

SEALED AIR CORP/DE  
Form 10-Q  
November 08, 2013  
Table of Contents

**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 September 30, 2013

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)

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

**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 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  (Do not check if a smaller reporting company) 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 196,171,435 shares of the registrant's common stock, par value \$0.10 per share, issued and outstanding as of October 31, 2013.

**Table of Contents**

**SEALED AIR CORPORATION AND SUBSIDIARIES**

**FORM 10-Q**

**FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013**

**TABLE OF CONTENTS**

|   |    |
|---|----|
| <u>Cautionary Notice Regarding Forward-Looking Statements</u>   | 2  |
| <u>Non-U.S. GAAP Information</u>  | 2  |
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   |    |
| <u>Item 1. Financial Statements (Unaudited)</u>   | 4  |
| <u>Condensed Consolidated Balance Sheets September 30, 2013 and December 31, 2012</u>   | 4  |
| <u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2013 and 2012</u>                  | 5  |
| <u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2013 and 2012</u> | 6  |
| <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2013 and 2012</u>                            | 7  |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | 8  |
| <u>Note 1 Organization and Basis of Presentation</u>  | 8  |
| <u>Note 2 Recently Issued Accounting Standards</u>  | 9  |
| <u>Note 3 Divestiture</u>   | 10 |
| <u>Note 4 Segments</u>  | 10 |
| <u>Note 5 Inventories</u>   | 12 |
| <u>Note 6 Property and Equipment, net</u>   | 12 |
| <u>Note 7 Goodwill and Identifiable Intangible Assets</u>   | 13 |
| <u>Note 8 Accounts Receivable Securitization Programs</u>   | 14 |
| <u>Note 9 Restructuring Activities</u>  | 14 |
| <u>Note 10 Debt and Credit Facilities</u>   | 16 |
| <u>Note 11 Derivatives and Hedging Activities</u>   | 18 |
| <u>Note 12 Fair Value Measurements and Other Financial Instruments</u>  | 19 |
| <u>Note 13 Income Taxes</u>   | 21 |
| <u>Note 14 Commitments and Contingencies</u>  | 21 |
| <u>Note 15 Stockholders' Equity</u>   | 29 |
| <u>Note 16 Other Income (Expense), net</u>  | 30 |
| <u>Note 17 Net Earnings (Loss) Per Common Share</u>   | 31 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                    | 33 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | 53 |
| <u>Item 4. Controls and Procedures</u>  | 54 |
| <b><u>PART II. OTHER INFORMATION</u></b>  |    |
| <u>Item 1. Legal Proceedings</u>  | 55 |
| <u>Item 1A. Risk Factors</u>  | 55 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 55 |
| <u>Item 6. Exhibits</u>   | 56 |
| <u>Signature</u>  | 57 |
| EX-31.1   |    |
| EX-31.2   |    |
| EX-32   |    |
| EX-101 INSTANCE DOCUMENT  |    |
| EX-101 SCHEMA DOCUMENT  |    |
| EX-101 CALCULATION LINKBASE DOCUMENT  |    |
| EX-101 LABELS LINKBASE DOCUMENT   |    |

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

EX-101 PRESENTATION LINKBASE DOCUMENT  
EX-101 DEFINITION LINKBASE DOCUMENT

---

## **Table of Contents**

### **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. The Securities and Exchange Commission ( SEC ) encourages companies to disclose forward-looking statements so that investors can better understand a company's future prospects and make informed investment decisions. Forward-looking statements are 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. All statements of historical facts included in this report regarding our strategies, prospects, financial condition, operations, costs, plans and objectives are forward-looking statements. 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. Examples of these forward-looking statements include projections regarding our 2013 outlook and other projections relating to our financial performance in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ).

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 and political conditions; changes in our credit ratings; changes in raw material pricing and availability; changes in energy costs; competitive conditions; success of our restructuring activities; 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.

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

In our MD&A, we present financial information in accordance with U.S. generally accepted accounting principles ( 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. Investors are also 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 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.

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.



