b>  |                    |                      |
| Trade receivables, net, and finished goods inventory, net |                    |                      |
| Food Packaging  | \$ 414.3           | \$ 420.4             |
| Food Solutions  | 202.0              | 210.1                |
| Protective Packaging                                      | 317.8              | 307.8                |
| Diversey  | 881.4              | 842.4                |
| Other   | 76.4               | 64.5                 |
| <b>Total segments and other</b>                           | <b>\$ 1,891.9</b>  | <b>\$ 1,845.2</b>    |
| <b>Assets not allocated</b>                               |                    |                      |
| Cash and cash equivalents                                 | 503.9              | 722.8                |
| Property and equipment, net                               | 1,286.8            | 1,322.1              |
| Goodwill  | 4,184.2            | 4,220.5              |
| Intangibles, net  | 2,019.6            | 2,103.2              |
| Other   | 1,222.4            | 1,218.1              |
| <b>Total</b>  | <b>\$ 11,108.8</b> | <b>\$ 11,431.9</b>   |

**Allocation of Goodwill to Reportable Segments**

Our management views goodwill as a corporate asset, so we do not allocate our goodwill balance to the reportable segments. However, we are required to allocate goodwill to each reporting unit to perform our annual impairment review of goodwill, which we do during the fourth quarter of the year. See Note 7, Goodwill and Identifiable Intangible Assets, for the allocation of goodwill and the changes in goodwill balances in the six months ended June 30, 2012 by our reporting unit structure.

**New Segment Structure**

In November 2011, we announced our plans to establish new business units for our segment reporting structure. The new segment reporting structure will consist of three global business units: (1) Food & Beverage, (2) Institutional & Laundry and (3) Protective Packaging. There will also be an Other category, which will include our legacy Medical Applications business and New Ventures. This new structure is expected to be implemented by the end of 2012 and will replace our existing seven business unit structure and Diversey's legacy four region-based structure. Until the new organization is fully implemented, we will continue to report our segment results using our existing segment structure.

**(5) Inventories**

The following table details our inventories and the reduction of certain inventories to a LIFO basis:

|  | June 30,<br>2012 | December 31,<br>2011 |
|--|------------------|----------------------|
| Inventories (at FIFO, which approximates replacement value): |                  |                      |

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|  |          |          |
|--|----------|----------|
| Raw materials                                  | \$ 161.9 | \$ 154.3 |
| Work in process                                | 142.2    | 122.8    |
| Finished goods                                 | 635.9    | 574.3    |
| Subtotal (at FIFO)                             | 940.0    | 851.4    |
| Reduction of certain inventories to LIFO basis | (56.7)   | (53.3)   |
| Total  | \$ 883.3 | \$ 798.1 |

We determine the value of our legacy Sealed Air non-equipment U.S. inventories by the last-in, first-out or LIFO inventory method. U.S. inventories determined by the LIFO method were \$136 million at June 30, 2012 and \$121 million at December 31, 2011.

**Table of Contents****(6) Property and Equipment, net**

The following table details our property and equipment, net.

|   | June 30,<br>2012 | December 31,<br>2011 |
|---|------------------|----------------------|
| Land and improvements                     | \$ 168.8         | \$ 167.7             |
| Buildings                                 | 686.0            | 697.2                |
| Machinery and equipment                   | 2,461.9          | 2,470.9              |
| Other property and equipment              | 168.6            | 170.7                |
| Construction-in-progress                  | 116.0            | 104.4                |
|   | 3,601.3          | 3,610.9              |
| Accumulated depreciation and amortization | (2,314.5)        | (2,288.8)            |
| Property and equipment, net               | \$ 1,286.8       | \$ 1,322.1           |

The following table details our interest cost capitalized and depreciation and amortization expense for property and equipment.

|  | Three Months<br>Ended<br>June 30,<br>2012 |        | Six Months<br>Ended<br>June 30,<br>2011 |        |
|--|---|--------|---|--------|
| Interest cost capitalized  | \$ 1.2                                    | \$ 0.8 | \$ 2.2                                  | \$ 1.7 |
| Depreciation and amortization expense for property and equipment | 42.5                                      | 34.4   | 90.6                                    | 67.9   |

**(7) Goodwill and Identifiable Intangible Assets****Goodwill**

The following table shows our goodwill balances by our segment reporting structure.

|                      | Carrying Value at<br>December 31, 2011 | Purchase Price<br>Adjustments | Impact of Foreign<br>Currency Translation | Carrying Value at<br>June 30, 2012 |
|----------------------|--|-------------------------------|---|------------------------------------|
| Food Packaging       | \$ 391.7                               | \$                            | \$ (0.4)                                  | \$ 391.3                           |
| Food Solutions       | 147.9                                  |                               | (0.1)                                     | 147.8                              |
| Protective Packaging | 1,260.0                                |                               | (1.6)                                     | 1,258.4                            |
| Diversey             | 2,263.6                                |                               | (32.9)                                    | 2,230.7                            |
| Other category       | 157.3                                  | (1.2)                         | (0.1)                                     | 156.0                              |
| Total                | \$ 4,220.5                             | \$ (1.2)                      | \$ (35.1)                                 | \$ 4,184.2                         |

We test goodwill for impairment on a reporting unit basis annually during the fourth quarter of each year and at other times if events or circumstances exist that indicate the carrying value of goodwill may no longer be recoverable. During the six months ended June 30, 2012, we determined that there were no events or changes in circumstances that had occurred that would indicate that the fair value of any of our reporting units may be below its carrying value.



**Table of Contents***Identifiable Intangible Assets*

The following tables summarize our identifiable intangible assets with definite and indefinite useful lives.

|                            | June 30,<br>2012           |                             |                   | December 31,<br>2011       |                             |                   |
|----------------------------|----------------------------|-----------------------------|-------------------|----------------------------|-----------------------------|-------------------|
|                            | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net               | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Net               |
| Customer relationships     | \$ 1,005.7                 | \$ (76.5)                   | \$ 929.2          | \$ 1,028.7                 | \$ (37.9)                   | \$ 990.8          |
| Trademarks and trade names | 877.3                      | (0.5)                       | 876.8             | 882.3                      | (0.8)                       | 881.5             |
| Technology                 | 235.6                      | (55.4)                      | 180.2             | 230.2                      | (33.4)                      | 196.8             |
| Contracts                  | 43.8                       | (10.4)                      | 33.4              | 40.2                       | (6.1)                       | 34.1              |
| <b>Total</b>               | <b>\$ 2,162.4</b>          | <b>\$ (142.8)</b>           | <b>\$ 2,019.6</b> | <b>\$ 2,181.4</b>          | <b>\$ (78.2)</b>            | <b>\$ 2,103.2</b> |

These intangible assets include \$899 million of intangible assets that we have determined to have indefinite useful lives, which primarily include \$877 million of trademarks and trade names acquired in connection with the acquisition of Diversey and \$22 million of in-process research and development primarily acquired in an acquisition in 2010.

The following table shows the remaining estimated future amortization expense at June 30, 2012.

|              |                   |
|--------------|-------------------|
| 2012         | \$ 67.7           |
| 2013         | 134.3             |
| 2014         | 132.6             |
| 2015         | 104.3             |
| 2016         | 98.8              |
| 2017         | 97.6              |
| Thereafter   | 485.4             |
| <b>Total</b> | <b>\$ 1,120.7</b> |

**(8) Accounts Receivable Securitization Program**

We and a group of our U.S. subsidiaries maintain an accounts receivable securitization program with a bank and an issuer of commercial paper administered by the bank. As of June 30, 2012, the maximum purchase limit for receivable interests was \$125 million, subject to the availability limits described below.

The amounts available from time to time under the program may be less than \$125 million due to a number of factors, including but not limited to our credit ratings, trade receivable balances, the creditworthiness of our customers and our receivables collection experience. During 2012, the level of eligible assets available under the program was lower than \$125 million primarily due to our current credit ratings. As a result, the amount available to us under the program was \$92 million at June 30, 2012. Although we do not believe that these restrictive provisions presently materially restrict our operations, if an additional event occurs that triggers one of these restrictive provisions, we could experience a further decline in the amounts available to us under the program or termination of the program.

As of June 30, 2012 and December 31, 2011, we had no amounts outstanding under this program, and we did not utilize this program during 2012.

The program is scheduled to expire in December 2012. We intend to extend the receivables program or enter into a new program prior to the expiration date.

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Under limited circumstances, the bank and the issuer of commercial paper can end purchases of receivables interests before the above dates. A failure to comply with debt leverage or various other ratios related to our receivables collection experience could result in termination of the receivables program. We were in compliance with these ratios at June 30, 2012 and December 31, 2011.

### **(9) Restructuring Activities**

#### ***2011-2014 Integration and Optimization Program***

In December 2011, we initiated a restructuring program associated with the integration of Diversey's business following our acquisition of Diversey on October 3, 2011. The program primarily consists of (i) reduction in headcount, (ii) consolidation of facilities, and (iii) supply chain network optimization, and (iv) certain other capital expenditures. This program is expected to be completed by the end of 2014.



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The associated costs and related restructuring charges for this program in the three and six months ended June 30, 2012 are included in the table below.

|                       | <b>Three<br/>Months Ended<br/>June<br/>30, 2012</b> | <b>Six<br/>Months Ended<br/>June<br/>30, 2012</b> | <b>Cumulative<br/>as of<br/>June 30, 2012</b> |
|-----------------------|---|---|---|
| Associated costs      | \$ 1.6  | \$ 7.4  | \$ 7.4  |
| Restructuring charges | 27.1  | 74.4  | 127.3   |
| <b>Total</b>          | <b>\$ 28.7</b>                                      | <b>\$ 81.8</b>                                    | <b>\$ 134.7</b>                               |

The associated costs included in the table above include asset impairments of \$5 million recorded in the three months ended March 31, 2012, which were included in cost of sales on the condensed consolidated statements of operations and in our Food Packaging segment. The asset impairments relate to a planned facility closure in the U.S., which is considered an asset held for sale and is included in other current assets on our condensed consolidated balance sheet as of June 30, 2012.

The restructuring charges included in the table above primarily consisted of termination and benefits costs, including \$1 million for the three months ended June 30, 2012 and \$8 million for the six months ended June 30, 2012 of cash-settled stock appreciation rights that were previously issued to Diversey employees as a portion of the total consideration for the acquisition of Diversey. See Note 15, Stockholders Equity, for further details of these awards. These charges were included in restructuring and other charges on the condensed consolidated statements of operations.

The restructuring accrual, spending and other activity for the six months ended June 30, 2012 and the accrual balance remaining at June 30, 2012 were as follows:

|   |                |
|---|----------------|
| Restructuring accrual at December 31, 2011                | \$ 24.3        |
| Additional accrual for severance and termination benefits | 74.4           |
| Cash payments during 2012                                 | (40.3)         |
| Effect of changes in foreign currency exchange rates      | (1.6)          |
| <b>Restructuring accrual at June 30, 2012</b>             | <b>\$ 56.8</b> |

Cumulative cash payments made in connection with this program through June 30, 2012 were \$69 million. We expect to pay \$48 million of the accrual balance remaining at June 30, 2012 within the next twelve months. This amount is included in accrued restructuring costs on the condensed consolidated balance sheet at June 30, 2012. The majority of the remaining accrual of \$9 million is expected to be paid in 2013 with minimal amounts to be paid out in 2014 and 2015. This amount is included in other liabilities on the condensed consolidated balance sheet at June 30, 2012.

*European Principal Company ( EPC )*

In May 2011, before our acquisition of Diversey, Diversey management approved, subject to successful works council consultations, plans to reorganize its European operations to function under a centralized management and supply chain model. We completed the reorganization on May 3, 2012 and the EPC, based in the Netherlands, is now centrally managing Diversey's European operations. Diversey's European subsidiaries are executing sales and distribution locally, and local production companies are acting as toll manufacturers.

As part of the planning for this reorganization, we recognized associated costs of \$6 million for the three months ended June 30, 2012 and \$11 million for the six months ended June 30, 2012, which are included in marketing, administrative and development expenses in the condensed consolidated statements of operations, and nominal amounts for restructuring charges for severance and termination benefits.



**Table of Contents****(10) Debt and Credit Facilities**

Our total debt outstanding consisted of the amounts included in the table below.

|   | June 30,<br>2012  | December 31,<br>2011 |
|---|-------------------|----------------------|
| Short-term borrowings   | \$ 50.0           | \$ 34.5              |
| Current portion of long-term debt   | 1.2               | 1.9                  |
| <b>Total current debt</b>   | <b>51.2</b>       | <b>36.4</b>          |
| 5.625% Senior Notes due July 2013, less unamortized discount of \$0.2 in 2012 and \$0.3 in 2011(1)(2)   | 400.7             | 401.0                |
| 12% Senior Notes due February 2014(1)   | 154.9             | 156.3                |
| Term Loan A Facility due October 2016, less unamortized lender fees of \$18.6 in 2012 and \$22.7 in 2011(3)   | 933.8             | 989.9                |
| 7.875% Senior Notes due June 2017, less unamortized discount of \$6.0 in 2012 and \$6.5 in 2011   | 394.0             | 393.5                |
| Term Loan B Facility due October 2018, less unamortized lender fees of \$18.9 in 2012 and \$21.3 in 2011 and unamortized discount of \$24.0 in 2012 and \$26.5 in 2011(3) | 1,100.7           | 1,118.8              |
| 8.125% Senior Notes due September 2019  | 750.0             | 750.0                |
| 8.375% Senior Notes due September 2021  | 750.0             | 750.0                |
| 6.875% Senior Notes due July 2033, less unamortized discount of \$1.4 in 2012 and 2011  | 448.6             | 448.6                |
| Other   | 2.9               | 2.8                  |
| <b>Total long-term debt, less current portion</b>   | <b>4,935.6</b>    | <b>5,010.9</b>       |
| <b>Total debt</b>   | <b>\$ 4,986.8</b> | <b>\$ 5,047.3</b>    |

- (1) Amount includes adjustments due to interest rate swaps. See Interest Rate Swaps, of Note 11, Derivatives and Hedging Activities, for further discussion.
- (2) Our 5.625% Senior Notes mature in July 2013. Accordingly, we reclassified the carrying value of these notes to current portion of long-term debt from long-term debt, less current portion in July 2012.
- (3) In the six months ended June 30, 2012, we prepaid our 2013 Term Loan A (\$55 million) and Term Loan B (\$5 million) installments.

**Credit Facility**

In connection with the funding of the cash consideration for the acquisition and the repayment of existing indebtedness of Diversey and to provide for ongoing liquidity requirements, on October 3, 2011, we entered into a senior secured credit facility (the Credit Facility). The Credit Facility consists of: (a) a multicurrency term loan A facility denominated in U.S. dollars, Canadian dollars, euros and Japanese yen, ( Term Loan A Facility ), (b) a multicurrency term loan B facility denominated in U.S. dollars and euros ( Term Loan B Facility ) and (c) a \$700 million revolving credit facility available in U.S. dollars, Canadian dollars, euros and Australian dollars ( Revolving Credit Facility ). Our obligations under the Credit Facility have been guaranteed by certain of Sealed Air's subsidiaries and secured by pledges of certain assets and the capital stock of certain of our subsidiaries. In connection with entering into the Credit Facility, we terminated our former global credit facility and European credit facility.

The U.S. dollar denominated tranche of the Term Loan B Facility was sold to investors at 98% of its principal amount, and the euro-denominated tranche of the Term Loan B Facility was sold to investors at 97% of its principal amount. As a result, we recorded \$28 million of original issuance discounts, which are included in the carrying amount of the Term Loan B Facility. We also recorded \$48 million of lender fees related to the transactions mentioned above. These fees are also included in the carrying amount of the respective debt instruments. In addition, we recorded \$51 million of non-lender fees related to the transactions mentioned above. These fees are included in other assets on our condensed consolidated balance sheet.

The amortization expense of the original issuance discount and lender and non-lender fees are calculated using the effective interest rate method over the lives of the respective debt instruments. Total amortization expense related to the debt instruments above was \$6 million in the three months ended June 30, 2012 and \$12 million in the six months ended June 30, 2012. These amounts are included in interest expense on our

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condensed consolidated statements of operations.

The Revolving Credit Facility may be used for working capital needs and general corporate purposes, including the payment of the amounts required upon effectiveness of the Settlement agreement (defined below in Note 14, Commitments and Contingencies ). We did not use our Revolving Credit Facility in the six months ended June 30, 2012, and no amounts were outstanding as of June 30, 2012 or December 31, 2011.

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The Credit Facility provides for customary events of default, including failure to pay principal or interest when due, failure to comply with covenants, the fact that any representation or warranty made by Sealed Air is false in any material respect, certain insolvency or receivership events affecting Sealed Air and its subsidiaries and a change in control of Sealed Air. For certain events of default, the commitments of the lenders will be automatically terminated, and all outstanding obligations of Sealed Air under the Credit Facility may be declared immediately due and payable.

**Lines of Credit**

The following table summarizes our available lines of credit and committed and uncommitted lines of credit, including the Revolving Credit Facility discussed above, and the amounts available under our accounts receivable securitization program. We are not subject to any material compensating balance requirements in connection with our lines of credit.

|   | June 30,<br>2012  | December 31,<br>2011 |
|---|-------------------|----------------------|
| Used lines of credit                                    | \$ 50.0           | \$ 34.5              |
| Unused lines of credit                                  | 1,004.8           | 1,028.7              |
| <b>Total available lines of credit</b>                  | <b>\$ 1,054.8</b> | <b>\$ 1,063.2</b>    |
| Available lines of credit committed                     | \$ 702.9          | \$ 703.9             |
| Available lines of credit uncommitted                   | 351.9             | 359.3                |
| <b>Total available lines of credit</b>                  | <b>\$ 1,054.8</b> | <b>\$ 1,063.2</b>    |
| Accounts receivable securitization program committed(1) | \$ 92.0           | \$ 92.0              |

(1) See Note 8, Accounts Receivable Securitization Program, for further details of this program.

**Other Lines of Credit**

Substantially all our short-term borrowings of \$50 million at June 30, 2012 and \$35 million at December 31, 2011 were outstanding under lines of credit available to several of our foreign subsidiaries. The following table details our other lines of credit.

|                                | June 30,<br>2012 | December 31,<br>2011 |
|--------------------------------|------------------|----------------------|
| Available lines of credit      | \$ 354.8         | \$ 363.2             |
| Unused lines of credit         | 304.8            | 328.7                |
| Weighted average interest rate | 6.3%             | 2.6%                 |

**Covenants**

Each issue of our outstanding senior notes imposes limitations on our operations and those of specified subsidiaries. The Credit Facility contains customary affirmative and negative covenants for credit facilities of this type, including limitations on our indebtedness, liens, investments, restricted payments, mergers and acquisitions, dispositions of assets, transactions with affiliates, amendment of documents and sale leasebacks, and a covenant specifying a maximum permitted ratio of Consolidated Net Debt to Consolidated EBITDA (as defined in the Credit Facility). We were in compliance with the above financial covenants and limitations at June 30, 2012.

**(11) Derivatives and Hedging Activities**

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We report all derivative instruments on our balance sheet at fair value and establish criteria for designation and effectiveness of transactions entered into for hedging purposes.

As a large global organization, we face exposure to market risks, such as fluctuations in foreign currency exchange rates and interest rates. To manage the volatility relating to these exposures, we enter into various derivative instruments from time to time under our risk management policies. We designate derivative instruments as hedges on a transaction basis to support hedge accounting. The changes in fair value of these hedging instruments offset in part or in whole corresponding changes in the fair value or cash flows of the underlying exposures being hedged. We assess the initial and ongoing effectiveness of our hedging relationships in accordance with our policy. We do not purchase, hold or sell derivative financial instruments for trading purposes. Our practice is to terminate derivative transactions if the underlying asset or liability matures or is sold or terminated, or if we determine that the underlying forecasted transaction is no longer probable of occurring.

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***Foreign Currency Forward Contracts Not Designated as Hedges***

Our subsidiaries have foreign currency exchange exposure from buying and selling in currencies other than their functional currencies. The primary purposes of our foreign currency hedging activities are to manage the potential changes in value associated with the amounts receivable or payable on transactions denominated in foreign currencies and to minimize the impact of the changes in foreign currencies related to foreign currency denominated interest-bearing intercompany loans and receivables and payables. The changes in fair value of these derivative contracts are recognized in other expense, net, on our condensed consolidated statements of operations and are largely offset by the remeasurement of the underlying foreign currency denominated items indicated above. These contracts predominantly have original maturities of less than 12 months.

The estimated fair value of these derivative contracts, which represents the estimated net balance that would be paid or that would be received by us in the event of their termination, based on the then current foreign currency exchange rates, was a net current asset of \$55 million at June 30, 2012 and a net current asset of \$15 million at December 31, 2011.

***Foreign Currency Forward Contracts Designated as Cash Flow Hedges***

The primary purposes of our cash flow hedging activities are to manage the potential changes in value associated with the amounts receivable or payable on equipment and raw material purchases that are denominated in foreign currencies in order to minimize the impact of the changes in foreign currencies. We record gains and losses on foreign currency forward contracts qualifying as cash flow hedges in other comprehensive income to the extent that these hedges are effective and until we recognize the underlying transactions in net earnings, at which time we recognize these gains and losses in other expense, net, on our condensed consolidated statements of operations.

Net unrealized after tax gains (losses) related to these contracts that were included in other comprehensive income for the three and six months ended June 30, 2012 and 2011 were immaterial. The unrealized amounts in other comprehensive income will fluctuate based on changes in the fair value of open contracts during each reporting period.

***Interest Rate Swaps***

From time to time, we may use interest rate swaps to manage our mix of fixed and floating interest rates on our outstanding indebtedness.

At June 30, 2012, we had outstanding interest rate swaps related to our 12% Senior Notes that qualified and were designated as fair value hedges.

We recorded a mark-to-market adjustment to record an increase of \$2 million at June 30, 2012 in the carrying amount of our 12% Senior Notes due to changes in interest rates and an offsetting increase to other assets at June 30, 2012 to record the fair value of the remaining outstanding interest rate swaps. There was no ineffective portion of the hedges recognized in earnings during the period.