**Table of Contents**

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 Net Sales by Geographic Region, Components of Change in Net Sales by Segment Reporting Structure 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, or organic. 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.

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****SEALED AIR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In millions, except share data)**

|  | September 30,<br>2013<br>(Unaudited) | December 31,<br>2012 |
|--|--------------------------------------|----------------------|
| <b>ASSETS</b>  |                                      |                      |
| Current assets:  |                                      |                      |
| Cash and cash equivalents  | \$ 776.7                             | \$ 679.6             |
| Trade receivables, net of allowance for doubtful accounts of \$35.8 in 2013 and \$25.9 in 2012   | 1,216.4                              | 1,224.7              |
| Other receivables  | 133.3                                | 101.3                |
| Inventories  | 829.9                                | 736.4                |
| Deferred tax assets  | 382.6                                | 393.0                |
| Prepaid expenses and other current assets  | 95.6                                 | 87.4                 |
| <b>Total current assets</b>  | <b>3,434.5</b>                       | <b>3,222.4</b>       |
| Property and equipment, net  | 1,145.4                              | 1,212.8              |
| Goodwill   | 3,157.1                              | 3,191.4              |
| Intangible assets, net   | 1,046.7                              | 1,139.7              |
| Non-current deferred tax assets  | 161.3                                | 150.3                |
| Other assets, net  | 398.8                                | 415.1                |
| <b>Total assets</b>  | <b>\$ 9,343.8</b>                    | <b>\$ 9,331.7</b>    |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                                      |                      |
| Current liabilities:   |                                      |                      |
| Short-term borrowings  | \$ 75.2                              | \$ 39.2              |
| Current portion of long-term debt  | 180.0                                | 1.8                  |
| Accounts payable   | 525.0                                | 483.8                |
| Deferred tax liabilities   | 17.2                                 | 10.3                 |
| Settlement agreement and related accrued interest  | 913.1                                | 876.9                |
| Accrued restructuring costs  | 77.2                                 | 72.4                 |
| Other current liabilities  | 844.0                                | 849.2                |
| <b>Total current liabilities</b>   | <b>2,631.7</b>                       | <b>2,333.6</b>       |
| Long-term debt, less current portion   | 4,335.2                              | 4,540.8              |
| Non-current deferred tax liabilities   | 314.1                                | 367.0                |
| Other liabilities  | 646.8                                | 646.0                |
| <b>Total liabilities</b>   | <b>7,927.8</b>                       | <b>7,887.4</b>       |
| Commitments and contingencies  |                                      |                      |
| Stockholders' equity:  |                                      |                      |
| Preferred stock, \$0.10 par value per share, 50,000,000 shares authorized; no shares issued in 2013 and 2012   |                                      |                      |
| Common stock, \$0.10 par value per share, 400,000,000 shares authorized; shares issued: 205,644,531 in 2013 and 204,660,621 in 2012; shares outstanding: 196,148,264 in 2013 and 194,557,669 in 2012 | 20.6                                 | 20.6                 |



Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|   |            |            |
|---|------------|------------|
| Common stock reserved for issuance related to Settlement agreement, \$0.10 par value per share,<br>18,000,000 shares in 2013 and 2012 | 1.8        | 1.8        |
| Additional paid-in capital  | 1,694.0    | 1,684.9    |
| Retained earnings   | 274.5      | 254.8      |
| Common stock in treasury, 9,496,267 shares in 2013 and 10,102,952 shares in 2012  | (327.6)    | (353.4)    |
| Accumulated other comprehensive loss, net of taxes:   |            |            |
| Unrecognized pension items  | (137.5)    | (142.3)    |
| Cumulative translation adjustment   | (112.9)    | (24.1)     |
| Unrealized gain on derivative instruments   | 1.4        | 1.5        |
| Total accumulated other comprehensive loss, net of taxes  | (249.0)    | (164.9)    |
| Total parent company stockholders' equity   | 1,414.3    | 1,443.8    |
| Noncontrolling interests  | 1.7        | 0.5        |
| Total stockholders' equity  | 1,416.0    | 1,444.3    |
| Total liabilities and stockholders' equity  | \$ 9,343.8 | \$ 9,331.7 |