In the fourth quarter of 2011, we terminated or offset interest rate swaps on our 5.625% Senior Notes and our 12% Senior Notes. As a result, we received cash of \$7 million related to these terminations and recognized a reduction of interest expense of \$1 million and an increase of \$6 million in the carrying amount of our 12% Senior Notes and our 5.625% Senior Notes, which is being amortized over the remaining maturities of these notes and included in interest expense on our condensed consolidated statements of operations.

At December 31, 2011, we recorded a mark-to-market adjustment to record an increase of \$2 million in the carrying amount of our 12% Senior Notes due to changes in interest rates and an offsetting increase to other assets at December 31, 2011 to record the fair value of the remaining outstanding interest rate swaps. There was no ineffective portion of the hedges recognized in earnings during the period.

As a result of our interest rate swap agreements, interest expense was reduced by \$0.2 million in the three months ended June 30, 2012, \$1 million in the three months ended June 30, 2011, \$0.5 million in the six months ended June 30, 2012 and \$2 million in the six months ended June 30, 2011.

***Other Derivative Instruments***

We may use other derivative instruments from time to time, such as foreign exchange options to manage exposure to foreign exchange rates and interest rate and currency swaps related to access to international financing transactions. These instruments can potentially limit foreign exchange exposure by swapping borrowings denominated in one currency for borrowings denominated in another currency. At June 30, 2012 and December 31, 2011, we had no foreign exchange options or interest rate and currency swap agreements outstanding.

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See Note 12, Fair Value Measurements and Other Financial Instruments, for a discussion of the inputs and valuation techniques used to determine the fair value of our outstanding derivative instruments.



**Table of Contents****Fair Value of Derivative Instruments**

The following table details the fair value of our derivative instruments included on our condensed consolidated balance sheets.

|   | Fair Value of Asset<br>Derivatives(1) |                      | Fair Value of (Liability)<br>Derivatives(1) |                      |
|---|---------------------------------------|----------------------|---|----------------------|
|   | June 30,<br>2012                      | December 31,<br>2011 | June 30,<br>2012                            | December 31,<br>2011 |
| <b>Derivatives designated as hedging instruments:</b>     |                                       |                      |   |                      |
| Foreign currency forward contracts (cash flow hedges)     | \$                                    | \$ 0.5               | \$  | \$ (0.6)             |
| Interest rate swaps (fair value hedges)                   | 1.8                                   | 2.1                  | (0.2)                                       |                      |
| <b>Derivatives not designated as hedging instruments:</b> |                                       |                      |   |                      |
| Foreign currency forward contracts                        | 59.7                                  | 18.0                 | (5.0)                                       | (3.0)                |
| <b>Total</b>  | \$ 61.5                               | \$ 20.6              | \$ (5.2)                                    | \$ (3.6)             |

(1) Asset derivatives are included in other assets and liability derivatives are included in other liabilities.

The following table details the effect of our derivative instruments on our condensed consolidated statements of operations.

**Amount of Gain (Loss)  
Recognized in**

**Net Earnings on Derivatives(1)**

|   | Three Months<br>Ended |          | Six Months<br>Ended |        |
|---|-----------------------|----------|---------------------|--------|
|   | June 30,<br>2012      | 2011     | June 30,<br>2012    | 2011   |
| <b>Derivatives designated as hedging instruments:</b>     |                       |          |                     |        |
| Interest rate swaps                                       | \$ 0.3                | \$ 1.4   | \$ 0.4              | \$ 2.3 |
| Foreign currency forward contracts(2)                     | 0.1                   | 0.1      | (0.1)               | 0.1    |
| <b>Derivatives not designated as hedging instruments:</b> |                       |          |                     |        |
| Foreign currency forward contracts(2)                     | (3.0)                 | (4.5)    | (5.6)               | 0.6    |
| <b>Total</b>  | \$ (2.6)              | \$ (3.0) | \$ (5.3)            | \$ 3.0 |

(1) Amounts recognized on the foreign currency forward contracts were included in other income (expense), net. Amounts recognized on the interest rate swaps were included in interest expense.

(2) The net gains and (losses) included above were substantially offset by the net (losses) and gains resulting from the remeasurement of the underlying foreign currency denominated items, which are included in other expense, net, on the condensed consolidated statement of operations. The underlying foreign currency denominated items include third party and intercompany receivables and payables and interest-bearing intercompany loans. See Foreign Currency Forward Contracts Not Designated as Hedges above for further information.

**(12) Fair Value Measurements and Other Financial Instruments**

**Fair Value Measurements**

In determining fair value of financial instruments, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and consider counterparty credit risk in our assessment of fair value. We determine fair value of our financial instruments based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

*Level 1 Inputs:* Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

*Level 2 Inputs:* Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

*Level 3 Inputs:* Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

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The following table details the fair value hierarchy of our financial instruments.

|   | Total<br>Fair Value | Level 1 | Level 2  | Level 3 |
|---|---------------------|---------|----------|---------|
| <b>June 30, 2012</b>                                      |                     |         |          |         |
| Cash equivalents  | \$ 11.3             | \$      | \$ 11.3  | \$      |
| Derivative financial instruments net asset (liabilities): |                     |         |          |         |
| Interest rate swaps                                       | \$ 1.6              | \$      | \$ 1.6   | \$      |
| Foreign currency forward contracts                        | \$ 54.7             | \$      | \$ 54.7  | \$      |
| <b>December 31, 2011</b>                                  |                     |         |          |         |
| Cash equivalents  | \$ 148.9            | \$      | \$ 148.9 | \$      |
| Derivative financial instruments net asset:               |                     |         |          |         |
| Interest rate swaps                                       | \$ 2.1              | \$      | \$ 2.1   | \$      |
| Foreign currency forward contracts                        | \$ 14.9             | \$      | \$ 14.9  | \$      |

**Cash Equivalents**

Our cash equivalents at June 30, 2012 consisted of commercial paper (fair value determined using Level 2 inputs). Our cash equivalents at December 31, 2011 consisted of commercial paper and money market accounts (fair value determined using Level 2 inputs). Since these are short-term highly liquid investments with original maturities of three months or less at the date of purchase, they present negligible risk of changes in fair value due to changes in interest rates.

**Derivative Financial Instruments**

Our foreign currency forward contracts are recorded at fair value on our condensed consolidated balance sheets using an income approach valuation technique based on observable market inputs (Level 2).

Observable market inputs used in the calculation of the fair value of foreign currency forward contracts include foreign currency spot and forward rates obtained from an independent third party market data provider. In addition, other pricing data quoted by various banks and foreign currency dealers involving identical or comparable instruments are included.

Our interest rate swaps are recorded at fair value on our condensed consolidated balance sheet using an income approach valuation technique based on observable market inputs (Level 2). Observable market inputs used in the calculation of the fair value of interest rate swaps include pricing data from counterparties to these swaps, and a comparison is made to other market data including U.S. Treasury yields and swap spreads involving identical or comparable derivative instruments.

Counterparties to these foreign currency forward contracts and interest rate swaps are rated at least A- by Standard & Poor's and Baa1 by Moody's. None of these counterparties experienced any significant ratings downgrades in the six months ended June 30, 2012. Credit ratings on some of our counterparties may change during the term of our financial instruments. We closely monitor our counterparties' credit ratings and if necessary will make any appropriate changes to our financial instruments. The fair value generally reflects the estimated amounts that we would receive or pay to terminate the contracts at the reporting date.

**Other Financial Instruments**

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The following financial instruments are recorded at fair value or at amounts that approximate fair value: (1) receivables, net, (2) certain other current assets, (3) accounts payable and (4) other current liabilities. The carrying amounts reported on our condensed consolidated balance sheets for the above financial instruments closely approximate their fair value due to the short-term nature of these assets and liabilities.

Other liabilities that are recorded at carrying value on our condensed consolidated balance sheets include our senior notes. We utilize a market approach to calculate the fair value of our senior notes. Due to their limited investor base and the face value of some of our senior notes, they may not be actively traded on the date we calculate their fair value. Therefore, we may utilize prices and other relevant information generated by market transactions involving similar securities, reflecting U.S. Treasury yields to calculate the yield to maturity and the price on some of our senior notes. These inputs are provided by an independent third party and are considered to be Level 2 inputs.

We derive our fair value estimates of our various other debt instruments by evaluating the nature and terms of each instrument, considering prevailing economic and market conditions, and examining the cost of similar debt offered at the balance sheet date. We also incorporated our credit default swap rates and currency specific swap rates in the valuation of each debt instrument, as applicable.

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These estimates are subjective and involve uncertainties and matters of significant judgment, and therefore we cannot determine them with precision. Changes in assumptions could significantly affect our estimates.

The table below shows the carrying amounts and estimated fair values of our total debt:

|  | June 30, 2012     |                   | December 31, 2011 |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | Carrying Amount   | Fair Value        | Carrying Amount   | Fair Value        |
| 5.625% Senior Notes due July 2013(1)     | \$ 400.7          | \$ 408.5          | \$ 401.0          | \$ 414.1          |
| 12% Senior Notes due February 2014(1)    | 154.9             | 173.4             | 156.3             | 179.8             |
| Term Loan A Facility due October 2016(2) | 933.8             | 933.8             | 989.9             | 989.9             |
| 7.875% Senior Notes due June 2017        | 394.0             | 432.0             | 393.5             | 426.0             |
| Term Loan B Facility due October 2018(2) | 1,100.7           | 1,100.7           | 1,118.8           | 1,118.8           |
| 8.125% Senior Notes due September 2019   | 750.0             | 830.8             | 750.0             | 824.5             |
| 8.375% Senior Notes due September 2021   | 750.0             | 841.5             | 750.0             | 826.9             |
| 6.875% Senior Notes due July 2033        | 448.6             | 432.3             | 448.6             | 389.3             |
| Other foreign loans                      | 53.3              | 52.8              | 37.8              | 37.4              |
| Other domestic loans                     | 0.8               | 0.8               | 1.4               | 1.3               |
| <b>Total debt</b>                        | <b>\$ 4,986.8</b> | <b>\$ 5,206.6</b> | <b>\$ 5,047.3</b> | <b>\$ 5,208.0</b> |

(1) The carrying value and fair value of such debt include adjustments due to interest rate swaps. See Note 11, Derivatives and Hedging Activities.

(2) Includes non-U.S. dollar tranches.

As of June 30, 2012, we did not have any non-financial assets and liabilities that were carried at fair value on a recurring basis in the consolidated financial statements or for which a fair value measurement was required at June 30, 2012. Included among our non-financial assets and liabilities that are not required to be measured at fair value on a recurring basis are inventories, net property and equipment, goodwill, intangible assets, and asset retirement obligations.

**(13) Income Taxes****Effective Income Tax Rate and Income Tax Provision**

Our loss before income taxes for the three months ended June 30, 2012 was increased by an income tax provision of \$7 million. Our loss before income taxes for the six months ended June 30, 2012 was reduced by an income tax benefit of \$1 million (an effective income tax benefit rate of 6.7%). The tax provision (benefit) for the three and six month periods resulted from restructuring efforts, including both taxes incurred with respect to restructuring and expenses with a zero or low tax benefit. Our tax provision for both the three month and six month periods benefitted from earnings in jurisdictions with low tax rates and losses in jurisdictions, such as the U.S., with high tax rates, as well as favorable settlements of certain tax disputes totaling \$5 million in the three months ended June 30, 2012 and \$10 million in the six months ended June 30, 2012.

Our annual effective income tax rate was 27.9% for the three months ended June 30, 2011 and 27.8% for the six months ended June 30, 2011. For both the three and six months ended June 30, 2011, our annual effective income tax rate was lower than the statutory U.S. federal income tax rate of 35% primarily due to our lower net effective income tax rate on foreign earnings, our domestic manufacturing deduction and certain U.S. tax credits partially offset by state income taxes and non-deductible acquisition costs related to our acquisition of Diversey incurred during the three months ended June 30, 2011.

**Unrecognized Tax Benefits**

There have been no material changes to the Company's unrecognized tax benefits as reported at June 30, 2012, nor have we changed our policy with regard to the reporting of penalties and interest related to unrecognized tax benefits.

**(14) Commitments and Contingencies**

In the ordinary course of business, we are involved in a number of lawsuits incidental to our business, including litigation related to environmental, intellectual property, product liability, and commercial matters. Although it is difficult to predict the ultimate outcome of these cases, management believes, except as discussed below that any ultimate liability would not have a material adverse effect on our consolidated financial condition or results of operations. However, an unforeseen unfavorable development in any of these cases could have a material adverse effect on our consolidated financial condition, results of operations or cash flows in the period in which it is recorded.

***Cryovac Transaction Commitments and Contingencies***

***Settlement Agreement and Related Costs***

On November 27, 2002, we 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 our affiliates in connection with the Cryovac transaction described below (as memorialized by the parties in the Settlement agreement and as approved by the Bankruptcy Court, the Settlement agreement). The Settlement agreement will also resolve the fraudulent transfer claims and successor liability claims, as well as indemnification claims by Fresenius Medical Care Holdings, Inc. and

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affiliated companies, in connection with the Cryovac transaction. On December 3, 2002, our Board of Directors approved the agreement in principle. We received notice that both of the Committees had approved the agreement in principle as of December 5, 2002. The parties subsequently signed the definitive Settlement agreement as of November 10, 2003 consistent with the terms of the agreement in principle. For a description of the Cryovac transaction, asbestos-related claims and the parties involved, see Cryovac Transaction, Discussion of Cryovac Transaction Commitments and Contingencies, Fresenius Claims, Canadian Claims and Additional Matters Related to the Cryovac Transaction below.

We recorded a pre-tax charge of approximately \$850 million as a result of the Settlement agreement on our condensed consolidated statement of operations for the year ended December 31, 2002. The charge consisted of the following items:

a charge of \$513 million covering a cash payment that we will be required to make under the Settlement agreement upon the effectiveness of an appropriate plan of reorganization in the Grace bankruptcy. Because we cannot predict when a plan of reorganization may become effective, we recorded this liability as a current liability on our consolidated balance sheet at December 31, 2002. Under the terms of the Settlement agreement, this amount accrues interest at a 5.5% annual rate from December 21, 2002 to the date of payment. We have recorded this interest in interest expense on our condensed consolidated statements of operations and in Settlement agreement and related accrued interest on our condensed consolidated balance sheets. The accrued interest, which is compounded annually, was \$342 million at June 30, 2012 and \$319 million at December 31, 2011.

a non-cash charge of \$322 million representing the fair market value at the date we recorded the charge of nine million shares of Sealed Air common stock that we expect to issue under the Settlement agreement upon the effectiveness of an appropriate plan of reorganization in the Grace bankruptcy, which was adjusted to eighteen million shares due to our two-for-one stock split in March 2007. These shares are subject to customary anti-dilution provisions that adjust for the effects of stock splits, stock dividends and other events affecting our common stock. The fair market value of our common stock was \$35.72 per pre-split share (\$17.86 post-split) as of the close of business on December 5, 2002. We recorded this amount on our consolidated balance sheet at December 31, 2002 as follows: \$0.9 million representing the aggregate par value of these shares of common stock reserved for issuance related to the Settlement agreement, and the remaining \$321 million, representing the excess of the aggregate fair market value over the aggregate par value of these common shares, in additional paid-in capital.

\$16 million of legal and related fees as of December 31, 2002.

*Cryovac Transaction*

On June 30, 1998, we 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. These businesses operate as subsidiaries of the Company, and the Company acts as a holding company. As part of that transaction, the parties separated the Cryovac packaging business, which previously had been held by various direct and indirect subsidiaries of the Company, from the remaining businesses previously held by the Company. The parties then arranged for the contribution of these remaining businesses to a company now known as W. R. Grace & Co., and the Company distributed the Grace shares to the Company's stockholders. As a result, W. R. Grace & Co. became a separate publicly owned company. The Company recapitalized its outstanding shares of common stock into a new common stock and a new convertible preferred stock. A subsidiary of the Company then merged into the former Sealed Air Corporation, which became a subsidiary of the Company and changed its name to Sealed Air Corporation (US).

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*Discussion of Cryovac Transaction Commitments and Contingencies*

In connection with the Cryovac transaction, Grace and its subsidiaries retained all liabilities arising out of their operations before the Cryovac transaction, whether accruing or occurring before or after the Cryovac transaction, other than liabilities arising from or relating to Cryovac's operations. Among the liabilities retained by Grace are liabilities relating to asbestos-containing products previously manufactured or sold by Grace's subsidiaries prior to the Cryovac transaction, including its primary U.S. operating subsidiary, W. R. Grace & Co. Conn., which has operated for decades and has been a subsidiary of Grace since the Cryovac transaction. The Cryovac transaction agreements provided that, should any claimant seek to hold the Company or any of its subsidiaries responsible for liabilities retained by Grace or its subsidiaries, including the asbestos-related liabilities, Grace and its subsidiaries would indemnify and defend us.

Since the beginning of 2000, we have been served with a number of lawsuits alleging that, as a result of the Cryovac transaction, we are responsible for alleged asbestos liabilities of Grace and its subsidiaries, some of which were also named as co-defendants in some of these actions. Among these lawsuits are several purported class actions and a number of personal injury lawsuits. Some plaintiffs seek damages for personal injury or wrongful death, while others seek medical monitoring, environmental remediation or remedies related to an attic insulation product. Neither the former Sealed Air Corporation nor Cryovac, Inc. ever produced or sold any of the asbestos-containing materials that are the subjects of these cases. None of these cases has reached resolution through judgment, settlement or otherwise. As discussed below, Grace's Chapter 11 bankruptcy proceeding has stayed all of these cases.

While the allegations in these actions directed to us vary, these actions all appear to allege that the transfer of the Cryovac business as part of the Cryovac transaction was a fraudulent transfer or gave rise to successor liability. Under a theory of successor liability, plaintiffs with claims against Grace and its subsidiaries may attempt to hold us liable for liabilities that arose with respect to activities conducted prior to the Cryovac transaction by W. R. Grace & Co. Conn. or other Grace subsidiaries. A transfer would be a fraudulent transfer if the transferor received less than reasonably equivalent value and the transferor was insolvent or was rendered insolvent by the transfer, was engaged or was about to engage in a business for which its assets constitute unreasonably small capital, or intended to incur or believed that it would incur debts beyond its ability to pay as they mature. A transfer may also be fraudulent if it was made with actual intent to hinder, delay or defraud creditors. If a court found any transfers in connection with the Cryovac transaction to be fraudulent transfers, we could be required to return the property or its value to the transferor or could be required to fund liabilities of Grace or its subsidiaries for the benefit of their creditors, including asbestos claimants. We have reached an agreement in principle and subsequently signed the Settlement agreement, described below, that is expected to resolve all these claims.

In the Joint Proxy Statement furnished to their respective stockholders in connection with the Cryovac transaction, both parties to the transaction stated that it was their belief that Grace and its subsidiaries were adequately capitalized and would be adequately capitalized after the Cryovac transaction and that none of the transfers contemplated to occur in the Cryovac transaction would be a fraudulent transfer. They also stated their belief that the Cryovac transaction complied with other relevant laws. However, if a court applying the relevant legal standards had reached conclusions adverse to us, these determinations could have had a materially adverse effect on our consolidated financial condition and results of operations.

On April 2, 2001, Grace and a number of its subsidiaries filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court in the District of Delaware (the Bankruptcy Court). Grace stated that the filing was made in response to a sharply increasing number of asbestos claims since 1999.

In connection with its Chapter 11 filing, Grace filed an application with the Bankruptcy Court seeking to stay, among others, all actions brought against the Company and specified subsidiaries related to alleged asbestos liabilities of Grace and its subsidiaries or alleging fraudulent transfer claims. The court issued an order dated May 3, 2001, which was modified on January 22, 2002, under which the court stayed all the filed or pending asbestos actions against us and, upon filing and service on us, all future asbestos actions. No further proceedings involving us can occur in the actions that have been stayed except upon further order of the Bankruptcy Court.

Committees appointed to represent asbestos claimants in Grace's bankruptcy case received the court's permission to pursue fraudulent transfer and other claims against the Company and its subsidiary Cryovac, Inc., and against Fresenius, as discussed below. The claims against Fresenius are based upon a 1996 transaction between Fresenius and W. R. Grace & Co. Conn. Fresenius is not affiliated with us. In March 2002, the court ordered that the issues of the solvency of Grace following the Cryovac transaction and whether Grace received reasonably equivalent value in the Cryovac transaction would be tried on behalf of all of Grace's creditors. This proceeding was brought in the U.S. District Court for the District of Delaware (the District Court) (Adv. No. 02-02210).



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In June 2002, the court permitted the U.S. government to intervene as a plaintiff in the fraudulent transfer proceeding, so that the U.S. government could pursue allegations that environmental remediation expenses were underestimated or omitted in the solvency analyses of Grace conducted at the time of the Cryovac transaction. The court also permitted Grace, which asserted that the Cryovac transaction was not a fraudulent transfer, to intervene in the proceeding. In July 2002, the court issued an interim ruling on the legal standards to be applied in the trial, holding, among other things, that, subject to specified limitations, post-1998 claims should be considered in the solvency analysis of Grace. We believe that only claims and liabilities that were known, or reasonably should have been known, at the time of the 1998 Cryovac transaction should be considered under the applicable standard.

With the fraudulent transfer trial set to commence on December 9, 2002, on November 27, 2002, we reached an agreement in principle with the Committees prosecuting the claims against the Company and Cryovac, Inc., to resolve all current and future asbestos-related claims arising from the Cryovac transaction. On the same day, the court entered an order confirming that the parties had reached an amicable resolution of the disputes among the parties and that counsel for us and the Committees had agreed and bound the parties to the terms of the agreement in principle. As discussed above, the agreement in principle called for payment of nine million shares of our common stock and \$513 million in cash, plus interest on the cash payment at a 5.5% annual rate starting on December 21, 2002 and ending on the effective date of an appropriate plan of reorganization in the Grace bankruptcy, when we are required to make the payment. These shares are subject to customary anti-dilution provisions that adjust for the effects of stock splits, stock dividends and other events affecting our common stock, and as a result, the number of shares of our common stock that we will issue increased to eighteen million shares upon the two-for-one stock split in March 2007. On December 3, 2002, the Company's Board of Directors approved the agreement in principle. We received notice that both of the Committees had approved the agreement in principle as of December 5, 2002. The parties subsequently signed the definitive Settlement agreement as of November 10, 2003 consistent with the terms of the agreement in principle. On November 26, 2003, the parties jointly presented the definitive Settlement agreement to the District Court for approval. On Grace's motion to the District Court, that court transferred the motion to approve the Settlement agreement to the Bankruptcy Court for disposition.

On June 27, 2005, the Bankruptcy Court signed an order approving the 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 over any dispute involving the interpretation or enforcement of the terms and provisions of the Settlement agreement. We expect that the Settlement agreement will become effective upon Grace's emergence from bankruptcy pursuant to a plan of reorganization that is consistent with the terms of the Settlement agreement.

On June 8, 2004, we filed a motion with the District Court, where the fraudulent transfer trial was pending, requesting that the court vacate the July 2002 interim ruling on the legal standards to be applied relating to the fraudulent transfer claims against us. We were not challenging the Settlement agreement. The motion was filed as a protective measure in the event that the Settlement agreement is ultimately not approved or implemented; however, we still expect 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.

On July 11, 2005, the Bankruptcy Court entered an order closing the proceeding brought in 2002 by the committees appointed to represent asbestos claimants in the Grace bankruptcy proceeding against us without prejudice to our right to reopen the matter and renew in our sole discretion our motion to vacate the July 2002 interim ruling on the legal standards to be applied relating to the fraudulent transfer claims against us.

As a condition to our obligation to make the payments required by the Settlement agreement, any final plan of reorganization must be consistent with the terms of the Settlement agreement, including provisions for the trusts and releases referred to below and for an injunction barring the prosecution of any asbestos-related claims against us. The Settlement agreement provides that, upon the effective date of the final plan of reorganization and payment of the shares and cash, all present and future asbestos-related claims against us that arise from alleged asbestos liabilities of Grace and its affiliates (including former affiliates that became our affiliates through the Cryovac transaction) will be channeled to and become the responsibility of one or more trusts to be established under Section 524(g) of the Bankruptcy Code as part of a final plan of reorganization in the Grace bankruptcy. The Settlement agreement will also resolve all fraudulent transfer claims against us arising from the Cryovac transaction as well as the Fresenius claims described below. The Settlement agreement provides that we will receive releases of all those claims upon payment. Under the agreement, we cannot seek indemnity from Grace for our payments required by the Settlement agreement. The order approving the Settlement agreement also provides that the stay of proceedings involving us described above will continue through the effective date of the final plan of reorganization, after which, upon implementation of the Settlement agreement, we will be released from the liabilities asserted in those proceedings and their continued prosecution against us will be enjoined.

In January 2005, Grace filed a proposed plan of reorganization (the "Grace Plan") with the Bankruptcy Court. There were a number of objections filed. The Official Committee of Asbestos Personal Injury Claimants (the "ACC") and the Asbestos PI Future Claimants Representative (the "PI FCR") filed their proposed plan of reorganization (the "Claimants' Plan") with the Bankruptcy Court in November 2007. On April 7, 2008, Grace issued a press release announcing that Grace, the ACC, the PI FCR, and the Official Committee of Equity Security Holders (the "Equity

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Committee ) had reached an agreement in principle to settle all present and future asbestos-related personal injury claims against Grace (the PI Settlement ) and disclosed a term sheet outlining certain terms of the PI Settlement and for a contemplated plan of reorganization that would incorporate the PI Settlement (as filed and amended from time to time, the PI Settlement Plan ).

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On September 19, 2008, Grace, the ACC, the PI FCR, and the Equity Committee filed, as co-proponents, the PI Settlement Plan and several exhibits and associated documents, including a disclosure statement (as filed and amended from time to time, the PI Settlement Disclosure Statement), with the Bankruptcy Court. Amended versions of the PI Settlement Plan and the PI Settlement Disclosure Statement have been filed with the Bankruptcy Court from time to time. The PI Settlement Plan, which supersedes each of the Grace Plan and the Claimants' Plan, remains pending and has not become effective. The committee representing general unsecured creditors and the Official Committee of Asbestos Property Damage Claimants are not co-proponents of the PI Settlement Plan. As filed, the PI Settlement Plan would provide for the establishment of two asbestos trusts under Section 524(g) of the United States Bankruptcy Code to which present and future asbestos-related claims would be channeled. The PI Settlement Plan also contemplates that the terms of the Settlement agreement will be incorporated into the PI Settlement Plan and that we will pay the amount contemplated by the Settlement agreement. On March 9, 2009, the Bankruptcy Court entered an order approving the PI Settlement Disclosure Statement (the DS Order) as containing adequate information and authorizing Grace to solicit votes to accept or reject the PI Settlement Plan, all as more fully described in the order. The DS Order did not constitute the Bankruptcy Court's confirmation of the PI Settlement Plan, approval of the merits of the PI Settlement Plan, or endorsement of the PI Settlement Plan. In connection with the plan voting process in the Grace bankruptcy case, we voted in favor of the PI Settlement Plan that was before the Bankruptcy Court. We will continue to review any amendments to the PI Settlement Plan on an ongoing basis to verify compliance with the Settlement agreement.

On June 8, 2009, a senior manager with the voting agent appointed in the Grace bankruptcy case filed a declaration with the Bankruptcy Court certifying the voting results with respect to the PI Settlement Plan. This declaration was amended on August 5, 2009 (as amended, the Voting Declaration). According to the Voting Declaration, with respect to each class of claims designated as impaired by Grace, the PI Settlement Plan was approved by holders of at least two-thirds in amount and more than one-half in number (or for classes voting for purposes of Section 524(g) of the Bankruptcy Code, at least 75% in number) of voted claims. The Voting Declaration also discusses the voting results with respect to holders of general unsecured claims (GUCs) against Grace, whose votes were provisionally solicited and counted subject to a determination by the Bankruptcy Court of whether GUCs are impaired (and, thus, entitled to vote) or, as Grace contends, unimpaired (and, thus, not entitled to vote). According to the Voting Declaration, more than one half of voting holders of GUCs voted to accept the PI Settlement Plan, but the provisional vote did not obtain the requisite two-thirds dollar amount to be deemed an accepting class in the event that GUCs are determined to be impaired. To the extent that GUCs are determined to be an impaired non-accepting class, Grace and the other plan proponents have indicated that they would nevertheless seek confirmation of the PI Settlement Plan under the cram down provisions contained in Section 1129(b) of the Bankruptcy Code.

On January 31, 2011, the Bankruptcy Court entered a memorandum opinion (as amended, the Bankruptcy Court Opinion) overruling certain objections to the PI Settlement Plan and finding, among other things, that GUCs are not impaired under the PI Settlement Plan. On the same date, the Bankruptcy Court entered an order regarding confirmation of the PI Settlement Plan (as amended, the Bankruptcy Court Confirmation Order). As entered on January 31, 2011, the Bankruptcy Court Confirmation Order contained recommended findings of fact and conclusions of law, and recommended that the District Court approve the Bankruptcy Court Confirmation Order, and that the District Court confirm the PI Settlement Plan and issue a channeling injunction under Section 524(g) of the Bankruptcy Code. Thereafter, on February 15, 2011, the Bankruptcy Court issued an order clarifying the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order (the Clarifying Order). Among other things, the Clarifying Order provided that any references in the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order to a recommendation that the District Court confirm the PI Settlement Plan were thereby amended to make clear that the PI Settlement Plan was confirmed and that the Bankruptcy Court was requesting that the District Court issue and affirm the Bankruptcy Court Confirmation Order including the injunction under Section 524(g) of the Bankruptcy Code. On March 11, 2011, the Bankruptcy Court entered an order granting in part and denying in part a motion to reconsider the Bankruptcy Court Opinion filed by BNSF Railway Company (the March 11 Order). Among other things, the March 11 Order amended the Bankruptcy Court Opinion to clarify certain matters relating to objections to the PI Settlement Plan filed by BNSF.

Various parties appealed or otherwise challenged the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order, including without limitation with respect to issues relating to releases and injunctions contained in the PI Settlement Plan. On June 28 and 29, 2011, the District Court heard oral arguments in connection with appeals of the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order.

On January 30, 2012, the District Court issued a memorandum opinion (the Original District Court Opinion) and confirmation order (the Original District Court Confirmation Order) overruling all objections to the PI Settlement Plan and confirming the PI Settlement Plan in its entirety (including the issuance of the injunction under Section 524(g) of the Bankruptcy Code). On February 3, 2012, Garlock Sealing Technologies LLC (Garlock) filed a motion (the Garlock Reargument Motion) with the District Court requesting that the District Court grant reargument, rehearing, or otherwise amend the Original District Court Opinion and the Original District Court Confirmation Order insofar as they overrule Garlock's objections to the PI Settlement Plan. On February 13, 2012, the Company, Cryovac, and Fresenius Medical Care Holdings, Inc. filed a joint motion (the Sealed Air/Fresenius Motion) with the District Court. The Sealed Air/Fresenius Motion did not seek to disturb confirmation of the PI Settlement Plan but requested that the District Court amend and clarify certain matters in the Original District Court Opinion and the Original District Court Confirmation Order. Also on February 13, 2012, Grace and the other proponents of the PI Settlement Plan filed a motion (the Plan Proponents Motion) with the District Court requesting certain of the same amendments and clarifications sought by the Sealed Air/Fresenius Motion. On February 27, 2012, certain asbestos claimants known as the Libby Claimants filed

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a response to the Sealed Air/Fresenius Motion and the Plan Proponents Motion (the Libby Response ). The Libby Response did not oppose the Sealed Air/Fresenius Motion or the Plan

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Proponents' Motion but indicated, among other things, that: (a) the Libby Claimants had reached a settlement in principle of their objections to the PI Settlement Plan but that this settlement had not become effective and (b) the Libby Claimants reserved their rights with respect to the PI Settlement Plan pending the effectiveness of the Libby Claimants' settlement. On April 20, 2012, as part of a more global settlement, Grace filed a motion with the Bankruptcy Court seeking, among other things, approval of settlements with the Libby Claimants and BNSF. The settlements with the Libby Claimants and BNSF were approved by order of the Bankruptcy Court dated June 6, 2012. Upon the implementation, these settlements are, among other things, expected to result in the Libby Claimants and BNSF withdrawing their opposition to the PI Settlement Plan. The District Court held a hearing on May 8, 2012, to consider the Garlock Reargument Motion. On May 29, 2012, Anderson Memorial Hospital (Anderson Memorial) filed a motion seeking relief from, and reconsideration of, the Original District Court Opinion and the Original District Court Confirmation Order (the Anderson Relief Motion). In the Anderson Relief Motion, Anderson Memorial argued that a May 18, 2012, decision by the United States Court of Appeals for the Third Circuit (the Third Circuit Court of Appeals) in a case called Wright v. Owens-Corning undermined the District Court's conclusion that (a) the PI Settlement Plan was feasible and (b) the asbestos property damage injunction and trust included in the PI Settlement Plan were appropriate. Objections to the Anderson Relief Motion were filed by Grace and the other proponents of the PI Settlement Plan, and by the representative of future asbestos property damage claimants (the PD FCR) appointed in the Grace bankruptcy proceedings. On June 11, 2012, the District Court entered a consolidated order (the Consolidated Order) granting the Sealed Air/Fresenius Motion, the Plan Proponents' Motion, and the Garlock Reargument Motion, and providing for amendments to the Original District Court Opinion and the Original District Court Confirmation Order. Although the Consolidated Order granted the Garlock Reargument Motion, it did not constitute the District Court's agreement with Garlock's objections to the PI Settlement Plan, which the District Court continued to overrule. Also on June 11, 2012, the District Court entered an amended memorandum opinion (the Amended District Court Opinion) and confirmation order (the Amended District Court Confirmation Order) overruling all objections to the PI Settlement Plan, reflecting amendments described in the Consolidated Order, and confirming the PI Settlement Plan in its entirety (including the issuance of the injunction under Section 524(g) of the Bankruptcy Code). Thereafter, on July 23, 2012, the District Court issued a memorandum opinion and an order denying the Anderson Relief Motion. Parties have appealed the Amended District Court Opinion and the Amended District Court Confirmation Order to the Third Circuit Court of Appeals.

Although we are optimistic that, if it were to become effective, the PI Settlement Plan would implement the terms of the Settlement agreement, we can give no assurance that this will be the case notwithstanding the confirmation of the PI Settlement Plan by the Bankruptcy Court and the District Court. The terms of the PI Settlement Plan remain subject to amendment. Moreover, the PI Settlement Plan is subject to the satisfaction of a number of conditions which are more fully set forth in the PI Settlement Plan and include, without limitation, the availability of exit financing and the approval of the PI Settlement Plan becoming final and no longer subject to appeal. Parties have appealed the Amended District Court Confirmation Order to the Third Circuit Court of Appeals or otherwise challenged the Amended District Court Opinion and the Amended District Court Confirmation Order. Matters relating to the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, and the Bankruptcy and Amended District Court Confirmation Orders may be subject to further appeal, challenge, and proceedings before the District Court, the Third Circuit Court of Appeals, or other courts. Parties have designated various issues to be considered in challenging the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, or the Bankruptcy and Amended District Court Confirmation Orders, including, without limitation, issues relating to releases and injunctions contained in the PI Settlement Plan.

Grace has publicly indicated its decision to seek to emerge from bankruptcy despite the ongoing appeals challenging approval of the PI Settlement Plan. Grace has further indicated that emerging from bankruptcy before the appeals are fully and finally resolved will require consents or waivers from several parties, including the Company. Grace has also indicated that, to be confident of emerging from bankruptcy by the end of 2012, a final decision will need to be made by early September of 2012 regarding Grace's emergence from bankruptcy with the appeals pending. Consistent with our Settlement agreement, we are prepared to pay the Settlement amount directly to the asbestos trusts to be established under section 524(g) of the Bankruptcy Code once the conditions of the Settlement agreement are fully satisfied. Among those conditions is that approval of an appropriate Grace bankruptcy plan containing all releases, injunctions, and protections required by the Settlement agreement be final and not subject to any appeal. Given the pending appeals (which include without limitation challenges to the injunctions and releases in the PI Settlement Plan), the condition that approval of the PI Settlement Plan be final and not subject to any appeal has not been satisfied at this time. The Company has not waived this, or any other, condition of the Settlement agreement. Furthermore, there can be no assurance that each party whose consent or waiver is required for Grace to emerge from bankruptcy while the appeals remain pending will provide such consent or waiver. The Company will continue to monitor the progress of Grace's bankruptcy proceedings, including appeals.

While the Bankruptcy Court and the District Court have confirmed the PI Settlement Plan, we do not know whether or when the Third Circuit Court of Appeals will affirm the Amended District Court Confirmation Order or the Amended District Court Opinion, whether or when the Bankruptcy and Amended District Court Opinions or the Bankruptcy and Amended District Court Confirmation Orders will become final and no longer subject to appeal, or whether or when a final plan of reorganization (whether the PI Settlement Plan or another plan of reorganization) will become effective. Assuming that a final plan of reorganization (whether the PI Settlement Plan or another



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plan of reorganization) is confirmed by the Bankruptcy Court and the District Court, and does become effective, we do not know whether the final plan of reorganization will be consistent with the terms of the Settlement agreement or if the other conditions to our obligation to pay the Settlement agreement amount will be met. If these conditions are not satisfied or not waived by us, we will not be obligated to pay the amount contemplated by the Settlement agreement. However, if we do not pay the Settlement agreement amount, we will not be released from the various asbestos related, fraudulent transfer, successor liability, and indemnification claims made against us 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, we could face liabilities that are significantly different from our obligations under the Settlement agreement. We 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 our consolidated financial condition and results of operations. We will continue to review the Grace bankruptcy proceedings (including appeals and other proceedings relating to the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, and the Bankruptcy and Amended District Court Confirmation Orders), as well as any amendments or changes to the PI Settlement Plan or to Bankruptcy and Amended District Court Opinions and Confirmation Orders, to verify compliance with the Settlement agreement.

### *Fresenius Claims*

In January 2002, we filed a declaratory judgment action against Fresenius Medical Care Holdings, Inc., its parent, Fresenius AG, a German company, and specified affiliates in New York State court asking the court to resolve a contract dispute between the parties. The Fresenius parties contended that we were obligated to indemnify them for liabilities that they might incur as a result of the 1996 Fresenius transaction mentioned above. The Fresenius parties' contention was based on their interpretation of the agreements between them and W. R. Grace & Co. Conn. in connection with the 1996 Fresenius transaction. In February 2002, the Fresenius parties announced that they had accrued a charge of \$172 million for these potential liabilities, which included pre-transaction tax liabilities of Grace and the costs of defense of litigation arising from Grace's Chapter 11 filing. We believe that we were not responsible to indemnify the Fresenius parties under the 1996 agreements and filed the action to proceed to a resolution of the Fresenius parties' claims. In April 2002, the Fresenius parties filed a motion to dismiss the action and for entry of declaratory relief in its favor. We opposed the motion, and in July 2003, the court denied the motion without prejudice in view of the November 27, 2002 agreement in principle referred to above. As noted above, under the Settlement agreement, we and the Fresenius parties will exchange mutual releases, which will release us from any and all claims related to the 1996 Fresenius transaction.

### *Canadian Claims*

In November 2004, the Company's Canadian subsidiary Sealed Air (Canada) Co./Cie learned that it had been named a defendant in the case of *Thundersky v. The Attorney General of Canada, et al.* (File No. CI04-01-39818), pending in the Manitoba Court of Queen's Bench. Grace and W. R. Grace & Co. Conn. are also named as defendants. The plaintiff brought the claim as a putative class proceeding and seeks recovery for alleged injuries suffered by any Canadian resident, other than in the course of employment, as a result of Grace's marketing, selling, processing, manufacturing, distributing and/or delivering asbestos or asbestos-containing products in Canada prior to the Cryovac Transaction. A plaintiff filed another proceeding in January 2005 in the Manitoba Court of Queen's Bench naming the Company and specified subsidiaries as defendants. The latter proceeding, *Her Majesty the Queen in Right of the Province of Manitoba v. The Attorney General of Canada, et al.* (File No. CI05-01-41069), seeks the recovery of the cost of insured health services allegedly provided by the Government of Manitoba to the members of the class of plaintiffs in the *Thundersky* proceeding. In October 2005, we learned that six additional putative class proceedings 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 W. R. Grace & Co. and W. R. Grace & Co. Conn., for alleged injuries suffered by any Canadian resident, other than in the course of employment (except with respect to one of these six claims), as a result of Grace's marketing, selling, manufacturing, processing, distributing and/or delivering asbestos or asbestos-containing products in Canada prior to the Cryovac transaction. Grace and W. R. Grace & Co. Conn. have agreed to defend, indemnify and hold harmless the Company and its affiliates in respect of any liability and expense, including legal fees and costs, in these actions.

In April 2001, Grace Canada, Inc. had obtained an order of the Superior Court of Justice, Commercial List, Toronto (the Canadian Court), recognizing the Chapter 11 actions in the United States of America involving Grace Canada, Inc.'s U.S. parent corporation and other affiliates of Grace Canada, Inc., and enjoining all new actions and staying all current proceedings against Grace Canada, Inc. related to asbestos under the Companies' Creditors Arrangement Act. That order has been renewed repeatedly. In November 2005, upon motion by Grace Canada, Inc., the Canadian 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 parties finalized a global settlement of these Canadian actions (except for claims against the Canadian government). That settlement, which has subsequently been amended (the Canadian Settlement), will be entirely funded by Grace. The Canadian Court issued an Order on December 13, 2009 approving the Canadian Settlement. We do not have any positive obligations under the Canadian Settlement, but we are a beneficiary of the release of claims. The release in favor of the Grace parties (including us) will become operative upon the effective date of a plan of reorganization in Grace's United States Chapter 11 bankruptcy proceeding. As filed, the PI Settlement Plan contemplates that the claims released under the Canadian Settlement will be subject to injunctions under Section 524(g) of the Bankruptcy Code. As indicated above, the Bankruptcy Court entered the

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January 31, 2011 and the Clarifying Order on February 15, 2011 and the District Court entered the Original District Court Confirmation Order on January 30, 2012 and the Amended District Court Confirmation Order on June 11, 2012. The Canadian Court issued an Order on April 8, 2011 recognizing and giving full effect to the Bankruptcy Court's Confirmation Order in all provinces and territories of Canada in accordance with the Bankruptcy Court Confirmation Order's terms. Notwithstanding the foregoing, the PI Settlement Plan has not become effective, and we can give no assurance that the PI Settlement Plan (or any other plan of reorganization) will become effective. Assuming that a final plan of reorganization (whether the PI Settlement Plan or another plan of reorganization) does become effective, if the final plan of reorganization does not incorporate the terms of the Canadian Settlement or if the Canadian courts refuse to enforce the 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 we could be required to pay substantial damages, which we cannot estimate at this time and which could have a material adverse effect on our consolidated financial condition and results of operations.

### *Additional Matters Related to the Cryovac Transaction*

In view of Grace's Chapter 11 filing, we may receive additional claims asserting that we are liable for obligations that Grace had agreed to retain in the Cryovac transaction and for which we may be contingently liable. To date, we are not aware of any material claims having been asserted or threatened against us.

Final determinations and accountings under the Cryovac transaction agreements with respect to matters pertaining to the transaction had not been completed at the time of Grace's Chapter 11 filing in 2001. We have filed claims in the bankruptcy proceeding that reflect the costs and liabilities that we have incurred or may incur that Grace and its affiliates agreed to retain or that are subject to indemnification by Grace and its affiliates under the Cryovac transaction agreements, other than payments to be made under the Settlement agreement. Grace has alleged that we are responsible for specified amounts under the Cryovac transaction agreements. Subject to the terms of the Settlement agreement, amounts for which we may be liable to Grace may be used to offset the liabilities of Grace and its affiliates to us. We intend to seek indemnification by Grace and its affiliates to the extent permissible under law, the Settlement agreement, and the Cryovac transaction agreements. Except to the extent of any potential setoff or similar claim, we expect that our claims will be as an unsecured creditor of Grace. Since portions of our claims against Grace and its affiliates are contingent or unliquidated, we cannot determine the amount of our claims, the extent to which these claims may be reduced by setoff, how much of the claims may be allowed, or the amount of our recovery on these claims, if any, in the bankruptcy proceeding.