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents****SEALED AIR CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In millions, except per share amounts)**

|   | <b>Three Months Ended</b> |                     | <b>Nine Months Ended</b> |                     |
|---|---------------------------|---------------------|--------------------------|---------------------|
|   | <b>September 30,</b>      |                     | <b>September 30,</b>     |                     |
|   | <b>2013</b>               | <b>2012</b>         | <b>2013</b>              | <b>2012</b>         |
| Net sales   | \$ 1,935.9                | \$ 1,900.3          | \$ 5,750.2               | \$ 5,670.3          |
| Cost of sales   | 1,279.5                   | 1,256.7             | 3,810.7                  | 3,777.3             |
| <b>Gross profit</b>   | <b>656.4</b>              | <b>643.6</b>        | <b>1,939.5</b>           | <b>1,893.0</b>      |
| Selling, general and administrative expenses  | 428.5                     | 426.3               | 1,318.3                  | 1,338.2             |
| Amortization expense of intangible assets acquired                                      | 29.5                      | 33.0                | 93.4                     | 99.5                |
| Impairment of goodwill and other intangible assets                                      |                           | 1,334.3             |                          | 1,334.3             |
| Stock appreciation rights expense   | 8.7                       | 2.9                 | 26.8                     | 5.6                 |
| Costs related to the acquisition and integration of Diversey                            | 0.3                       | 1.3                 | 0.8                      | 4.8                 |
| Restructuring and other charges   | 49.5                      | 36.8                | 61.2                     | 110.1               |
| <b>Operating profit (loss)</b>  | <b>139.9</b>              | <b>(1,191.0)</b>    | <b>439.0</b>             | <b>(999.5)</b>      |
| Interest expense  | (88.9)                    | (96.6)              | (269.4)                  | (291.2)             |
| Impairment of equity method investment  | (2.1)                     |                     | (2.1)                    | (23.5)              |
| Foreign currency exchange losses related to Venezuelan subsidiaries                     | 0.7                       | (0.1)               | (12.9)                   | (0.3)               |
| Loss on debt redemption   |                           |                     | (32.4)                   |                     |
| Other income (expense), net   | 0.4                       | 1.4                 | (2.8)                    | (8.2)               |
| <b>Earnings (loss) from continuing operations before income tax provision (benefit)</b> | <b>50.0</b>               | <b>(1,286.3)</b>    | <b>119.4</b>             | <b>(1,322.7)</b>    |
| Income tax provision (benefit)  | 12.3                      | (48.0)              | 22.7                     | (55.4)              |
| <b>Net earnings (loss) from continuing operations</b>                                   | <b>37.7</b>               | <b>(1,238.3)</b>    | <b>96.7</b>              | <b>(1,267.3)</b>    |
| Net earnings from discontinued operations   |                           | 5.9                 |                          | 15.3                |
| <b>Net earnings (loss) available to common stockholders</b>                             | <b>\$ 37.7</b>            | <b>\$ (1,232.4)</b> | <b>\$ 96.7</b>           | <b>\$ (1,252.0)</b> |
| <b>Net earnings (loss) per common share:</b>  |                           |                     |                          |                     |
| Basic:  |                           |                     |                          |                     |
| Continuing operations   | \$ 0.19                   | \$ (6.41)           | \$ 0.50                  | \$ (6.58)           |
| Discontinued operations   |                           | 0.03                |                          | 0.08                |
| <b>Net earnings (loss) per common share basic</b>                                       | <b>\$ 0.19</b>            | <b>\$ (6.38)</b>    | <b>\$ 0.50</b>           | <b>\$ (6.50)</b>    |
| Diluted:  |                           |                     |                          |                     |
| Continuing operations   | \$ 0.18                   | \$ (6.41)           | \$ 0.45                  | \$ (6.58)           |
| Discontinued operations   |                           | 0.03                |                          | 0.08                |
| <b>Net earnings (loss) per common share diluted</b>                                     | <b>\$ 0.18</b>            | <b>\$ (6.38)</b>    | <b>\$ 0.45</b>           | <b>\$ (6.50)</b>    |
| <b>Dividends per common share</b>   | <b>\$ 0.13</b>            | <b>\$ 0.13</b>      | <b>\$ 0.39</b>           | <b>\$ 0.39</b>      |
| <b>Weighted average number of common shares outstanding:</b>                            |                           |                     |                          |                     |