## **(15) Stockholders' Equity**

### *Quarterly Cash Dividends*

On July 12, 2012, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share. This dividend is payable on September 14, 2012 to stockholders of record at the close of business on August 31, 2012. The estimated amount of this dividend payment is \$25 million based on 194 million shares of our common stock issued and outstanding as of July 31, 2012.

On April 19, 2012, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share. This dividend was paid on June 15, 2012 to stockholders of record at the close of business on June 1, 2012. We used \$25 million of available cash to pay this quarterly cash dividend.

On February 16, 2012, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share, which was paid on March 16, 2012 to stockholders of record at the close of business on March 2, 2012. We used \$25 million of available cash to pay this quarterly cash dividend.

Our new Credit Facility and the Notes contain covenants that restrict our ability to declare or pay dividends. However, we do not believe these covenants are likely to materially limit the future payment of quarterly cash dividends on our common stock. From time to time, we may consider other means of returning value to our stockholders based on our consolidated financial condition and results of operations. There is no guarantee that our Board of Directors will declare any further dividends.

### *Stock Appreciation Rights (SARS)*

In connection with the acquisition of Diversey, Sealed Air exchanged Diversey's cash-settled stock appreciation rights and stock options that were unvested as of May 31, 2011 and unexercised at October 3, 2011 into cash-settled stock appreciation rights based on Sealed Air common stock.

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Since these SARs are settled in cash, the amount of the related future expense will fluctuate based on the forfeiture activity and the changes in the assumptions used in a Black-Scholes valuation model which include Sealed Air's stock price, risk-free interest rates, expected volatility and a dividend yield. In addition, once vested, the related expense will continue to fluctuate due to the changes in the assumptions used in the Black-Scholes valuation model for any SARs that are not exercised until their respective expiration dates, the last of which is currently in March 2021.

We recognized a reduction to compensation expense of \$9 million in the three months ended June 30, 2012 and expense of \$3 million in the six months ended June 30, 2012 related to SARs that were granted to Diversy employees who remained employees as of June 30, 2012. These amounts were based on the assumptions mentioned above and are included in marketing, administrative and development

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expenses on our condensed consolidated statements of operations except for SARs that were included in restructuring and other charges as discussed below. Cash payments due to the exercise of SARs in the six months ended June 30, 2012 were \$22 million. As of June 30, 2012, the remaining liability for these SARs except for SARs that were included in restructuring and other charges as discussed below was \$27 million and is included in other liabilities on our condensed consolidated balance sheet.

Included in the amounts discussed above, was the recognition of restructuring expense of \$1 million in the three months ended June 30, 2012 and \$8 million in the six months ended June 30, 2012 for SARs that were part of the termination and benefit costs for Diversey employees under the 2011 - 2014 Integration & Optimization Program. This expense was included in restructuring and other charges on our condensed consolidated statements of operations. Cash payments upon the exercise of these SARs were \$18 million in the six months ended June 30, 2012. The remaining liability for SARs included in the restructuring program was \$0.1 million as of June 30, 2012 and is included in accrued restructuring costs on the condensed consolidated balance sheet.

**2005 Contingent Stock Plan*****Share-based Incentive Compensation***

We record share-based incentive compensation expense in marketing, administrative and development expenses on our condensed consolidated statements of operations with a corresponding credit to additional paid-in capital within stockholders' equity based on the fair value of the share-based incentive compensation awards at the date of grant. We recognize an expense or credit reflecting the straight-line recognition, net of estimated forfeitures, of the expected cost of the program. For the various performance share unit ( PSU ) awards programs described below, the cumulative amount accrued to date is adjusted up or down to the extent the expected performance against the targets has improved or worsened. These share-based incentive compensation programs are described in more detail below.

The table below shows our total share-based incentive compensation expense.

|   | Three Months<br>Ended<br>June 30, |        | Six Months<br>Ended<br>June 30, |         |
|---|-----------------------------------|--------|---------------------------------|---------|
|   | 2012                              | 2011   | 2012                            | 2011    |
| 2012 Three-year PSU Awards                                  | \$ 0.7                            | \$     | \$ 1.4                          | \$      |
| 2011 Three-year PSU Awards                                  | 0.5                               | 0.9    | 0.8                             | 1.8     |
| 2010 Three-year PSU Awards                                  | 0.7                               | 3.0    | 0.3                             | 3.8     |
| 2009 Three-year PSU Awards                                  |                                   | 0.9    |                                 | 2.4     |
| 2012 CEO Incentive Compensation                             | 0.9                               |        | 2.3                             |         |
| SLO Awards  | 0.1                               | 0.2    | 0.4                             | 0.6     |
| Other long-term share-based incentive compensation programs | 2.8                               | 2.4    | 5.1                             | 4.6     |
| Total share-based incentive compensation expense(1)         | \$ 5.7                            | \$ 7.4 | \$ 10.3                         | \$ 13.2 |

- (1) The amounts included above do not include the expense related to our U.S. profit sharing contributions made in the form of our common stock as such these contributions are not considered share-based incentive compensation.

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The following table shows the estimated amount of total share-based incentive compensation expense expected to be recognized on a straight-line basis over the remaining respective vesting periods by program at June 30, 2012.

|   | 2012           | 2013           | 2014          | 2015          | Total          |
|---|----------------|----------------|---------------|---------------|----------------|
| 2012 Three-year PSU Awards                                  | \$ 1.4         | \$ 2.8         | \$ 2.8        | \$            | \$ 7.0         |
| 2011 Three-year PSU Awards                                  | 1.2            | 2.4            |               |               | 3.6            |
| 2010 Three-year PSU Awards                                  | 1.7            |                |               |               | 1.7            |
| 2012 CEO Incentive Compensation                             | 2.3            |                |               |               | 2.3            |
| SLO Awards  | 0.4            | 0.2            |               |               | 0.6            |
| Other long-term share-based incentive compensation programs | 5.2            | 7.7            | 3.8           | 0.5           | 17.2           |
| <b>Total share-based incentive compensation expense (1)</b> | <b>\$ 12.2</b> | <b>\$ 13.1</b> | <b>\$ 6.6</b> | <b>\$ 0.5</b> | <b>\$ 32.4</b> |

(1) The amounts included above do not include the expense related to our U.S. profit sharing contributions made in the form of our common stock as such these contributions are not considered share-based incentive compensation.

The discussion that follows provides further details of our share-based incentive compensation programs.

*2012 Three-year PSU Awards*

The targeted number of shares of common stock that can be earned is 414,226 shares for these 2012 PSU awards. The total number of shares to be issued for these awards can range from zero to 200% of the target number of shares depending on the level of achievement of the performance goals and measures, plus or minus 41,423 additional shares at the discretion of the Compensation Committee of our Board of Directors ( Compensation Committee ). These performance goals are outlined in further detail in the Proxy Statement for our 2012 Annual Meeting of Stockholders.

The expenses included in the tables above were calculated using a grant date common stock share price of \$19.72 per share on March 27, 2012 for the three year average return on invested capital ( ROIC ) goal and net trade sales goals (these are considered performance conditions) and the Monte Carlo valuation of \$23.40 per share for the TSR goal (this is considered a market condition). The expense calculation is based on management 's estimate as of June 30, 2012 of the level of probable achievement of the performance goals and measures, which was determined to be at the target level, or 100% achievement (414,226 shares).

*2011 Three-year PSU Awards*

The targeted number of shares of common stock that can be earned is 380,617 shares for these 2011 PSU awards. The total number of shares to be issued for these awards can range from zero to 200% of the target number of shares depending on the level of achievement of the performance goals and measures, plus or minus 38,062 additional discretionary shares. These performance goals are outlined in further detail in the Proxy Statement for our 2012 Annual Meeting of Stockholders

The expenses included in the tables above were calculated using a grant date common stock share price of \$26.18 per share on March 11, 2011 and is based on management 's estimate as of June 30, 2012 of the level of probable achievement of this award 's performance goals and measures, which was determined to be below the target level, or 84% achievement (159,859 shares, net of forfeitures), for the ROIC goal and below the target level, or 66% achievement (125,604 shares, net of forfeitures), for the volume goal.

*2010 Three-year PSU Awards*

The targeted number of shares of common stock that can be earned is 413,642 shares for these 2010 PSU awards. The total number of shares to be issued for these awards can range from zero to 200% of the target number of shares depending on the level of achievement of the performance goals and measures, plus or minus 41,364 additional discretionary shares. These performance goals are outlined in further detail in

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the Proxy Statement for our 2011 Annual Meeting of Stockholders

The expenses included in the tables above were calculated using a grant date common stock share price of \$20.88 per share on March 8, 2010 and is based on management's estimate as of June 30, 2012 of the level of probable achievement of the performance goals and measures, which was determined to be below the target level, or 97% achievement (200,616 shares, net of forfeitures) for the ROIC goal and at 159% achievement (328,845, net of forfeitures) for the volume goal.

### *2012 Chief Executive Officer ( CEO ) Incentive Compensation*

The targeted number of shares of common stock that can be earned is 273,834 shares for this 2012 CEO award. The total number of shares to be issued for this award can range from zero to 200% of the target number of shares depending on the level of achievement of

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the performance goals and measures. These performance goals are outlined in further detail in the Proxy Statement for our 2012 Annual Meeting of Stockholders.

The expense included in the table above was calculated using a grant date common stock share price of \$19.72 per share on March 27, 2012 and is based on management's estimate as of June 30, 2012 of the level of probable achievement of the performance goals and measures, which was determined to be below the target level, or 79% achievement (150,855 shares), for the adjusted EBITDA goal and at the target level, or 100% achievement (82,150 shares), for the net debt reduction goal.

Due to our CEO's retirement eligibility at grant date, the total expense related to these awards will be recognized on a straight-line basis in the year ended December 31, 2012.

For the awards (excluding the portion of the PSU awards related to the TSR goal) that are discussed above, the estimated amount of future share-based incentive compensation expense will fluctuate based on: 1) the expected level of achievement of the respective goals and measures considered probable in future quarters, which impacts the number of shares that could be issued; and 2) the future price of our common stock, which impacts the expense related to additional discretionary shares. Since the TSR metric is considered a market condition, the portion of the compensation expense related to the TSR metric will be recognized regardless of whether the market condition is satisfied provided that the requisite service has been provided.

For the 2012 CEO award and for all the PSU awards discussed above, each award recipient will receive also a cash payment in the amount of dividends (without interest) that would have been paid from the start of the performance period on the shares that have been earned until the shares are issued.

### *Stock Leverage Opportunity ( SLO ) Awards*

The Compensation Committee set the SLO award premium at 25% for the years ending December 31, 2012 and December 31, 2011. The 2012 SLO target awards comprise an aggregate of 77,731 restricted stock shares and restricted stock units as of June 30, 2012. The 2011 SLO awards that were issued on March 9, 2012 comprised an aggregate of 11,212 restricted stock shares and restricted stock units.

We record compensation expense for these awards in marketing, administrative and development expenses on the condensed consolidated statement of operations with a corresponding credit to additional paid-in-capital within stockholders' equity, based on the fair value of the awards at the end of each reporting period, which reflects the effects of stock price changes.

For the three and six months ended June 30, 2012, compensation expense related to the 2012 SLO awards was recognized based on the extent to which the performance goals and measures for our 2012 annual cash bonuses were considered probable of achievement at June 30, 2012. This expense is being recognized over a fifteen month period on a straight-line basis since a majority of the awards will vest at grant date, which will be no later than March 15, 2013, due to the retirement eligibility provision.

For the three and six months ended June 30, 2011, compensation expense related to the 2011 SLO awards was recognized based on the extent to which the performance goals and measures for 2011 annual cash bonuses were considered probable of achievement at June 30, 2011. This expense was recognized over a fifteen month period on a straight-line basis since a majority of the awards vested at grant date, which was March 9, 2012, due to the retirement eligibility provision.

Recipients who hold SLO awards in the form of restricted stock receive dividends. Recipients who hold SLO awards in the form of restricted stock units receive a cash payment in the amount of the dividends (without interest) on the shares they have earned at about the same time that shares are issued to them following the period of restriction. As of June 30, 2012, we have accrued for these dividends in other current liabilities on our condensed consolidated balance sheet and the amount was immaterial.

### *Other Long-term Share-based Incentive Compensation*

Under our 2005 Contingent Stock Plan, the Compensation Committee may grant our employees awards of restricted stock, restricted stock units and cash awards measured by share price as long-term share-based incentive compensation. Our executive officers and other key executives may also receive awards of restricted stock or restricted stock units from time to time.



**Table of Contents****(16) Net (Loss) Earnings Per Common Share**

The following table shows the calculation of basic and diluted net (loss) earnings per common share under the two-class method.

|  | Three Months Ended |                | Six Months Ended |                 |
|--|--------------------|----------------|------------------|-----------------|
|  | June 30,           |                | June 30,         |                 |
|  | 2012               | 2011           | 2012             | 2011            |
| <b>Basic Net (Loss) Earnings Per Common Share:</b>   |                    |                |                  |                 |
| <b>Numerator</b>   |                    |                |                  |                 |
| Net (loss) earnings available to common stockholders                                       | \$ (13.7)          | \$ 65.0        | \$ (19.6)        | \$ 124.7        |
| Distributed and allocated undistributed net earnings to non-vested restricted stockholders | (0.1)              | (0.4)          | (0.2)            | (0.8)           |
| <b>Distributed and allocated undistributed net (loss) earnings to common stockholders</b>  | <b>(13.8)</b>      | <b>64.6</b>    | <b>(19.8)</b>    | <b>123.9</b>    |
| Distributed net earnings dividends paid to common stockholders                             | (25.1)             | (20.7)         | (50.2)           | (41.4)          |
| <b>Allocation of undistributed net (loss) earnings to common stockholders</b>              | <b>\$ (38.9)</b>   | <b>\$ 43.9</b> | <b>\$ (70.0)</b> | <b>\$ 82.5</b>  |
| <b>Denominator(1)</b>  |                    |                |                  |                 |
| Weighted average number of common shares outstanding basic                                 | 193.0              | 159.2          | 192.4            | 159.0           |
| <b>Basic net (loss) earnings per common share:</b>   |                    |                |                  |                 |
| Distributed net earnings to common stockholders  | \$ 0.13            | \$ 0.13        | \$ 0.26          | \$ 0.26         |
| Allocated undistributed net (loss) earnings to common stockholders                         | (0.20)             | 0.28           | (0.36)           | 0.52            |
| <b>Basic net (loss) earnings per common share:</b>   | <b>\$ (0.07)</b>   | <b>\$ 0.41</b> | <b>\$ (0.10)</b> | <b>\$ 0.78</b>  |
| <b>Diluted Net (Loss) Earnings Per Common Share:</b>                                       |                    |                |                  |                 |
| <b>Numerator</b>   |                    |                |                  |                 |
| Distributed and allocated undistributed net (loss) earnings to common stockholders         | \$ (13.8)          | \$ 64.6        | \$ (19.8)        | \$ 123.9        |
| Add: Allocated undistributed net earnings to non-vested restricted stockholders            |                    | 0.3            |                  | 0.5             |
| Less: Undistributed net earnings reallocated to non-vested restricted stockholders         |                    | (0.3)          |                  | (0.5)           |
| <b>Net (loss) earnings available to common stockholders diluted</b>                        | <b>\$ (13.8)</b>   | <b>\$ 64.6</b> | <b>\$ (19.8)</b> | <b>\$ 123.9</b> |
| <b>Denominator(1) (2)</b>  |                    |                |                  |                 |
| Weighted average number of common shares outstanding basic                                 | 193.0              | 159.2          | 192.4            | 159.0           |
| Effect of assumed issuance of Settlement agreement shares                                  |                    | 18.0           |                  | 18.0            |
| Effect of non-vested restricted stock and restricted stock units                           |                    | 0.3            |                  | 0.2             |
| Weighted average number of common shares outstanding diluted                               | 193.0              | 177.5          | 192.4            | 177.2           |
| <b>Diluted net (loss) earnings per common share</b>  | <b>\$ (0.07)</b>   | <b>\$ 0.37</b> | <b>\$ (0.10)</b> | <b>\$ 0.70</b>  |



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- (1) Includes the weighted-average share impact in 2012 of 31.7 million shares issued as part of the total consideration paid in connection with the acquisition of Diversey on October 3, 2011.
- (2) Provides for the following items if their inclusion is dilutive: (i) the effect of assumed issuance of 18 million shares of common stock reserved for the Settlement agreement as defined and (ii) the effect of non-vested restricted stock and restricted stock units using the treasury stock method. In calculating diluted net (loss) earnings per common share for 2012, our diluted weighted average number of common shares outstanding excludes the effect of the items mentioned above as the effect was anti-dilutive.

### *PSU Awards*

Since the PSU awards discussed in Note 15, *Stockholders' Equity*, include contingently issuable shares that are based on a condition other than earnings or market price, they are included in the diluted weighted average number of common shares outstanding when we meet the performance conditions as of that date. However, in 2012, unvested PSU awards that have met the performance conditions as of June 30, 2012 have not been included in the diluted weighted average number of common shares outstanding for the three and six months ended June 30, 2012 as the effect was anti-dilutive.

### *SLO Awards*

The shares or units associated with the 2012 SLO awards are considered contingently issuable shares and therefore are not included in the basic or diluted weighted average number of common shares outstanding for the three and six months ended June 30, 2012. These shares or units, discussed in Note 15, *Stockholders' Equity*, will not be included in the common shares outstanding until the final determination of the amount of annual incentive compensation is made in the first quarter of 2013. Once this determination is made, the shares or units will be included in the basic weighted average number of common shares outstanding if the employee is retirement eligible or in the diluted weighted average number of common shares outstanding if the employee is not retirement eligible if the impact to diluted net earnings per common share is dilutive. The numbers of shares or units associated with SLO awards for the 2011 and earlier fiscal years, for both the three and six months ended June 30, 2012 and 2011 were nominal and have not been included in the diluted weighted average number of common shares outstanding for the three and six months ended June 30, 2012 as the effect was anti-dilutive.

**Table of Contents****(17) Other Expense, net**

The following table provides details of other expense, net.

|   | Three Months<br>Ended<br>June 30, |          | Six Months<br>Ended<br>June 30, |          |
|---|-----------------------------------|----------|---------------------------------|----------|
|   | 2012                              | 2011     | 2012                            | 2011     |
| Interest and dividend income            | \$ 3.2                            | \$ 2.2   | \$ 6.6                          | \$ 4.2   |
| Net foreign exchange transaction losses | (6.3)                             | (3.1)    | (10.1)                          | (7.5)    |
| Settlement agreement and related costs  | (0.1)                             | (0.2)    | (0.2)                           | (0.6)    |
| Other, net                              | (2.4)                             | (0.9)    | (6.0)                           | (2.2)    |
| Other expense, net                      | \$ (5.6)                          | \$ (2.0) | \$ (9.7)                        | \$ (6.1) |

**Impairment of Equity Method Investment**

In September 2007, we established a joint venture that supports our Food Solutions segment. We account for the joint venture under the equity method of accounting with our proportionate share of net income or losses included in other expense, net, on the consolidated statements of operations.

During 2012, the joint venture performed below expectations, resulting in reduced cash flow and increasing debt obligations. Due to these events, we evaluated our equity method investment for impairment. An equity method investment is impaired if the fair value of the investment is less than its carrying value. If there is no readily determinable fair value, then we are required to test it for impairment whenever an event or change in circumstances occurs that could have a significant impact on the fair value of the investment. If the investment is determined to be impaired, we must also determine if the impairment is other-than-temporary. During the three months ended June 30, 2012, based on reviewing undiscounted cash flow information, we determined that the fair value of our investment was less than its carrying value and that this impairment was other-than-temporary.

In connection with the establishment of the joint venture in 2007, we issued a guarantee in support of an uncommitted credit facility agreement that was entered into by the joint venture. The initial term of the credit facility was two years, which was renewed with the approval of both us and the joint venture. Under the terms of the guarantee, if the joint venture were to default under the terms of the credit facility, the lender would be entitled to seek payment of the amounts due under the credit facility from us. As of June 30, 2012, the joint venture has performed its obligations under the terms of the credit facility. We have previously recorded the fair value of this guarantee as a component of our investment in this joint venture and included a corresponding liability on our condensed consolidated balance sheets. However, as a result of the impairment, we have included the guarantee liability in other current liabilities on the condensed consolidated balance sheet as of June 30, 2012 as we believe it is probable that we will need to perform under this guarantee. As of June 30, 2012, the debt holders have not requested that we perform under the terms of the guarantee.

As a result, we recognized other-than-temporary impairment of \$26 million (\$18 million, net of taxes, or \$0.09 per diluted share). This impairment primarily consisted of the recognition of a current liability for the guarantee of the uncommitted credit facility mentioned above of \$20 million. The other component of the impairment was a \$4 million write-down of the carrying value of the investment to zero at June 30, 2012. We also recorded provisions for bad debt on receivables due from the joint venture to the Company of \$2 million, which is included in marketing, administrative and development expenses and impacted both of our food businesses. As of June 30, 2012, we have no further obligation to support the operations of the joint venture in the future.

**(18) Related Party Transactions**

Our Diversey segment has related party transactions with S.C. Johnson, Inc. and Unilever and these transactions are not considered material to our condensed consolidated financial statements. For more information regarding our related party transactions, refer to our 2011 Annual Report on Form 10-K.



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

The information in our Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) should be read together with our condensed consolidated financial statements and related notes set forth in Item 1 of Part I of this quarterly report on Form 10-Q, our MD&A set forth in Item 7 of Part II of our 2011 Annual Report on Form 10-K and our consolidated financial statements and related notes set forth in Item 8 of Part II of our Form 10-K. See Part II, Item 1A, Risk Factors, below and Cautionary Notice Regarding Forward-Looking Statements, above, and the information referenced therein, for a description of risks that we face and important factors that we believe could cause actual results to differ materially from those in our forward-looking statements. All amounts and percentages are approximate due to rounding and all dollars are in millions, except per share amounts. When we cross-reference to a Note, we are referring to our Notes to Condensed Consolidated Financial Statements, unless the context indicates otherwise.

#### **Non-U.S. GAAP Information**

In our MD&A, we present financial information in accordance with U.S. GAAP. We also present financial information that does not conform to U.S. GAAP, which we refer to as non-U.S. GAAP, as our management believes it is useful to investors. In addition, non-U.S. GAAP measures are used by management to review and analyze our operating performance and, along with other data, as internal measures for setting annual budgets and forecasts, assessing financial performance, providing guidance and comparing our financial performance with our peers. The non-U.S. GAAP information has limitations as an analytical tool and should not be considered in isolation from or as a substitute for U.S. GAAP information. It does not purport to represent any similarly titled U.S. GAAP information and is not an indicator of our performance under U.S. GAAP. Further, non-U.S. GAAP financial measures that we present may not be comparable with similarly titled measures used by others. Investors are cautioned against placing undue reliance on these non-U.S. GAAP measures. Further, investors are urged to review and consider carefully the adjustments made by management to the most directly comparable U.S. GAAP financial measure to arrive at these non-U.S. GAAP financial measures.

Our management will assess our financial results, such as gross profit, operating profit and diluted net earnings per common share ( EPS ), both on a U.S. GAAP basis and on an adjusted non-U.S. GAAP basis. Examples of some other supplemental financial metrics our management will also use to assess our financial performance include Earnings before Interest Expense, Taxes, Depreciation and Amortization ( EBITDA ), Adjusted EBITDA, Adjusted EPS, Adjusted Cash EPS and Free Cash Flow. These non-U.S. GAAP financial measures provide management with additional means to understand and evaluate the core operating results and trends in our ongoing business by eliminating certain one-time expenses and/or gains (which may not occur in each period presented) and other items that management believes might otherwise make comparisons of our ongoing business with prior periods and peers more difficult, obscure trends in ongoing operations or reduce management's ability to make useful forecasts. Our non-U.S. GAAP financial measures may also be considered in calculations of our performance measures set by the Organization and Compensation Committee of our Board of Directors for purposes of determining incentive compensation.

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The non-U.S. GAAP financial metrics mentioned above exclude items we consider unusual or special items and also exclude their related tax effects. We evaluate the unusual or special items on an individual basis. Our evaluation of whether to exclude an unusual or special item for purposes of determining our non-U.S. GAAP financial measures considers both the quantitative and qualitative aspects of the item, including, among other things (i) its nature, (ii) whether or not it relates to our ongoing business operations, and (iii) whether or not we expect it to occur as part of our normal business on a regular basis.

Another non-U.S. GAAP financial metric we present is our core income tax rate or provision ( core tax rate ). Our core tax rate is a measure of our U.S. GAAP effective tax rate, adjusted to exclude the tax impact from the special items that are excluded from our Adjusted net earnings and Adjusted EPS metrics. We consider our core tax rate as an indicator of the taxes on our core business. The tax situation and effective tax rate in the specific countries where the excluded or special items occur will determine the impact (positive or negative) to our core tax rate.

In our Highlights of Financial Performance, Net Sales by Segment Reporting Structure, Net Sales by Geographic Region and in some of the discussions and tables that follow, we exclude the impact of foreign currency translation when presenting net sales information, which we define as constant dollar. Changes in net sales excluding the impact of foreign currency translation are non-U.S. GAAP financial measures. As a worldwide business, it is important that we take into account the effects of foreign currency translation when we view our results and plan our strategies. Nonetheless, we cannot control changes in foreign currency exchange rates. Consequently, when our management looks at our financial results to measure the core performance of our business, we exclude the impact of foreign currency translation by translating our current period results at prior period foreign currency exchange rates. We also may exclude the impact of foreign currency translation when making incentive compensation determinations. As a result, our management believes that these presentations are useful internally and may be useful to investors.

### **Recent Events**

#### *Dividends*

On July 12, 2012, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share. This dividend is payable on September 14, 2012 to stockholders of record at the close of business on August 31, 2012. The estimated amount of this dividend payment is \$25 million based on 194 million shares of our common stock issued and outstanding as of July 31, 2012.

During the six months ended June 30, 2012, we declared and paid quarterly cash dividends of \$0.13 per common share on March 16, 2012 to stockholders of record at the close of business on March 2, 2012 and on June 15, 2012 to stockholders of record at the close of business on June 1, 2012. We used available cash totaling \$50 million to pay these quarterly cash dividends.

### **2012 Guidance**

Our full year 2012 guidance has been revised to an Adjusted EPS of \$1.00 to \$1.10 compared with \$1.50 to \$1.60 outlined in our 2011 Annual Report on Form 10-K. Our guidance is based on the following revised assumptions:

foreign exchange translation reflecting late July 2012 exchange rates for our basket of currencies, including a U.S. dollar/euro rate of approximately 1.22/1.00;

net sales are expected to be approximately \$7.7 billion, which includes an unfavorable impact of approximately \$400 million from foreign currency translation as compared with full year 2011 (on a pro forma basis reflecting the acquisition of Diversify);

cost of sales is expected to be approximately 66% of net sales compared with approximately 65%;

2011 2014 Integration & Optimization Program benefits of \$90 million compared with \$70 million;

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modest raw material costs inflation compared with a 3% to 5% initial estimate;

amortization of share-based compensation (including our profit sharing contribution) of \$40 million compared with \$55 million;

capital expenditures of \$130 million to \$140 million, compared with \$180 million to \$190 million; and

core tax rate of approximately 30%, compared with 27%.

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Our Adjusted EPS guidance continues to exclude the accretive impact of the payment of Settlement agreement, as the exact timing of the settlement is unknown. Final payment of the Settlement agreement is expected to be accretive to Adjusted EPS by approximately \$0.13 annually following the payment date under the assumption of using a substantial portion of cash on hand for the payment and ceasing to accrue interest on the Settlement amount and using a 35% tax rate. Additionally, guidance excludes any non-operating gains or losses that may be recognized in 2012 due to currency fluctuations in Venezuela.

None of the other assumptions outlined in our 2011 Annual Report on Form 10-K for our Adjusted EPS guidance have changed

**Highlights of Financial Performance**

Below are highlights of our financial performance. On October 3, 2011, we completed the acquisition of Diversey. The financial results presented in this MD&A include the financial results of Diversey for the three and six months ended June 30, 2012 and as of December 31, 2011. See Note 1, Organization and Basis of Presentation, and Note 3, Acquisition of Diversey Holdings, Inc., for further details.

|   | Three Months Ended June 30, |              | %      | Six Months Ended June 30, |              | %      |
|---|-----------------------------|--------------|--------|---------------------------|--------------|--------|
|   | 2012                        | 2011         | Change | 2012                      | 2011         | Change |
| Net sales   | \$ 2,004.4                  | \$ 1,212.6   | 65%    | \$ 3,922.0                | \$ 2,341.1   | 68%    |
| Gross profit  | 662.6                       | \$ 324.3     | #%     | 1,312.4                   | \$ 633.3     | #%     |
| <i>As a % of net sales</i>                                      | <i>33.1%</i>                | <i>26.7%</i> |        | <i>33.5%</i>              | <i>27.1%</i> |        |
| Operating profit  | \$ 120.0                    | \$ 129.1     | (7)%   | \$ 207.6                  | \$ 252.1     | (18)%  |
| <i>As a % of net sales</i>                                      | <i>6.0%</i>                 | <i>10.6%</i> |        | <i>5.3%</i>               | <i>10.8%</i> |        |
| Net (loss) earnings available to common stockholders            | \$ (13.7)                   | \$ 65.0      | #%     | \$ (19.6)                 | \$ 124.7     | #%     |
| Net (loss) earnings available to common stockholders-diluted    | \$ (13.7)                   | \$ 64.6      | #%     | \$ (19.6)                 | \$ 123.9     | #%     |
| Net (loss) earnings per common share:                           |                             |              |        |                           |              |        |
| Basic   | \$ (0.07)                   | \$ 0.41      | #%     | \$ (0.10)                 | \$ 0.78      | #%     |
| Diluted   | \$ (0.07)                   | \$ 0.37      | #%     | \$ (0.10)                 | \$ 0.70      | #%     |
| Weighted average number of common shares outstanding:           |                             |              |        |                           |              |        |
| Basic   | 193.0                       | 159.2        |        | 192.4                     | 159.0        |        |
| Diluted   | 193.0                       | 177.5        |        | 192.4                     | 177.2        |        |
| Non-U.S. GAAP adjusted diluted net earnings per common share(1) | \$ 0.20                     | \$ 0.40      | (50)%  | \$ 0.37                   | \$ 0.73      | (49)%  |

# Denotes a variance greater than or equal to 100%.

(1) See Diluted Net Earnings per Common Share below for a reconciliation of our U.S. GAAP EPS to our non-U.S. GAAP adjusted EPS.

**Table of Contents****Diluted Net (Loss) Earnings per Common Share**

The following table presents a reconciliation of our U.S. GAAP EPS to our non-U.S. GAAP Adjusted EPS.

|  | Three Months Ended June 30,<br>2012 |                  | 2011(1)         |                | Six Months Ended June 30,<br>2012 |                  | 2011(1)         |                |
|--|-------------------------------------|------------------|-----------------|----------------|-----------------------------------|------------------|-----------------|----------------|
|  | Net<br>Earnings                     | EPS              | Net<br>Earnings | EPS            | Net<br>Earnings                   | EPS              | Net<br>Earnings | EPS            |
| <b>U.S. GAAP net (loss) earnings and EPS available to common stockholders</b>  | <b>\$ (13.7)</b>                    | <b>\$ (0.07)</b> | <b>\$ 65.0</b>  | <b>\$ 0.37</b> | <b>\$ (19.6)</b>                  | <b>\$ (0.10)</b> | <b>\$ 124.7</b> | <b>\$ 0.70</b> |
| <i>Items excluded from the calculation of adjusted net earnings available to common stockholders and Adjusted EPS, net of taxes when applicable:</i> |                                     |                  |                 |                |                                   |                  |                 |                |
| <i>Special items:</i>  |                                     |                  |                 |                |                                   |                  |                 |                |
| Add: 2011-2014 Integration and Optimization Program restructuring charges  | 19.7                                | 0.09             |                 |                | 52.0                              | 0.25             |                 |                |
| Add: Other restructuring charges   | (0.4)                               |                  |                 |                | 0.2                               |                  |                 |                |
| Add: 2011-2014 Integration and Optimization Program associated costs   | 1.0                                 |                  |                 |                | 4.8                               | 0.02             |                 |                |
| Add: Non-recurring associated costs from legacy Diversey restructuring programs  | 16.4                                | 0.08             |                 |                | 21.8                              | 0.10             |                 |                |
| Impairment of equity method investment   | 18.3                                | 0.09             |                 |                | 18.3                              | 0.09             |                 |                |
| Add: Costs related to the acquisition of Diversey  | 1.1                                 | 0.01             | 5.8             | 0.03           | 2.4                               | 0.01             | 5.8             | 0.03           |
| Add: European manufacturing facility closure charges   |                                     |                  |                 |                |                                   |                  | 0.2             |                |
| <b>Non-U.S. GAAP Adjusted net earnings and EPS</b>   | <b>\$ 42.4</b>                      | <b>\$ 0.20</b>   | <b>\$ 70.8</b>  | <b>\$ 0.40</b> | <b>\$ 79.9</b>                    | <b>\$ 0.37</b>   | <b>\$ 130.7</b> | <b>\$ 0.73</b> |

(1) Our 2011 Adjusted EPS calculation has been revised to conform to our 2012 presentation. There was no material impact to our Adjusted EPS results due to this revision.

The following table details the tax effect on special items included above:

|  | Three Months Ended June 30,<br>2012 |  | 2011    |  | Six Months Ended June 30,<br>2012 |  | 2011   |     |
|--|-------------------------------------|--|---------|--|-----------------------------------|--|--------|-----|
|  | \$                                  |  | \$      |  | \$                                |  | \$     |     |
| 2011-2014 Integration and Optimization Program restructuring charges       | \$ 7.4                              |  | \$ 22.4 |  | \$ 22.4                           |  | \$     |     |
| Other restructuring charges  | (0.2)                               |  |         |  |                                   |  |        |     |
| 2011-2014 Integration and Optimization Program associated costs            | 0.6                                 |  |         |  | 2.6                               |  |        |     |
| Non-recurring costs associated from legacy Diversey restructuring programs | (5.9)                               |  |         |  | (3.8)                             |  |        |     |
| Impairment of equity method investment                                     | 7.5                                 |  |         |  | 7.5                               |  |        |     |
| Costs related to the acquisition of Diversey                               | 0.6                                 |  | 0.8     |  | 1.1                               |  | 0.8    |     |
| European manufacturing facility closure charges                            |                                     |  |         |  |                                   |  |        | 0.1 |
| Total  | \$ 10.0                             |  | \$ 0.8  |  | \$ 29.8                           |  | \$ 0.9 |     |

**Effective Income Tax Rate**

The following table presents a reconciliation of U.S. GAAP Effective Income Tax Rate to Non-U.S. GAAP Core Tax Rate for the three and six months ended June 30, 2012.

| U.S. GAAP | Three Months Ended June 30, 2012 |               | U.S. GAAP | Six Months Ended June 30, 2012 |               |
|-----------|----------------------------------|---------------|-----------|--------------------------------|---------------|
|           | Special Items                    | Non-U.S. GAAP |           | Special Items                  | Non-U.S. GAAP |



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|  |           |         |         |           |          |          |
|--|-----------|---------|---------|-----------|----------|----------|
| (Loss) earnings before income tax provision          | \$ (6.7)  | \$ 66.1 | \$ 59.4 | \$ (21.0) | \$ 129.3 | \$ 108.3 |
| Income tax (benefit) provision                       | 7.0       | 10.0    | 17.0    | (1.4)     | 29.8     | 28.4     |
| Net (loss) earnings available to common stockholders | \$ (13.7) | \$ 56.1 | \$ 42.4 | \$ (19.6) | \$ 99.5  | \$ 79.9  |

*Effective income tax rate* -104.5% 28.6% 6.7% 26.2%

See Note 16, Net (Loss) Earnings Per Common Share, for details on the calculation of our U.S. GAAP basic and diluted EPS.

The discussions that follow provide further details about the material factors that contributed to the changes in our EPS in 2012 compared with 2011.

**Table of Contents****Net Sales by Segment Reporting Structure**

The following table presents net sales by our segment reporting structure.

|                             | Three Months Ended June 30, |            | %      | Six Months Ended June 30, |            | %      |
|-----------------------------|-----------------------------|------------|--------|---------------------------|------------|--------|
|                             | 2012                        | 2011       | Change | 2012                      | 2011       | Change |
| Net sales:                  |                             |            |        |                           |            |        |
| <b>Food Packaging</b>       | \$ 499.7                    | \$ 501.9   | %      | \$ 987.9                  | \$ 976.8   | 1%     |
| <i>As a % of net sales</i>  | 24.9%                       | 41.4%      |        | 25.2%                     | 41.7%      |        |
| <b>Food Solutions</b>       | 247.1                       | 261.9      | (6)    | 485.3                     | 490.7      | (1)    |
| <i>As a % of net sales</i>  | 12.3%                       | 21.6%      |        | 12.4%                     | 21.0%      |        |
| <b>Protective Packaging</b> | 344.6                       | 353.5      | (3)    | 690.2                     | 688.6      |        |
| <i>As a % of net sales</i>  | 17.2%                       | 29.2%      |        | 17.5%                     | 29.4%      |        |
| <b>Diversey</b>             | 816.3                       |            | #      | 1,567.2                   |            | #      |
| <i>As a % of net sales</i>  | 40.7%                       | %          |        | 40.0%                     | %          |        |
| <b>Other</b>                | 96.7                        | 95.3       | 1      | 191.4                     | 185.0      | 3      |
| <i>As a % of net sales</i>  | 4.9%                        | 7.8%       |        | 4.9%                      | 7.9%       |        |
| <b>Total</b>                | \$ 2,004.4                  | \$ 1,212.6 | 65%    | \$ 3,922.0                | \$ 2,341.1 | 68%    |

# Denotes a variance greater than 100%.

**Net Sales by Geographic Region**

The following tables present our net sales by geographic region and the components of change in net sales by geographic region.

|                            | Three Months Ended June 30, |            | %      | Six Months Ended June 30, |            | %      |
|----------------------------|-----------------------------|------------|--------|---------------------------|------------|--------|
|                            | 2012                        | 2011       | Change | 2012                      | 2011       | Change |
| Net sales:                 |                             |            |        |                           |            |        |
| <b>U.S.</b>                | \$ 689.9                    | \$ 546.5   | 26%    | \$ 1,337.7                | \$ 1,065.4 | 26%    |
| <i>As a % of net sales</i> | 34.4%                       | 45.1%      |        | 34.1%                     | 45.5%      |        |
| <b>International</b>       | 1,314.5                     | 666.1      | 97     | 2,584.3                   | 1,275.7    | #      |
| <i>As a % of net sales</i> | 65.6%                       | 54.9%      |        | 65.9%                     | 54.5%      |        |
| <b>Total net sales</b>     | \$ 2,004.4                  | \$ 1,212.6 | 65%    | \$ 3,922.0                | \$ 2,341.1 | 68%    |

**Three Months Ended June 30, 2012**

|   | U.S.     |       | International |       | Total Company |       |
|---|----------|-------|---------------|-------|---------------|-------|
| Volume Units                                      | \$ 3.4   | 0.6%  | \$ 1.8        | 0.3%  | \$ 5.2        | 0.4%  |
| Volume Acquired businesses, net of (dispositions) | 133.3    | 24.4  | 684.0         | #     | 817.3         | 67.4  |
| Product price/mix                                 | 6.6      | 1.2   | 8.8           | 1.3   | 15.4          | 1.3   |
| Foreign currency translation                      |          |       | (46.1)        | (6.9) | (46.1)        | (3.8) |
| <b>Total</b>                                      | \$ 143.3 | 26.2% | \$ 648.5      | 97.4% | \$ 791.8      | 65.3% |

**Six Months Ended June 30, 2012**

|   | U.S.    |      | International |      | Total Company |      |
|---|---------|------|---------------|------|---------------|------|
| Volume Units                                      | \$ 13.8 | 1.3% | \$ 12.2       | 1.0% | \$ 26.0       | 1.1% |
| Volume Acquired businesses, net of (dispositions) | 239.8   | 22.5 | 1,329.3       | #    | 1,569.1       | 67.0 |
| Product price/mix                                 | 18.7    | 1.8  | 18.5          | 1.5  | 37.2          | 1.6  |

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|                              |          |       |            |                     |
|------------------------------|----------|-------|------------|---------------------|
| Foreign currency translation | (51.4)   | (4.0) | (51.4)     | (2.2)               |
| <b>Total</b>                 | \$ 272.3 | 25.6% | \$ 1,308.6 | #% \$ 1,580.9 67.5% |

# Denotes a variance greater than 100%.  
*Foreign Currency Translation Impact on Net Sales*

As shown above, 66% of our consolidated net sales in the three and six months ended June 30, 2012 were generated outside the U.S. Since we are a U.S. domiciled company, we translate our foreign currency-denominated net sales into U.S. dollars. Due to the changes in the value of foreign currencies relative to the U.S. dollar, translating our net sales from foreign currencies to U.S. dollars may result in a favorable or unfavorable impact. The most significant currencies that contributed to the translation of our net sales and our other consolidated financial results in 2012 were the euro, the Australian dollar, the Brazilian real, the Canadian dollar, the British pound and the Japanese yen.

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We experienced an unfavorable foreign currency translation impact on net sales of \$46 million in the three months ended June 30, 2012 and \$51 million in the six months ended June 30, 2012 compared with the same periods of 2011. This was primarily due to the strengthening of the U.S. dollar against the euro and Brazilian real.