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|         |       |       |       |       |
|---------|-------|-------|-------|-------|
| Basic   | 194.9 | 193.2 | 194.5 | 192.7 |
| Diluted | 213.7 | 193.2 | 213.4 | 192.7 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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

|   | <b>Three Months Ended<br/>September 30,</b> |              | <b>Nine Months Ended<br/>September 30,</b> |              |
|---|---|--------------|--|--------------|
|   | <b>2013</b>                                 | <b>2012</b>  | <b>2013</b>                                | <b>2012</b>  |
| Net earnings (loss) available to common stockholders  | \$ 37.7                                     | \$ (1,232.4) | \$ 96.7                                    | \$ (1,252.0) |
| Other comprehensive income (loss), net of taxes:  |   |              |  |              |
| Recognition of deferred pension items, net of taxes of \$0.1 for the three months ended September 30, 2013, \$1.8 for the nine months ended September 30, 2013 and \$2.1 for the nine months ended September 30, 2012 | (1.2)                                       | (0.2)        | 4.8  | 2.9          |
| Unrealized (losses) gains on derivative instruments, net of taxes of \$0.2 for the nine months ended September 30, 2013 and \$0.1 for the nine months ended September 30, 2012  | (3.4)                                       | 0.4          | (0.1)                                      | 0.2          |
| Foreign currency translation adjustments  | 28.3  | 90.4         | (88.8)                                     | 48.7         |
| Comprehensive Income (loss), net of taxes   | \$ 61.4                                     | \$ (1,141.8) | \$ 12.6                                    | \$ (1,200.2) |

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>Nine Months Ended<br/>September 30,</b> |              |
|---|--|--------------|
|   | <b>2013</b>                                | <b>2012</b>  |
| Net earnings (loss) available to common stockholders from continuing operations                                       | \$ 96.7                                    | \$ (1,267.3) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities from continuing operations: |  |              |
| Impairment of goodwill and other intangible assets  |  | 1,334.3      |
| Depreciation and amortization   | 216.3                                      | 230.9        |
| Share-based incentive compensation  | 20.3                                       | 16.9         |
| Profit sharing expense  | 29.5                                       | 14.4         |
| Costs related to the acquisition and integration of Diversey  | 0.8  | 4.8          |
| Amortization of senior debt related items and other   | 12.3                                       | 14.6         |
| Loss on debt redemption   | 32.4                                       |              |
| Impairment of equity method investment  | 2.1  | 25.8         |
| Provisions for bad debt   | 9.7  | 12.6         |
| Provisions for inventory obsolescence   | 2.2  | 10.4         |
| Deferred taxes, net   | (48.5)                                     | (119.8)      |
| Excess tax benefit from share-based incentive compensation  |  | (0.8)        |
| Net gain on disposals of property and equipment and other   | (1.3)                                      | (0.9)        |
| Changes in operating assets and liabilities:  |  |              |
| Trade receivables, net  | (35.5)                                     | (67.0)       |
| Inventories   | (107.2)                                    | (89.0)       |
| Other assets  | (40.3)                                     | (29.7)       |
| Accounts payable  | 48.2                                       | (17.4)       |
| Other liabilities   | 40.5                                       | (8.1)        |
| Net cash provided by operating activities from continuing operations  | 278.2                                      | 64.7         |
| Cash flows from investing activities from continuing operations:  |  |              |
| Capital expenditures for property and equipment   | (80.0)                                     | (97.8)       |
| Business acquired in purchase transactions, net of cash and cash equivalents acquired                                 | (1.5)                                      | (2.6)        |
| Proceeds from sales of property and equipment   | 5.8  | 1.4          |
| Other investing activities  | 0.3  | 1.9          |
| Net cash used in investing activities from continuing operations  | (75.4)                                     | (97.1)       |
| Cash flows from financing activities from continuing operations:  |  |              |
| Net proceeds from short-term borrowings   | 43.4                                       |              |
| Payments of long-term debt  | (456.1)                                    | (88.6)       |
| Proceeds from long-term debt  | 425.1                                      | 18.5         |
| Dividends paid on common stock  | (76.4)                                     | (75.7)       |
| Acquisition of common stock for tax withholding obligations under our 2005 contingent stock plan                      | (3.9)                                      | (9.4)        |
| Payments of debt issuance costs   | (7.7)                                      |              |
| Payments for debt extinguishment costs  | (26.2)                                     |              |
| Excess tax benefit from share-based incentive compensation  |  | 0.8          |
| Other financing payments  |  | (1.7)        |