**Components of Change in Net Sales**

The following table presents the components of change in net sales by our segment reporting structure as compared to the prior year. We also present the change in net sales excluding the impact of foreign currency translation, a non-U.S. GAAP measure, which we define as constant dollar. We believe using constant dollar measures aids in the comparability between periods and assist us in understanding the core performance of our business. See Non-U.S. GAAP Information above for further discussion.

| <b>Three Months Ended June 30, 2012</b>             | <b>Food Packaging</b> |               | <b>Food Solutions</b> |               | <b>Protective Packaging</b> |               | <b>Diversey</b> |           | <b>Other</b>  |             | <b>Total Company</b> |              |
|---|-----------------------|---------------|-----------------------|---------------|-----------------------------|---------------|-----------------|-----------|---------------|-------------|----------------------|--------------|
| Volume Units  | \$ 2.6                | 0.5%          | \$ (4.6)              | (1.8)%        | \$ 1.4                      | 0.4%          | \$              | %         | \$ 5.8        | 6.1%        | \$ 5.2               | 0.4%         |
| Volume Acquired businesses, net of (dispositions)   | 0.3                   | 0.1           |                       |               |                             |               | 816.3           | #         | 0.7           | 0.7         | 817.3                | 67.4         |
| Product price/mix (1)                               | 14.5                  | 2.9           | 0.3                   | 0.1           | 0.7                         | 0.2           |                 |           | (0.1)         | (0.1)       | 15.4                 | 1.3          |
| Foreign currency translation                        | (19.6)                | (3.9)         | (10.5)                | (4.0)         | (11.0)                      | (3.1)         |                 |           | (5.0)         | (5.2)       | (46.1)               | (3.8)        |
| <b>Total change (U.S. GAAP)</b>                     | <b>\$ (2.2)</b>       | <b>(0.4)%</b> | <b>\$ (14.8)</b>      | <b>(5.7)%</b> | <b>\$ (8.9)</b>             | <b>(2.5)%</b> | <b>\$ 816.3</b> | <b>#%</b> | <b>\$ 1.4</b> | <b>1.5%</b> | <b>\$ 791.8</b>      | <b>65.3%</b> |
| Impact of foreign currency translation              | 19.6                  | 3.9           | 10.5                  | 4.0           | 11.0                        | 3.1           |                 |           | 5.0           | 5.2         | 46.1                 | 3.8          |
| <b>Total constant dollar change (Non-U.S. GAAP)</b> | <b>\$ 17.4</b>        | <b>3.5%</b>   | <b>\$ (4.3)</b>       | <b>(1.7)%</b> | <b>\$ 2.1</b>               | <b>0.6%</b>   | <b>\$ 816.3</b> | <b>#%</b> | <b>\$ 6.4</b> | <b>6.7%</b> | <b>\$ 837.9</b>      | <b>69.1%</b> |

  

| <b>Six Months Ended June 30, 2012</b>               | <b>Food Packaging</b> |             | <b>Food Solutions</b> |               | <b>Protective Packaging</b> |             | <b>Diversey</b>   |           | <b>Other</b>   |             | <b>Total Company</b> |              |
|---|-----------------------|-------------|-----------------------|---------------|-----------------------------|-------------|-------------------|-----------|----------------|-------------|----------------------|--------------|
| Volume Units  | \$ 7.1                | 0.7%        | \$ (2.4)              | (0.5)%        | \$ 11.2                     | 1.6%        | \$                | %         | \$ 10.1        | 5.5%        | \$ 26.0              | 1.1%         |
| Volume Acquired businesses, net of (dispositions)   | 0.6                   | 0.1         |                       |               |                             |             | 1,567.2           | #         | 1.3            | 0.7         | 1,569.1              | 67.0         |
| Product price/mix (1)                               | 25.2                  | 2.6         | 7.7                   | 1.6           | 3.5                         | 0.5         |                   |           | 0.8            | 0.4         | 37.2                 | 1.6          |
| Foreign currency translation                        | (21.8)                | (2.2)       | (10.7)                | (2.2)         | (13.1)                      | (1.9)       |                   |           | (5.8)          | (3.1)       | (51.4)               | (2.2)        |
| <b>Total change (U.S. GAAP)</b>                     | <b>\$ 11.1</b>        | <b>1.2%</b> | <b>\$ (5.4)</b>       | <b>(1.1)%</b> | <b>\$ 1.6</b>               | <b>0.2%</b> | <b>\$ 1,567.2</b> | <b>#%</b> | <b>\$ 6.4</b>  | <b>3.5%</b> | <b>\$ 1,580.9</b>    | <b>67.5%</b> |
| Impact of foreign currency translation              | 21.8                  | 2.2         | 10.7                  | 2.2           | 13.1                        | 1.9         |                   |           | 5.8            | 3.1         | 51.4                 | 2.2          |
| <b>Total constant dollar change (Non-U.S. GAAP)</b> | <b>\$ 32.9</b>        | <b>3.4%</b> | <b>\$ 5.3</b>         | <b>1.1%</b>   | <b>\$ 14.7</b>              | <b>2.1%</b> | <b>\$ 1,567.2</b> | <b>#%</b> | <b>\$ 12.2</b> | <b>6.6%</b> | <b>\$ 1,632.3</b>    | <b>69.7%</b> |

- (1) Our product price/mix reported above includes the net impact of our pricing actions and rebates as well as the period-to-period change in the mix of products sold. Also included in our reported product price/mix is the net effect of some of our customers purchasing our products in non-U.S. dollar or euro denominated countries at selling prices denominated in U.S. dollars or euros. This primarily arises when we export products from the U.S. and euro-zone countries. The impact to our reported product price/mix of these purchases in other countries at selling prices denominated in U.S. dollars or euros was approximately \$4 million in the three months ended June 30, 2012 and \$6 million in the six months ended June 30, 2012.

- (2) # Denotes a variance greater than 100%.

**Food Packaging Segment Net Sales**

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

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The \$17 million, or 4%, constant dollar increase in net sales in 2012 compared with 2011 was primarily due to:

favorable product price/mix in the U.S. of \$4 million, or 2%, and in Latin America of \$9 million, or 12%, both from the benefits of prior pricing actions that were implemented to offset rising raw material costs and from formula-based contractual price adjustments; and

higher unit volumes in Latin America of \$5 million, or 7%, due to increased customer production rates for fresh red meat. These favorable drivers were partially offset by lower unit volumes in the U.S. of \$3 million, or 1%, primarily due to lower customer production rates and a customer loss. This customer loss is not considered material to our consolidated net sales.

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### *Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$33 million, or 3%, constant dollar increase in net sales in the 2012 compared with 2011 was primarily due to:

favorable product price/mix in the U.S. of \$10 million, or 2%, and in Latin America of \$13 million, or 9%, both from the benefits of prior pricing actions that were implemented to offset rising raw material costs and from formula-based contractual price adjustments; and

higher unit volumes in Latin America of \$7 million, or 5% and in Australia/New Zealand of \$5 million, or 4%, due to increased customer production rates for fresh red meat in Latin America and higher demand for our fresh dairy packaging products as a result of an increase in dairy customers' production rates in Australia.

These favorable drivers were partially offset by lower unit volumes in North America of \$8 million, or 2%, primarily due to lower customer production rates and a customer loss. This customer loss is not considered material to our consolidated net sales.

### **Food Solutions Segment Net Sales**

#### *Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$4 million, or 2%, constant dollar decrease in net sales in 2012 compared with 2011 was primarily due to lower unit volumes in Europe of \$5 million, or 5%, due to a decrease in equipment sales as a result of some customers limiting their investment in new equipment due to the current economic environment in Europe.

#### *Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$5 million, or 1%, constant dollar increase in net sales in 2012 compared with 2011 was primarily due to:

favorable product price/mix in the U.S. of \$6 million, or 3%, and in Latin America of \$3 million, or 12%, both from the benefits of prior pricing actions that were implemented to offset rising raw material costs and from formula-based contractual price adjustments; and

higher unit volumes in the U.S. of \$3 million, or 2%, due to an increase in demand for our solutions as a result of higher customer production rates mainly in the three months ended March 31, 2012.

These favorable drivers were partially offset by lower unit volumes in Europe of \$6 million, or 3%, primarily due to the decrease in equipment sales mentioned above.

### **Protective Packaging Segment Net Sales**

#### *Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$2 million, or 1%, constant dollar increase in net sales in 2012 compared with 2011 was primarily due to higher unit volumes in the U.S. of \$4 million, or 2%, due to the gradual economic recovery in the region and increased demand for e-commerce-oriented solutions and new solutions. This increase was partially offset by lower unit volumes in Europe of \$3 million, or 3%, primarily due to lower customer demand reflecting the current economic challenges in the region.

#### *Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$15 million, or 2%, constant dollar increase in net sales in 2012 compared with 2011 was primarily due to higher unit volumes in the U.S. of \$13 million, or 4%, due to the same factors mentioned above.

**Diversey Segment Net Sales**

*Three Months Ended June 30, 2012*

Reported net sales were \$816 million in 2012 and are included in the year over year comparison as volume acquired businesses, net of (dispositions).

*Six Months Ended June 30, 2012*

Reported net sales were \$1,567 million in 2012 and are included in the year over year comparison as volume acquired businesses, net of (dispositions).

**Other Net Sales**

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$6 million, or 7%, constant dollar increase in 2012 compared with the same period of 2011 was primarily due to higher unit volumes in our Medical Applications business in the Asia-Pacific region of \$5 million.

**Table of Contents***Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$12 million, or 7%, constant dollar increase in 2012 compared with the same period of 2011 was primarily due to higher unit volumes in our Medical Applications business in the Asia-Pacific region of \$7 million, or 56%.

**Cost of Sales**

|                     | Three Months Ended<br>June 30, |          |             | Six Months Ended<br>June 30, |            |             |
|---------------------|--------------------------------|----------|-------------|------------------------------|------------|-------------|
|                     | 2012                           | 2011     | %<br>Change | 2012                         | 2011       | %<br>Change |
| Cost of sales       | \$ 1,341.8                     | \$ 888.3 | 51%         | \$ 2,609.6                   | \$ 1,707.8 | 53%         |
| As a % of net sales | 66.9%                          | 73.3%    |             | 66.5%                        | 73.0%      |             |

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$454 million increase in cost of sales in 2012 compared with 2011 was primarily due to the \$462 million incremental impact of Diversey's cost of sales included in our results in the three months ended June 30, 2012.

*Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$902 million increase in cost of sales in 2012 compared with 2011 was primarily due to the \$887 million incremental impact of Diversey's cost of sales included in our results in the six months ended June 30, 2012.

**Marketing, Administrative and Development Expenses**

Marketing, administrative and development expense for the three and six months ended June 30, 2012 and 2011 are included in the table below. The amount for 2011 has been reclassified to conform to the 2012 presentation of these expenses as we now present the amortization of intangible assets as a separate line item on our condensed consolidated statement of operations.

|  | Three Months Ended<br>June 30, |          |             | Six Months Ended<br>June 30, |          |             |
|--|--------------------------------|----------|-------------|------------------------------|----------|-------------|
|  | 2012                           | 2011     | %<br>Change | 2012                         | 2011     | %<br>Change |
| Marketing, administrative and development expenses | \$ 479.1                       | \$ 186.1 | #%          | \$ 957.2                     | \$ 369.6 | #%          |
| As a % of net sales                                | 23.9%                          | 15.3%    |             | 24.4%                        | 15.8%    |             |

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$293 million increase in marketing, administrative and development expenses in 2012 compared with 2011 was primarily due to the \$292 million incremental impact of Diversey's marketing, administrative and development expenses included in our results in the three months ended June 30, 2012.

*Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The \$588 million increase in marketing, administrative and development expenses in 2012 compared with 2011 was primarily due to the \$586 million incremental impact of Diversey's marketing, administrative and development expenses included in our results in the six months ended June 30, 2012.

**Amortization of Intangible Assets**

Amortization of intangible assets for the three and six months ended June 30, 2012 and 2011 were as follows:



|                                   | Three Months Ended |             |    | %<br>Change | Six Months Ended |    |  | %<br>Change |
|-----------------------------------|--------------------|-------------|----|-------------|------------------|----|--|-------------|
|                                   | June 30,           |             |    |             | June 30,         |    |  |             |
|                                   | 2012               | 2011        |    | 2012        | 2011             |    |  |             |
| Amortization of intangible assets | \$ 35.3            | \$ 2.5      | #% | \$ 69.5     | \$ 5.0           | #% |  |             |
| <i>As a % of net sales</i>        | <i>1.8%</i>        | <i>0.2%</i> |    | <i>1.8%</i> | <i>0.2%</i>      |    |  |             |

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The increase in 2012 compared with 2011 was primarily due to the amortization of the intangible assets acquired in connection with the acquisition of Diversey in the fourth quarter of 2011.

**Table of Contents***Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The increase in 2012 compared with 2011 was primarily due to the amortization of the intangible assets acquired in connection with the acquisition of Diversey in the fourth quarter of 2011.

**Costs Related to the Acquisition of Diversey**

We recorded transaction and integration costs directly related to the acquisition of Diversey of \$2 million in the three months ended June 30, 2012 and \$4 million in the six months ended June 30, 2012. These costs primarily consist of professional and consulting fees. As discussed above, we have excluded these costs from our Adjusted EPS calculations in 2012. See Note 3, Acquisition of Diversey Holdings, Inc., for further discussion of the acquisition.

**Restructuring Activities***2011-2014 Integration and Optimization Program*

In December 2011, we initiated a restructuring program associated with the integration of Diversey's business following our acquisition of Diversey on October 3, 2011. The program primarily consists of (i) reduction in headcount, (ii) consolidation of facilities, and (iii) supply chain network optimization, and (iv) certain other capital expenditures. This program is expected to be completed by the end of 2014.

See Note 9, Restructuring Activities, for further discussion of the charges and liabilities associated with this program.

In the three months ended June 30, 2012, we expanded this program to address increasing macroeconomic weakness and have identified additional expense reduction opportunities. We expect these new actions to provide an incremental \$20 million of benefits in 2012 and a further \$50 million in 2013. We now expect our program to yield annual savings of \$195 million to \$200 million by the end of 2014.

The actual timing of future costs and cash payments related to this program are subject to change due to a variety of factors that may cause a portion of the costs, spending and benefits to occur later expected. In addition, changes in foreign exchange rates may impact future costs, spending and benefits.

*European Principal Company*

In May 2011, before the acquisition of Diversey, Diversey management approved, subject to successful works council consultations, plans to reorganize its European operations to function under a centralized management and supply chain model. We completed the reorganization on May 3, 2012 and the EPC, based in the Netherlands, is now centrally managing Diversey's European operations. Diversey's European subsidiaries are executing sales and distribution locally, and local production companies are acting as toll manufacturers.

As part of the planning for this reorganization, we recognized associated costs of \$6 million in the three months ended June 30, 2012 and \$11 million in the six months ended June 30, 2012. These costs are included in marketing, administrative and development expenses in the condensed consolidated statements of operations.

We anticipate benefits from this reorganization to come from lower overhead costs from a centralized management and supply chain model as well as other possible savings. We anticipate additional associated and/or restructuring costs in 2012 and net benefits to begin in 2013. The amount and timing of costs and benefits is subject to change due to a variety of factors such as the overall profitability of Diversey's European business, administrative efficiency, and foreign currency exchange translation.

**Operating Profit**

Management evaluates the performance of each reportable segment based on its operating profit, which is detailed in the table below.

| Three Months Ended<br>June 30, | % | Six Months Ended<br>June 30, | % |
|--------------------------------|---|------------------------------|---|
|--------------------------------|---|------------------------------|---|

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|   | 2012    | 2011    | Change | 2012     | 2011     | Change |
|---|---------|---------|--------|----------|----------|--------|
| <b>Food Packaging</b>                           | \$ 46.4 | \$ 62.3 | (26)%  | \$ 106.3 | \$ 124.9 | (15)%  |
| <i>As a % of Food Packaging net sales</i>       | 9.3%    | 12.4%   |        | 10.8%    | 12.8%    |        |
| <b>Food Solutions</b>                           | 26.3    | 25.2    | 4      | 52.8     | 44.6     | 18     |
| <i>As a % of Food Solutions net sales</i>       | 10.6%   | 9.6%    |        | 10.9%    | 9.1%     |        |
| <b>Protective Packaging</b>                     | 42.8    | 46.3    | (8)    | 89.3     | 86.3     | 3      |
| <i>As a % of Protective Packaging net sales</i> | 12.4%   | 13.1%   |        | 12.9%    | 12.5%    |        |
| <b>Diversey</b>                                 | 29.8    |         | #      | 30.6     |          | #      |
| <i>As a % of Diversey net sales</i>             | 3.7%    | %       |        | 2.0%     | %        |        |
| <b>Other</b>                                    | 2.9     | 1.9     | 53     | 6.7      | 2.9      | #      |
| <i>As a % of Other net sales</i>                | 3.0%    | 2.0%    |        | 3.5%     | 1.6%     |        |

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|   |              |                 |             |              |                 |              |
|---|--------------|-----------------|-------------|--------------|-----------------|--------------|
| <b>Total segments and other</b>                       | <b>148.2</b> | <b>135.7</b>    | <b>9%</b>   | <b>285.7</b> | <b>258.7</b>    | <b>10%</b>   |
| <i>As a % of net sales</i>                            | <i>7.4%</i>  | <i>11.2%</i>    |             | <i>7.3%</i>  | <i>11.1%</i>    |              |
| Costs related to the proposed acquisition of Diversey | 1.7          | 6.6             | (74)        | 3.5          | 6.6             | (47)         |
| Restructuring and other charges(1)                    | 26.5         |                 | #           | 74.6         |                 | #            |
| <b>Total operating profit</b>                         | <b>120.0</b> | <b>\$ 129.1</b> | <b>(7)%</b> | <b>207.6</b> | <b>\$ 252.1</b> | <b>(18)%</b> |
| <i>As a % of net sales</i>                            | <i>6.0%</i>  | <i>10.6%</i>    |             | <i>5.3%</i>  | <i>10.8%</i>    |              |

# Denotes a variance greater than or equal to 100%.

(1) Restructuring and other charges by our segment reporting structure were as follows:

|                      | <b>Three Months<br/>Ended<br/>June 30,<br/>2012</b> | <b>Six Months<br/>Ended<br/>June 30,<br/>2012</b> |
|----------------------|---|---|
| Food Packaging       | \$ 9.9  | \$ 27.4   |
| Food Solutions       | 2.2   | 5.7   |
| Protective Packaging | 3.4   | 6.7   |
| Diversey             | 10.8  | 31.5  |
| Other                | 0.2   | 3.3   |
| Total                | \$ 26.5   | \$ 74.6   |

The restructuring and other charges in 2012 primarily relate to the 2011-2014 Integration and Optimization Program.

**Food Packaging Segment Operating Profit***Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The 26% decline in Food Packaging's operating profit was primarily due to the following items which occurred in 2012:

unfavorable impact of a negotiated labor agreement in Argentina of \$5 million;

certain costs associated with manufacturing consolidation activities of \$4 million, including additional expenses related to maintenance, employee training and start-up inefficiencies; and

higher bad debt provisions of \$2 million, including additional bad debt provision of \$1 million related to the receivables balances included in the impairment of equity method investment in a joint venture.

The remainder of the decline was attributable to the unfavorable impact of the mix of products sold, which contributed to under absorption of manufacturing costs and inefficiencies in the period.

*Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The 15% decline in Food Packaging's operating profit was primarily due to the factors mentioned above and the associated costs related to the 2011-2014 Integration and Optimization Program of \$5 million that were recognized in the three months ended March 31, 2012. These factors were partially offset by the favorable impact of the increase in net sales mentioned above.

***Food Solutions Segment Operating Profit***

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The 4% increase in Food Solutions operating profit was primarily due to the impact of favorable product price/mix mentioned above, which also contributed to the increase in this segment's operating profit as a percentage of net sales to 10.6% from 9.6%.

*Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The 18% increase in Food Solutions operating profit was primarily due to the impact of favorable product price/mix mentioned above, which also contributed to the increase in this segment's operating profit as a percentage of net sales to 10.9% from 9.1%.

***Protective Packaging Segment Operating Profit***

*Three Months Ended June 30, 2012 Compared With the Same Period of 2011*

The 8% decline in Protective Packaging's operating profit was primarily due to the unfavorable impact of foreign currency transaction costs associated with importing U.S. dollar priced products into regions with weakened currencies.

*Six Months Ended June 30, 2012 Compared With the Same Period of 2011*

The 3% increase in Protective Packaging's operating profit was primarily due to the favorable impact of increased net sales discussed above, which also contributed to the increase in this segment's operating profit as a percentage of net sales to 12.9% from 12.5%.

***Diversey Segment Operating Profit***

Our Diversey segment reported a \$30 million operating profit in the three months ended June 30, 2012 and a \$31 million operating profit in the six months ended June 30, 2012.

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In addition to the results of Diversey mentioned above, the segment's operating profit results also reflected the following items:

amortization of intangible assets of \$32.3 million in the three months ended June 30, 2012 and \$63.7 million in the six months ended June 30, 2012; and

charges related to prior restructuring programs of \$11 million in the three months ended June 30, 2012 and \$18 million in six months ended June 30, 2012, including associated costs related to the EPC of \$6 million in the three months ended June 30, 2012 and \$11 million in the six months ended June 30, 2012.

**Adjusted Operating Profit**

Management also evaluates our performance based on our consolidated adjusted operating profit, which is included in the table below.

|  | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|--|-----------------------------|-----------------|---------------------------|-----------------|
|  | 2012                        | 2011            | 2012                      | 2011            |
| <b>U.S. GAAP operating profit</b>  | <b>\$ 120.0</b>             | <b>\$ 129.1</b> | <b>\$ 207.6</b>           | <b>\$ 252.1</b> |
| <i>As a % of total net sales</i>   | <i>6.0%</i>                 | <i>10.6%</i>    | <i>5.3%</i>               | <i>10.8%</i>    |
| <b>Special items(1):</b>   |                             |                 |                           |                 |
| Add: 2011- 2014 Integration and Optimization Program restructuring charges(1)                    | 27.1                        |                 | 74.4                      |                 |
| Add: Other restructuring (credits) charges(2)  | (0.6)                       |                 | 0.2                       |                 |
| Add: 2011 - 2014 Integration and Optimization Program associated costs(1)                        | 1.6                         |                 | 7.4                       |                 |
| Add: Non-recurring associated costs from legacy Diversey restructuring programs(3)               | 10.5                        |                 | 18.0                      |                 |
| Add: Costs related to the acquisition of Diversey(4)   | 1.7                         | 6.6             | 3.5                       | 6.6             |
| Add: Provisions for bad debt on receivables related to impairment of equity method investment(5) | 2.3                         |                 | 2.3                       |                 |
| Add: European manufacturing facility closure charges(2)  |                             | (0.1)           |                           | 0.2             |
| <b>Total special items</b>   | <b>42.6</b>                 | <b>6.5</b>      | <b>105.8</b>              | <b>6.8</b>      |
| <b>Non-U.S. GAAP adjusted operating profit</b>   | <b>\$ 162.6</b>             | <b>\$ 135.6</b> | <b>\$ 313.4</b>           | <b>\$ 258.9</b> |
| <i>As a % of total net sales</i>   | <i>8.1%</i>                 | <i>11.2%</i>    | <i>8.0%</i>               | <i>11.1%</i>    |

(1) See Restructuring Activities above for further details.

(2) These items represent special items and certain one-time charges principally associated with restructuring programs for both Sealed Air and Diversey. These charges are not part of our ongoing business and are not expected to have a continuing impact on the consolidated statements of operations and therefore have been excluded from our Non-U.S. GAAP operating profit measure.

(3) These items represent special items and certain one-time charges principally associated with past restructuring programs for Diversey, of which \$6.0 million in the three months ended June 30, 2012 and \$10.9 million in the six months ended June 30, 2012 were related to Diversey's implementation of a EPC structure as discussed above. These charges are not part of our ongoing business and are not expected to have a continuing impact on the consolidated statements of operations.

(4) These costs are not considered part of our ongoing business, are considered one-time in nature and will not have a continuing impact on our ongoing business or on the consolidated statements of operations.

(5) See Impairment of Equity Method Investment below for further details.

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Interest expense includes the stated interest rate on our outstanding debt, as well as the net impact of capitalized interest, the effects of interest rate swaps and the amortization of capitalized senior debt issuance costs, bond discounts, and terminated treasury locks.

The following table details our interest expense.

|   | Three Months Ended |         |             | Six Months Ended |         |             |
|---|--------------------|---------|-------------|------------------|---------|-------------|
|   | June 30,<br>2012   | 2011    | %<br>Change | June 30,<br>2012 | 2011    | %<br>Change |
| Interest expense on the amount payable for the Settlement agreement | \$ 11.4            | 10.8    | 6           | \$ 22.8          | \$ 21.6 | 6           |
| Interest expense on our senior notes:                               |                    |         |             |                  |         |             |
| 5.625% Senior Notes due July 2013                                   | 5.3                | 5.0     | 6           | 10.6             | 10.4    | 2           |
| 12% Senior Notes due February 2014(1)                               | 3.8                | 3.6     | 6           | 7.6              | 7.3     | 4           |
| Term Loan A due October 2016(1)                                     | 8.8                |         | #           | 18.7             |         | #           |
| 7.875% Senior Notes due June 2017                                   | 8.3                | 8.3     |             | 16.6             | 16.6    |             |
| Term Loan B due October 2018(1)                                     | 16.2               |         | #           | 33.3             |         | #           |
| 8.125% Senior Notes due September 2019(1)                           | 15.6               |         | #           | 31.1             |         | #           |
| 8.375% Senior Notes due September 2021(1)                           | 15.9               |         | #           | 31.9             |         | #           |
| 6.875% Senior Notes due July 2033                                   | 7.8                | 7.8     |             | 15.5             | 15.5    |             |
| Revolving credit facility   | 1.0                |         | #           | 2.0              |         | #           |
| Other interest expense  | 4.7                | 2.2     | #           | 7.5              | 4.2     | 79          |
| Less: capitalized interest  | (1.2)              | (0.8)   | (50)        | (2.2)            | (1.7)   | (29)        |
| Total   | \$ 97.6            | \$ 36.9 | #           | \$ 195.4         | \$ 73.9 | #           |

# Denotes a variance greater than 100%.

**Other Expense, net**

See Note 17, Other Expense, net, for the components and details of other expense, net and discussion of our impairment of equity method investment.

**Income Taxes**

Our loss before income taxes for the three months ended June 30, 2012 was increased by an income tax provision of \$7 million. Our loss before income taxes for the six months ended June 30, 2012 was reduced by an income tax benefit of \$1 million (an income tax benefit rate of 6.7%). The tax expense for the three month period and reduced benefit rate for the six month period resulted from restructuring efforts, including both taxes incurred with respect to restructuring and expenses with a zero or low tax benefit. Excluding such items, our tax provision for the three month period would have been a benefit. Our tax provision for both the three month and six month periods benefitted from earnings in jurisdictions with low tax rates and losses in jurisdictions, such as the U.S., with high tax rates, as well as favorable settlements of certain tax disputes.

Our effective income tax rate was 27.9% for the three months ended June 30, 2011 and 27.8% for the six months ended June 30, 2011. For both the three and six months ended June 30, 2011, our effective income tax rate was lower than the statutory U.S. federal income tax rate of 35% primarily due to our lower net effective income tax rate on foreign earnings, our domestic manufacturing deduction and certain U.S. tax credits partially offset by state income taxes and non-deductible acquisition costs related to our acquisition of Diversey incurred during the three months ended June 30, 2011.

We anticipate earnings for the full year 2012. Therefore, our favorable mix of earnings, losses and restructuring charges will reduce our effective tax rate compared to the statutory U.S. federal income tax rate of 35%. Our effective tax rate may be higher or lower than our rate for 2011

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depending on, among other factors, the financial results of Diversey, our mix of foreign earnings and the amount of restructuring charges incurred during the year.

Our effective tax rate also depends on the realization of our deferred tax assets, net of our valuation allowances. We have deferred tax assets related to the Settlement agreement, other accruals not yet deductible for tax purposes, foreign tax credits, U.S. and foreign net operating loss carry forwards and investment tax allowances, employee benefit items, and other items. Our largest deferred tax asset relates to our Settlement agreement as defined in Note 14, Commitments and Contingencies.



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We have established valuation allowances to reduce our deferred tax assets to an amount that is more likely than not to be realized. Our ability to utilize our deferred tax assets depends in part upon our ability to generate future taxable income during the periods in which these temporary differences reverse or our ability to carry back any losses created by the deduction of these temporary differences. We expect to realize these assets over an extended period. If we are unable to generate sufficient future taxable income in the U.S. and certain foreign jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowances against our deferred tax assets. Our tax benefit with respect to the Settlement agreement may be significantly reduced resulting in an increased tax expense if the funding of the Settlement agreement occurs later than anticipated or the price of our common stock at the time of funding of the Settlement agreement is less than \$17.86 per share. These conditions could result in a significant increase in our effective tax rate and could have a material adverse effect on our consolidated results of operations in the periods in which these conditions occur. In addition, changes in statutory tax rates or other new legislation or regulation may change our deferred tax assets or liability balances, with either favorable or unfavorable impact on our effective tax rate.

**Liquidity and Capital Resources**

The information in this section sets forth material changes in and updates to material information contained in the Liquidity and Capital Resources section of our MD&A set forth in Item 7 of Part II of our 2011 Annual Report on Form 10-K and should be read in conjunction with that discussion.

***Material Commitments and Contingencies******Settlement Agreement and Related Costs***

We recorded a pre-tax charge of \$850 million in 2002, of which \$513 million represents a cash payment that we are required to make (subject to the satisfaction of the terms and conditions of the Settlement agreement) upon the effectiveness of a plan of reorganization in the bankruptcy of W. R. Grace & Co. We did not use cash in any period with respect to this liability.

We currently expect to fund a substantial portion of this payment when it becomes due by using accumulated cash and cash equivalents with the remainder from our committed credit facilities. Our new Credit Facility is available for general corporate purposes, including the payment of the amounts required upon effectiveness of the Settlement agreement. See *Principal Sources of Liquidity* below. The cash payment of \$513 million accrues interest at a 5.5% annual rate, which is compounded annually, from December 21, 2002 to the date of payment. This accrued interest was \$342 million at June 30, 2012 and is recorded in Settlement agreement and related accrued interest on our condensed consolidated balance sheet. The total liability on our condensed consolidated balance sheet was \$854 million at June 30, 2012. In addition, the Settlement agreement provides for the issuance of 18 million shares of our common stock. Since the impact of issuing these shares is dilutive to our EPS, under U.S. GAAP, they are included in our diluted weighted average number of common shares outstanding in our calculation of EPS if the impact of including these shares is dilutive. See Note 16, *Net (Loss) Earnings Per Common Share*, for details of our calculation of EPS.

Tax benefits resulting from the anticipated funding of the Settlement agreement were recorded as a \$393 million deferred tax asset on our condensed consolidated balance sheet as of June 30, 2012. This deferred tax asset reflects the cash portion of the Settlement agreement and related accrued interest and the value of the 18 million shares of our common stock at the post-split price of \$17.86 per share, which was the price when the Settlement agreement was reached in 2002. The amount and timing of our future potential cash tax benefits could vary depending on when we fund the Settlement agreement, the amount of cash we pay and various facts and circumstances at the time of funding under the Settlement agreement, including the price of our common stock, our tax position and the applicable tax codes. For example, our cash tax benefit may be significantly reduced if the funding of the Settlement agreement occurs later than anticipated or the price of our common stock at the time of funding is less than \$17.86 per share. In addition, our ability to utilize this deferred tax asset depends in part upon our future operating results. We expect to realize this asset over an extended period. If we are unable to generate sufficient U.S. taxable income we could be required to increase our valuation allowance against this deferred tax asset and we may not realize the full cash tax benefit relating to this asset. This could result in a significant increase in our effective tax rate and could have a material adverse effect on our consolidated results of operations in the periods in which these conditions occur. Changes in statutory tax rates or other new legislation or regulation may also change our deferred tax assets or liability balances, with either favorable or unfavorable impact on our effective tax rate.

While the Bankruptcy Court and the District Court have confirmed the PI Settlement Plan, parties have appealed or otherwise challenged the PI Settlement Plan and the opinions and orders entered by the Bankruptcy Court and the District Court confirming the PI Settlement Plan. These matters may be subject to further appeal, challenge, and proceedings before the District Court, the Third Circuit Court of Appeals, or other courts. Parties may designate various issues to be considered in challenging the PI Settlement Plan and the opinions and orders entered by the Bankruptcy Court and the District Court, including (without limitation) issues relating to releases and injunctions contained in the PI Settlement Plan. We will continue to review the Grace bankruptcy proceedings (including appeals and other proceedings relating to the PI Settlement Plan or to the opinions and orders entered by the Bankruptcy Court and the District Court confirming the PI Settlement Plan), as well as any

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amendments or other changes to the PI Settlement Plan or to the opinions and orders entered by the Bankruptcy Court and the District Court confirming the PI Settlement Plan, to verify compliance with the Settlement agreement. We do not know whether or when a final plan of reorganization (whether the PI Settlement Plan or another plan of reorganization) will become effective or whether the final plan will be consistent with the terms of the Settlement agreement.

As mentioned in 2012 Guidance above, our full year 2012 diluted net earnings per common share guidance continues to exclude the payment under the Settlement agreement, as the timing is unknown. Payment under the Settlement agreement is expected to be accretive to our post-payment diluted net earnings per common share by approximately \$0.13 annually. This amount primarily represents the accretive impact on our net earnings from ceasing to accrue any future interest on the settlement amount following the payment.

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The information set forth in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 14, Commitments and Contingencies, is incorporated herein by reference.

***Debt Obligations***

We plan to use available cash and funds available from our committed liquidity facilities to retire our 5.625% Senior Notes when they come due in July 2013. We may seek additional external financing to supplement these amounts, depending on the timing of cash flows.

***Principal Sources of Liquidity***

We require cash to fund our operating expenses, capital expenditures, interest, taxes and dividend payments and to pay our debt obligations and other long-term liabilities as they come due. Our principal sources of liquidity are cash flows from operations, accumulated cash and amounts available under our existing lines of credit described below, including the Credit Facility, and our accounts receivable securitization program.

We believe that our current liquidity position and future cash flows from operations will enable us to fund our operations, including all of the items mentioned above, and the cash payment under the Settlement agreement should it become payable within the next 12 months. We also are aligning our core business and planning a portfolio rationalization, which could generate up to \$500 million of cash over the next 12 months and create an opportunity to accelerate deleveraging.

In connection with the funding of the cash consideration for the acquisition and the repayment of existing indebtedness of Diversey, and to provide ongoing liquidity, on October 3, 2011, we entered into the Credit Facility. See Note 10, Debt and Credit Facilities, for further details.

***Cash and Cash Equivalents***

The following table summarizes our accumulated cash and cash equivalents.

|                           | June 30,<br>2012 | December 31,<br>2011 |
|---------------------------|------------------|----------------------|
| Cash and cash equivalents | \$ 503.9         | \$ 722.8             |

See Analysis of Historical Cash Flows below.

Over the past five years, our legacy business and Diversey's legacy business has generated higher cash flows from operations in the second half of the year as compared with the first half of the year.

***Lines of Credit***

Our Credit Facility may be used for working capital needs and general corporate purposes, including the payment of the amounts required upon effectiveness of the Settlement agreement. We did not use our Credit Facility in the six months ended June 30, 2012 and there were no amounts outstanding under the Credit Facility at June 30, 2012 and December 31, 2011. See Note 10, Debt and Credit Facilities, for further details.

***Accounts Receivable Securitization Program***

At June 30, 2012, we had \$92 million available to us under the program, and we did not utilize this program in 2012. See Note 8, Accounts Receivable Securitization Program, for information concerning this program.

***Covenants***

At June 30, 2012, we were in compliance with our financial covenants and limitations, as discussed in Covenants of Note 10, Debt and Credit Facilities.

***Debt Ratings***

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Our cost of capital and ability to obtain external financing may be affected by our debt ratings, which the credit rating agencies review periodically. The table below details our credit ratings by rating agency.

|                                       | Moody's | Investor Services & Poor's | Standard & Poor's |
|---------------------------------------|---------|----------------------------|-------------------|
| Corporate Rating                      | Ba3     | BB                         | BB                |
| Senior Unsecured Rating               | B1      | BB                         | BB                |
| Senior Secured Credit Facility Rating | Ba1     | BB+                        | BB+               |
| Outlook                               | Stable  | Stable                     | Stable            |

These credit ratings are considered to be below investment grade. If our credit ratings are downgraded, there could be a negative impact on our ability to access capital markets and borrowing costs could increase. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

**Table of Contents****Analysis of Historical Cash Flows**

The following table shows the changes in our consolidated cash flows.

|  | <b>Six Months Ended<br/>June 30</b> |             |
|--|-------------------------------------|-------------|
|  | <b>2012</b>                         | <b>2011</b> |
| Net cash (used in) provided by operating activities        | \$ (60.8)                           | \$ 120.1    |
| Net cash used in investing activities                      | (68.9)                              | (44.8)      |
| Net cash used in financing activities                      | (103.6)                             | (71.0)      |
| <b>Net Cash (Used in) Provided by Operating Activities</b> |                                     |             |

**Six Months Ended June 30, 2012**

Net cash used in operating activities was \$61 million in 2012. Net earnings adjusted for non-cash items was \$179 million, which included depreciation and amortization of \$160 million and share-based incentive compensation of \$20 million. Changes in operating assets and liabilities resulted in net cash usage of \$240 million primarily due to the following:

increase in inventories, net of \$102 million, primarily due to our seasonal increases mainly in North America and Latin America. Our inventory days on hand was 74 days at June 30, 2012; and

a decrease in other liabilities of \$72 million, primarily due to:

- o a decrease in income taxes payable of \$41 million, primarily due to payments made;
- o a decrease in accrued payroll of \$25 million, primarily due to payments made for our annual incentive compensation plan in the three months ended March 31, 2012.

**Six Months Ended June 30, 2011**

Net cash provided by operating activities in 2011 was primarily attributable to net income adjusted for non-cash items of \$228 million, which primarily includes depreciation and amortization and share-based incentive compensation. Net cash provided by changes in operating assets and liabilities resulted in net cash use of \$108 million. This net cash use was primarily due to an increase in inventories of \$89 million which was primarily due to higher inventory levels in North America and Europe mainly in our food businesses. These higher inventory levels reflected the rise in average petrochemical-based raw material costs in 2011 and a buildup in inventories in anticipation of increased sales volumes from normal seasonality in these businesses.

**Net Cash Used in Investing Activities****Six Months Ended June 30, 2012**

Net cash used in investing activities in 2012 primarily consisted of capital expenditures of \$69 million, including \$7 million used in connection with our 2011-2014 Integration and Optimization Program.

**Six Months Ended June 30, 2011**

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Net cash used in investing activities in 2011 primarily consisted of capital expenditures of \$47 million primarily for the maintenance of property, plant and equipment and expanding existing capacity to improve productivity supporting the growth in net sales.

### *Net Cash Used in Financing Activities*

#### *Six Months Ended June 30, 2012*

Net cash used in financing activities in 2012 was \$104 million primarily for prepayments of our 2013 term loan installments of \$60 million and dividends paid on our common stock of \$50 million.

#### *Six Months Ended June 30, 2011*

Net cash used in financing activities in 2011 was primarily due to the following:

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the payment of quarterly dividends of \$42 million;  
the repayment of short-term borrowings of \$14 million; and  
the acquisition of 0.5 million shares of common stock with a fair market value of \$13 million that were withheld from employees to satisfy their minimum tax withholding obligations under our 2005 contingent stock plan.

**Changes in Working Capital**

|   | June 30,<br>2012 | December 31,<br>2011 | Decrease |
|---|------------------|----------------------|----------|
| Working capital (current assets less current liabilities)                     | \$ 716.3         | \$ 814.3             | \$ (98)  |
| Current ratio (current assets divided by current liabilities)                 | 1.3 x            | 1.3x                 |          |
| Quick ratio (current assets, less inventories divided by current liabilities) | 0.9x             | 1.0x                 |          |

The \$98 million, or 12% decrease, in working capital in the six months ended June 30, 2012 was primarily due to cash used to pay for non-current items, including the prepayments of our term loan installments, net cash used for investing activities and net foreign currency translation on working capital of \$22 million.

**Changes in Stockholders' Equity**

The \$90 million, or 3%, decrease in stockholders' equity in the six months ended June 30, 2012 was primarily due to dividends paid and accrued on our common stock of \$51 million and net foreign currency translation adjustments of \$42 million.

**Derivative Financial Instruments****Interest Rate Swaps**

The information set forth in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 11, Derivatives and Hedging Activities, under the caption Interest Rate Swaps is incorporated herein by reference.

**Foreign Currency Forward Contracts**

At June 30, 2012, we were party to foreign currency forward contracts, which did not have a significant impact on our liquidity.

The information set forth in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 11, Derivatives and Hedging Activities, under the caption Foreign Currency Forward Contracts is incorporated herein by reference.

For further discussion about these contracts and other financial instruments, see Part I, Item 3, Quantitative and Qualitative Disclosures about Market Risk.

**Critical Accounting Policies and Estimates**

There have been no material changes in our critical accounting policies and estimates from those disclosed in our 2011 Annual Report on Form 10-K. For a discussion of our critical accounting policies and estimates, refer to Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in Part II, Item 7 of our 2011 Annual Report on Form 10-K, which information is incorporated herein by reference.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to market risk from changes in the conditions in the global financial markets, interest rates, foreign currency exchange rates and commodity prices and the creditworthiness of our customers and suppliers, which may adversely affect our consolidated financial condition and results of operations. We seek to minimize these risks through regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not purchase, hold or sell derivative financial instruments for trading purposes.

**Interest Rates**

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From time to time, we may use interest rate swaps, collars or options to manage our exposure to fluctuations in interest rates.

At June 30, 2012, we had outstanding interest rate swaps, but no outstanding collars or options.

The information set forth in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 11, Derivatives and Hedging Activities, under the caption Interest Rate Swaps is incorporated herein by reference.

See Note 12, Fair Value Measurements and Other Financial Instruments, for details of the methodology and inputs used to determine the fair value of our fixed rate debt. The fair value of our fixed rate debt varies with changes in interest rates. Generally, the fair value of fixed rate debt will increase as interest rates fall and decrease as interest rates rise. A hypothetical 10% increase in interest rates would result in a decrease of \$120 million in the fair value of the total debt balance at June 30, 2012. These changes in the fair value of our fixed rate debt do not alter our obligations to repay the outstanding principal amount or any related interest of such debt.



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### **Foreign Exchange Rates**

#### *Operations*

As a large, global organization, we face exposure to changes in foreign currency exchange rates. These exposures may change over time as business practices evolve and could materially impact our consolidated financial condition and results of operations in the future. See our MD&A above for the impacts foreign currency translation had on our operations.

#### *Venezuela*

Economic events in Venezuela have exposed us to heightened levels of foreign currency exchange risk.

The potential future impact to our consolidated financial condition and results of operations for bolivar-denominated transactions will depend on our access to U.S. dollars and on the exchange rates in effect when we enter into, remeasure and settle transactions. Therefore, it is difficult to predict the future impact until each transaction settles at its applicable exchange rate or is remeasured into U.S. dollars.

For the six months ended June 30, 2012, less than 1% of our consolidated net sales and operating income were derived from our businesses in Venezuela.

#### *Foreign Currency Forward Contracts*

We use foreign currency forward contracts to fix the amounts payable or receivable on some transactions denominated in foreign currencies. A hypothetical 10% adverse change in foreign exchange rates at June 30, 2012 would have caused us to pay approximately \$2 million to terminate these contracts. Based on our overall foreign exchange exposure, we estimate this change would not materially affect our financial position and liquidity. The effect on our results of operations would be substantially offset by the impact of the hedged items.

Our foreign currency forward contracts are described in Note 11, Derivatives and Hedging Activities, which information is incorporated herein by reference.

We may use other derivative instruments from time to time, such as foreign exchange options to manage exposure to changes in foreign exchange rates and interest rate and currency swaps related to certain financing transactions. These instruments can potentially limit foreign exchange exposure and limit or adjust interest rate exposure by swapping borrowings denominated in one currency for borrowings denominated in another currency. At June 30, 2012, we had no foreign exchange options or interest rate and currency swap agreements outstanding.

#### *Outstanding Debt*

Our outstanding debt is generally denominated in the functional currency of the borrower. We believe that this enables us to better match operating cash flows with debt service requirements and to better match the currency of assets and liabilities. The amount of outstanding debt denominated in a functional currency other than the U.S. dollar was \$655 million at June 30, 2012 and \$674 million at December 31, 2011.

### **Customer Credit**

We are exposed to credit risk from our customers. In the normal course of business we extend credit to our customers if they satisfy pre-defined credit criteria. We maintain an allowance for doubtful accounts for estimated losses resulting from the failure of our customers to make required payments. An additional allowance may be required if the financial condition of our customers deteriorates. The allowance for doubtful accounts is maintained at a level that management assesses to be appropriate to absorb estimated losses in the accounts receivable portfolio.

Our customers may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons. Our provision for bad debt expense was \$1 million in the three months ended June 30, 2012, \$2 million in the three months ended June 30, 2011, \$3 million for the six months ended June 30, 2012 and \$4 million for the six months ended June 30, 2011. The allowance for doubtful accounts was \$20 million at June 30, 2012 and \$16 million at December 31, 2011.

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**Item 4. Controls and Procedures.**

**Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as defined in Rule 13a-15 under the Securities Exchange Act of 1934, as amended, that are designed to ensure that information required to be disclosed in our reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that our employees accumulate this information and communicate it to our management, including our Chief Executive Officer (our principal executive officer) and our Chief Financial Officer (our principal financial officer), as appropriate, to allow timely decisions regarding the required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily must apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under Rule 13a-15. Our management, including our Chief Executive Officer and Chief Financial Officer, supervised and participated in this evaluation. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

**Changes in Internal Control over Financial Reporting**

There has not been any change in our internal control over financial reporting during the three months ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

The information set forth in Item 1 of Part I of this Quarterly Report on Form 10-Q in Note 14, Commitments and Contingencies, which is incorporated herein by reference. See also Part I, Item 3, Legal Proceedings, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 as well as the information incorporated by reference in that item.

**Item 1A. Risk Factors.**

See Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in the Company's 2011 Annual Report on Form 10-K. Except as required by the federal securities law, we undertake no obligation to update or revise any risk factor, whether as a result of new information, future events or otherwise.

***If the Settlement agreement (as defined in Note 17, Commitments and Contingencies) is not implemented, we will not be released from the various asbestos-related, fraudulent transfer, successor liability, and indemnification claims made against us arising from a 1998 transaction with Grace. We do not control the timing of the cash payment required from us under the Settlement agreement. We are also a defendant in a number of asbestos-related actions in Canada arising from Grace's activities in Canada prior to the 1998 transaction.***

On March 31, 1998, Sealed Air completed a multi-step transaction (the Cryovac transaction) involving Grace which brought the Cryovac packaging business and the former Sealed Air Corporation's business under the common ownership of the Company. As part of that transaction, Grace and its subsidiaries retained all liabilities arising out of their operations before the Cryovac transaction (including asbestos-related liabilities), other than liabilities relating to Cryovac's operations, and agreed to indemnify the Company with respect to such retained liabilities. Since 2000, the Company has been served with a number of lawsuits alleging that, as a result of the Cryovac transaction, the Company is responsible for the alleged asbestos liabilities of Grace and its subsidiaries. While they vary, these suits all appear to allege that the transfer of the Cryovac business was a fraudulent transfer or gave rise to successor liability. On April 2, 2001, Grace and certain of its subsidiaries filed for Chapter 11 relief in the U.S. Bankruptcy Court for the District of Delaware (the Bankruptcy Court). In connection with Grace's Chapter 11 case, the Bankruptcy Court issued orders dated May 3, 2001 and January 22, 2002, staying all asbestos actions against the Company. However, the official committees appointed to represent asbestos claimants in Grace's Chapter 11 case (the Committees) received the court's permission to pursue fraudulent transfer and other claims against the Company and its subsidiary Cryovac, Inc. based upon the Cryovac transaction. This proceeding was brought in the U.S. District Court for the District of Delaware (the District Court) (Adv. No. 02-02210).

On November 27, 2002, we reached an agreement in principle with the Committees to resolve the fraudulent transfer proceeding and all current and future asbestos-related claims made against us and our affiliates in connection with the Cryovac transaction. The Settlement agreement will also resolve the fraudulent transfer claims and successor liability claims, as well as indemnification claims by Fresenius Medical Care Holdings, Inc. and affiliated companies in connection with the Cryovac transaction. The parties to the agreement in principle signed the definitive Settlement agreement as of November 10, 2003 consistent with the terms of the agreement in principle. On June 27, 2005, the Bankruptcy Court 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. On September 19, 2008, Grace, the Official Committee of Asbestos Personal Injury Claimants, the Asbestos PI Future Claimants' Representative, and the Official Committee of Equity Security Holders (the Equity Committee) filed, as co-proponents, a plan of reorganization (as filed and amended from time to time, the PI Settlement Plan) and several exhibits and associated documents, including a disclosure statement (as filed and amended from time to time, the PI Settlement Disclosure Statement), with the Bankruptcy Court. As filed, the PI Settlement Plan would provide for the establishment of two asbestos trusts under Section 524(g) of the United States Bankruptcy Code to which present and future asbestos-related claims would be channeled. The PI Settlement Plan also contemplates that the terms of our definitive Settlement agreement will be incorporated into the PI Settlement Plan and that we will pay the amount contemplated by that agreement.

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On January 31, 2011, the Bankruptcy Court entered a memorandum opinion (the *Bankruptcy Court Opinion*) overruling certain objections to the PI Settlement Plan. On the same date, the Bankruptcy Court entered an order regarding confirmation of the PI Settlement Plan (the *Bankruptcy Court Confirmation Order*). As entered on January 31, 2011, the Bankruptcy Court Confirmation Order contained recommended findings of fact and conclusions of law, and recommended that the District Court approve the Confirmation Order, and that the District Court confirm the PI Settlement Plan and issue a channeling injunction under Section 524(g) of the Bankruptcy Code. Thereafter, on February 15, 2011, the Bankruptcy Court issued an order clarifying the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order (the *Clarifying Order*). Among other things, the Clarifying Order provided that any references in the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order to a recommendation that the District Court confirm the PI Settlement Plan were thereby amended to make clear that the PI Settlement Plan was confirmed and that the Bankruptcy Court was requesting that the District Court issue and affirm the Confirmation Order including the injunction under Section 524(g) of the Bankruptcy Code. On March 11, 2011, the Bankruptcy Court entered an order granting in part and denying in part a motion to reconsider the Bankruptcy Court Opinion filed by BNSF Railway Company (the *March 11 Order*). Among other things, the March 11 Order amended the Bankruptcy Court Opinion to clarify certain matters relating to objections to the PI Settlement Plan filed by BNSF.

Various parties appealed or otherwise challenged the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order, including without limitation with respect to issues relating to releases and injunctions contained in the PI Settlement Plan. On June 28 and 29, 2011, the District Court heard oral arguments in connection with appeals of the Bankruptcy Court Opinion and the Bankruptcy Court Confirmation Order. On January 30, 2012, the District Court issued a memorandum opinion (the *Original District Court Opinion*) and confirmation order (the *Original District Court Confirmation Order*) overruling all objections to the PI Settlement Plan and confirming the PI Settlement Plan in its entirety (including the issuance of the injunction under Section 524(g) of the Bankruptcy Code). On February 3, 2012, Garlock Sealing Technologies LLC ( *Garlock* ) filed a motion (the *Garlock Reargument Motion*) with the District Court requesting that the District Court grant reargument, rehearing, or otherwise amend the Original District Court Opinion and the Original District Court Confirmation Order insofar as they overrule Garlock's objections to the PI Settlement Plan. On February 13, 2012, the Company, Cryovac, and Fresenius Medical Care Holdings, Inc. filed a joint motion (the *Sealed Air/Fresenius Motion*) with the District Court. The Sealed Air/Fresenius Motion did not seek to disturb confirmation of the PI Settlement Plan but requested that the District Court amend and clarify certain matters in the Original District Court Opinion and the Original District Court Confirmation Order. Also on February 13, 2012, Grace and the other proponents of the PI Settlement Plan filed a motion (the *Plan Proponents Motion*) with the District Court requesting certain of the same amendments and clarifications sought by the Sealed Air/Fresenius Motion. On February 27, 2012, certain asbestos claimants known as the *Libby Claimants* filed a response to the Sealed Air/Fresenius Motion and the Plan Proponents Motion (the *Libby Response*). The Libby Response did not oppose the Sealed Air/Fresenius Motion or the Plan Proponents Motion but indicated, among other things, that: (a) the Libby Claimants had reached a settlement in principle of their objections to the PI Settlement Plan but that this settlement had not become effective and (b) the Libby Claimants reserved their rights with respect to the PI Settlement Plan pending the effectiveness of the Libby Claimants' settlement. On April 20, 2012, as part of a more global settlement, Grace filed a motion with the Bankruptcy Court seeking, among other things, approval of settlements with the Libby Claimants and BNSF. The settlements with the Libby Claimants and BNSF were approved by order of the Bankruptcy Court dated June 6, 2012. Upon their implementation, these settlements are, among other things, expected to result in the Libby Claimants and BNSF withdrawing their opposition to the PI Settlement Plan. The District Court held a hearing on May 8, 2012, to consider the Garlock Reargument Motion. On May 29, 2012, Anderson Memorial Hospital ( *Anderson Memorial* ) filed a motion seeking relief from, and reconsideration of, the Original District Court Opinion and the Original District Court Confirmation Order (the *Anderson Relief Motion*). In the Anderson Relief Motion, Anderson Memorial argued that a May 18, 2012, decision by the United States Court of Appeals for the Third Circuit (the *Third Circuit Court of Appeals*) in a case called *Wright v. Owens-Corning* undermined the District Court's conclusion that (a) the PI Settlement Plan was feasible and (b) the asbestos property damage injunction and trust included in the PI Settlement Plan were appropriate. Objections to the Anderson Relief Motion were filed by Grace and the other proponents of the PI Settlement Plan, and by the representative of future asbestos property damage claimants (the *PD FCR*) appointed in the Grace bankruptcy proceedings. On June 11, 2012, the District Court entered a consolidated order (the *Consolidated Order*) granting the Sealed Air/Fresenius Motion, the Plan Proponents Motion, and the Garlock Reargument Motion, and providing for amendments to the Original District Court Opinion and the Original District Court Confirmation Order. Although the Consolidated Order granted the Garlock Reargument Motion, it did not constitute the District Court's agreement with Garlock's objections to the PI Settlement Plan, which the District Court continued to overrule. Also on June 11, 2012, the

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District Court entered an amended memorandum opinion (the Amended District Court Opinion ) and confirmation order (the Amended District Court Confirmation Order ) overruling all objections to the PI Settlement Plan, reflecting amendments described in the Consolidated Order, and confirming the PI Settlement Plan in its entirety (including the issuance of the injunction under Section 524(g) of the Bankruptcy Code). Thereafter, on July 23, 2012, the District Court issued a memorandum opinion and an order denying the Anderson Relief Motion. Parties have appealed the Amended District Court Opinion and the Amended District Court Confirmation Order to the Third Circuit Court of Appeals.

If it becomes effective, the PI Settlement Plan may implement the terms of the Settlement agreement, but there can be no assurance that this will be the case notwithstanding the confirmation of the PI Settlement Plan by the Bankruptcy Court and the District Court. The terms of the PI Settlement Plan remain subject to amendment. Moreover, the PI Settlement Plan is subject to the satisfaction of a number of conditions which are more fully set forth in the PI Settlement Plan and include, without limitation, the availability of exit financing and the approval of the PI Settlement Plan becoming final and no longer subject to appeal. Parties have appealed the Amended District Court Confirmation Order to the Third Circuit Court of Appeals or otherwise challenged the Amended District Court Opinion and the Amended District Court Confirmation Order. Matters relating to the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, and the Bankruptcy and Amended District Court Confirmation Orders may be subject to further appeal, challenge, and proceedings before the District Court, the Third Circuit Court of Appeals, or other courts. Parties have designated various issues to be considered in challenging the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, or the Bankruptcy and Amended District Court Confirmation Orders, including, without limitation, issues relating to releases and injunctions contained in the PI Settlement Plan.

Grace has publicly indicated its decision to seek to emerge from bankruptcy despite the ongoing appeals challenging approval of the PI Settlement Plan. Grace has further indicated that emerging from bankruptcy before the appeals are fully and finally resolved will require consents or waivers from several parties, including the Company. Grace has also indicated that, to be confident of emerging from bankruptcy by the end of 2012, a final decision will need to be made by early September of 2012 regarding Grace's emergence from bankruptcy with the appeals pending. Consistent with our Settlement agreement, we are prepared to pay the Settlement amount directly to the asbestos trusts to be established under section 524(g) of the Bankruptcy Code once the conditions of the Settlement agreement are fully satisfied. Among those conditions is that approval of an appropriate Grace bankruptcy plan containing all releases, injunctions, and protections required by the Settlement agreement be final and not subject to any appeal. Given the pending appeals (which include without limitation challenges to the injunctions and releases in the PI Settlement Plan), the condition that approval of the PI Settlement Plan be final and not subject to any appeal has not been satisfied at this time. The Company has not waived this, or any other, condition of the Settlement agreement. Furthermore, there can be no assurance that each party whose consent or waiver is required for Grace to emerge from bankruptcy while the appeals remain pending will provide such consent or waiver. The Company will continue to monitor the progress of Grace's bankruptcy proceedings, including appeals.

While the Bankruptcy Court and the District Court have confirmed the PI Settlement Plan, we do not know whether or when the Third Circuit Court of Appeals will affirm the Amended District Court Confirmation Order or the Amended District Court Opinion, whether or when the Bankruptcy and Amended District Court Opinions or the Bankruptcy and Amended District Court Confirmation Orders will become final and no longer subject to appeal, or whether or when a final plan of reorganization (whether the PI Settlement Plan or another plan of reorganization) will become effective. Assuming that a final plan of reorganization (whether the PI Settlement Plan or another plan of reorganization) is confirmed by the Bankruptcy Court and the District Court, and does become effective, we do not know whether the final plan of reorganization will be consistent with the terms of the Settlement agreement or if the other conditions to our obligation to pay the Settlement agreement amount will be met. If these conditions are not satisfied or not waived by us, we will not be obligated to pay the amount contemplated by the Settlement agreement. However, if we do not pay the Settlement agreement amount, we and our affiliates will not be released from the various claims against us.

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If the Settlement agreement does not become effective, either because Grace fails to emerge from bankruptcy or because Grace does not emerge from bankruptcy with a plan of reorganization that is consistent with the terms of the Settlement agreement, then we and our affiliates will not be released from the various asbestos-related, fraudulent transfer, successor liability, and indemnification claims made against us and our affiliates noted above, 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, we could face liabilities that are significantly different from our obligations under the Settlement agreement. We 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 our consolidated financial condition or results of operations.

Since November 2004, the Company and specified subsidiaries have been named as defendants in a number of cases, including a number of putative class actions, brought in Canada as a result of Grace's alleged marketing, manufacturing or distributing of asbestos or asbestos containing products in Canada prior to the Cryovac transaction in 1998. Grace has agreed to defend and indemnify us and our subsidiaries in these cases. The Canadian cases are currently stayed. A global settlement of these Canadian claims to be funded by Grace has been approved by the Canadian court, and the PI Settlement Plan provides for payment of these claims. We do not have any positive obligations under the Canadian settlement, but we are a beneficiary of the release of claims. The release in favor of the Grace parties (including us) will become operative upon the effective date of a plan of reorganization in Grace's United States Chapter 11 bankruptcy proceeding. As filed, the PI Settlement Plan contemplates that the claims released under the Canadian settlement will be subject to injunctions under Section 524(g) of the Bankruptcy Code. As indicated above, the Bankruptcy Court entered the Bankruptcy Court Confirmation Order on January 31, 2011 and the Clarifying Order on February 15, 2011 and the District Court entered the Original District Court Confirmation Order on January 30, 2012 and the Amended District Court Confirmation Order on June 11, 2012. The Canadian Court issued an Order on April 8, 2011 recognizing and giving full effect to the Bankruptcy Court's Confirmation Order in all provinces and territories of Canada in accordance with the Bankruptcy Court Confirmation Order's terms. Notwithstanding the foregoing, the PI Settlement Plan has not become effective, and we can give no assurance that the PI Settlement Plan (or any other plan of reorganization) will become effective. Assuming that a final plan of reorganization (whether the PI Settlement Plan or another plan of reorganization) is confirmed by the Bankruptcy Court and the District Court, and does become effective, if the final plan of reorganization does not incorporate the terms of the Canadian settlement or if the Canadian courts refuse to enforce the final plan of reorganization in the Canadian courts, and if in addition Grace is unwilling or unable to defend and indemnify us and our subsidiaries in these cases, then we could be required to pay substantial damages, which we cannot estimate at this time and which could have a material adverse effect on our consolidated financial condition or results of operations.

For further information concerning these matters, see Note 14, Commitments and Contingencies.

***The full realization of our deferred tax assets, including primarily those related to the Settlement agreement, may be affected by a number of factors.***

We have deferred tax assets related to the Settlement agreement, other accruals not yet deductible for tax purposes, foreign tax credits, U.S. and foreign net operating loss carry forwards and investment tax allowances, employee benefit items, and other items. We have established valuation allowances to reduce those deferred tax assets to an amount that is more likely than not to be realized. Our ability to utilize these deferred tax assets depends in part upon our ability to generate future taxable income during the periods in which these temporary differences reverse or our ability to carryback any losses created by the deduction of these temporary differences. We expect to realize these assets over an extended period. If we are unable to generate sufficient future taxable income in the U.S. and certain foreign jurisdictions, or if there is a significant change in the time period within which the underlying temporary differences become taxable or deductible, we could be required to increase our valuation allowances against our deferred tax assets.

Our largest deferred tax asset relates to our Settlement agreement. The value of this asset, which was \$393 million at June 30, 2012, may be affected by the timing of the funding under the Settlement agreement, our tax situation, including our current and prior U.S. taxable income, losses and credits, at the time of the funding under the Settlement agreement, as well as by the value of our common stock at that time. This deferred tax asset reflects the fair market value of 18 million shares of our common stock at a post-split price of \$17.86 per share based on the price when the Settlement agreement was reached in 2002. We will not be able to realize this deferred tax asset and related potential cash tax benefits until we fund our obligation under the Settlement agreement. The timing of our funding of the Settlement agreement is subject to factors beyond our control. Our tax benefit with respect to the Settlement agreement may be significantly reduced resulting in an increased tax expense if the funding of the Settlement agreement occurs later than anticipated or the price of our common stock at the time of funding of the Settlement agreement is less than \$17.86 per share. These conditions could result in a significant increase in our effective tax rate and could have a material adverse effect on our consolidated results of operations in the periods in which these conditions occur. In addition, changes in statutory tax rates or other legislation or regulation may change our deferred tax assets or liability balances, with either favorable or unfavorable impact on our effective tax rate.



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*The relationship with S.C. Johnson & Son, Inc. ( SCJ ) is important to our Diversey business, and any damage to this relationship could have a material adverse effect on the Diversey business.*

Our Diversey segment is party to various agreements with SCJ, including a brand license agreement (the BLA ), a technology disclosure and license agreement, supply and manufacturing agreements and several leases. Under the BLA, Diversey is granted a license in specified territories to sell certain SCJ products and use specified trade names owned by SCJ in the institutional and industrial channels of trade and, subject to certain limitations, in specified channels of trade in which both Diversey's business and SCJ's consumer business operate. SCJ and its affiliates supply products under the BLA. Sales of these products have historically been significant to Diversey's business. In addition, in some countries, Diversey depends on SCJ to produce or sell some of its products. The BLA purports to limit Diversey's right to market products with non-SCJ brands that SCJ has not approved in certain channels of trade in specified countries. If we default under our agreements with SCJ and the agreements are terminated, SCJ fails to perform its obligations under these agreements, or our relationship with SCJ is otherwise damaged or severed, this could have a material adverse effect on our Diversey business, consolidated financial condition or results of operations.

In many countries Diversey also holds licenses to use some trademarks and technology of Unilever in the market for institutional and industrial cleaning, sanitation and hygiene products and related services. In addition, in certain other countries, Diversey acts as an agent for Unilever companies in the sale of similar products in such markets. We believe that these agreements are significant to our Diversey business and the termination of our rights under any of these agreements may have a material adverse effect on our Diversey business, consolidated financial condition or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****(c) Issuer Purchases of Equity Securities**

The table below sets forth the total number of shares of our common stock, par value \$0.10 per share, that we repurchased in each month of the quarter ended June 30, 2012, the average price paid per share and the maximum number of shares that may yet be purchased under our publicly announced plans or programs.

| Period                               | Total Number of<br>Shares Purchased<br>(1)<br>(a) | Average Price<br>Paid<br>Per Share<br>(b) | Total Number of Share<br>Purchased As<br>Part of<br>Publicly<br>Announced<br>Plans or<br>Programs<br>(c) | Maximum Number of<br>Shares that May Yet Be<br>Purchased Under<br>the<br>Plans or Programs<br>(d) |
|--------------------------------------|---|---|--|---|
|                                      |   |   |  |   |
| Balance as of March 31, 2012         |   | \$  |  | 15,546,142  |
| April 1, 2012 through April 30, 2012 | 16,045  |   |  | 15,546,142  |
| May 1, 2012 through May 31, 2012     | 9,900   |   |  | 15,546,142  |
| June 1, 2012 through June 30, 2012   |   |   |  | 15,546,142  |
| <b>Total</b>                         | 25,945  | \$  |  | 15,546,142  |

- (1) We did not purchase any shares during the quarter ended June 30, 2012 pursuant to our publicly announced program (described below). We did acquire shares by means of (a) shares withheld from awards under our 2005 contingent stock plan pursuant to the provision thereof that permits tax withholding obligations or other legally required charges to be satisfied by having us withhold shares from an award under that plan and (b) shares reacquired pursuant to the forfeiture provision of our 2005 contingent stock plan. (See table below.) We report price calculations in column (b) in the table above only for shares purchased as part of our publicly announced program, when applicable, including commissions. For shares withheld for tax withholding obligations or other legally required charges, we withhold shares at a price equal to their fair market value. We do not make payments for shares reacquired by the Company pursuant to the forfeiture provision of the 2005 contingent stock plan as those shares are simply forfeited.



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| <b>Period</b> | <b>Shares withheld for tax obligations and charges</b><br>(a) | <b>Average withholding price for shares in column a</b><br>(b) | <b>Forfeitures under 2005 Contingent Stock Plan</b><br>(c) | <b>Total</b><br>(d) |
|---------------|---|--|--|---------------------|
| April 2012    | 16,045  | \$ 18.92   |  | 16,045              |
| May 2012      |   |  | 9,900  | 9,900               |
| June 2012     |   |  |  |                     |
| <b>Total</b>  | 16,045  |  | 9,900  | 25,945              |

On August 9, 2007, we announced that our Board of Directors had approved a share repurchase program authorizing us to repurchase in the aggregate up to 20 million shares of our issued and outstanding common stock (described further under the caption, "Repurchases of Capital Stock," in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II Item 7 of our Annual Report on Form 10-K). This program has no set expiration date. This program replaced our prior share repurchase program, which we terminated at that time.

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| <b>Exhibit Number</b> | <b>Description</b>   |
|-----------------------|--|
| 3.1                   | Unofficial Composite Amended and Restated Certificate of Incorporation of the Company as currently in effect. (Exhibit 3.1 to the Company's Registration Statement on Form S-3, Registration No. 333-108544, is incorporated herein by reference.) |
| 3.2                   | Amended and Restated By-Laws of the Company as currently in effect. (Exhibit 3.1 to the Company's Current Report on Form 8-K, Date of Report May 20, 2009, File No. 1-12139, is incorporated herein by reference.)                                 |
| 31.1                  | Certification of William V. Hickey pursuant to Rule 13a-14(a), dated August 9, 2012.   |
| 31.2                  | Certification of Carol P. Lowe pursuant to Rule 13a-14(a), dated August 9, 2012.   |
| 32                    | Certification of William V. Hickey and Carol P. Lowe, pursuant to 18 U.S.C. § 1350, August 9, 2012.  |
| 101.INS               | XBRL Instance Document   |
| 101.SCH               | XBRL Taxonomy Extension Schema   |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase  |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase  |

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be filed or part of any registration statement or other document filed for purposes of Sections 11 or 12 of the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

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**SIGNATURE**

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

Sealed Air Corporation

Date: August 9, 2012

By: /s/ Jeffrey S. Warren  
Jeffrey S. Warren  
*Controller (Duly Authorized Executive Officer  
and Chief Accounting Officer)*