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|  |          |          |
|--|----------|----------|
| Net cash used in financing activities from continuing operations   | (101.8)  | (156.1)  |
| Effect of foreign currency exchange rate changes on cash and cash equivalents  | (3.9)    | 13.7     |
| Net change in cash and cash equivalents from continuing operations   | 97.1     | (174.8)  |
| Net cash provided by operating activities from discontinued operations   |          | 16.0     |
| Net cash used in investing activities from discontinued operations   |          | (0.8)    |
| Net cash used in financing activities from discontinued operations   |          | (3.2)    |
| Net change in cash and cash equivalents from discontinued operations   |          | 12.0     |
| Cash and cash equivalents:   |          |          |
| Balance, beginning of period   | 679.6    | 703.6    |
| Net change during the period   | 97.1     | (162.8)  |
| Balance, end of period   | \$ 776.7 | \$ 540.8 |
| Supplemental Cash Flow Information:  |          |          |
| Interest payments, net of amounts capitalized  | \$ 254.0 | \$ 278.2 |
| Income tax payments  | \$ 78.6  | \$ 92.4  |
| Restructuring payments (including associated costs)  | \$ 71.7  | \$ 62.9  |
| Stock appreciation rights payments (less amounts included in restructuring payments)                                 | \$ 42.8  | \$ 22.8  |
| Non-cash items:  |          |          |
| Transfers of shares of our common stock from treasury as part of our 2012 and 2011 profit-sharing plan contributions | \$ 18.7  | \$ 18.6  |

See accompanying Notes to Condensed Consolidated Financial Statements.

**Table of Contents**

**SEALED AIR CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**(Amounts 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, hospitality 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 Diversey® brand cleaning and hygiene solutions. We conduct substantially all of our business through three wholly-owned subsidiaries, Cryovac, Inc., Sealed Air Corporation (US) and Diversey, Inc.

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.

During the fourth quarter of 2012, we began operating under new business divisions for our segment reporting structure. The new segment reporting structure consists of three global business divisions. In the third quarter of 2013, we renamed our global business divisions under our segment reporting structure. There was no impact to the reportable segment results. The following are the changes to the names of our three global business divisions:

Food Care, which was previously named Food & Beverage;

Diversey Care, which was previously named Institutional & Laundry; and

Product Care, which was previously named Protective Packaging.

See Note 4, Segments, for further details of our segment structure.

***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 September 30, 2013 and our condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and 2012 have been made. The results set forth in our condensed consolidated statements of operations for the three and nine months ended September 30, 2013 and in our condensed consolidated statements of cash flows for the nine months ended September 30, 2013 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.

During the first quarter of 2013, we identified a misclassification in our December 31, 2012 consolidated balance sheet included in our 2012 Annual Report on Form 10-K. This misclassification, which has been corrected on our December 31, 2012 condensed consolidated balance sheet included in this Form 10-Q, decreased our non-current deferred tax assets and non-current deferred tax liabilities by \$105.5 million, decreasing our non-current deferred tax assets from \$255.8 million to \$150.3 million and decreasing our non-current deferred tax liabilities from \$472.5 million to \$367.0 million. This misclassification had no impact on our net deferred tax asset balance as of December 31, 2012 and it did not

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

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.

Our condensed consolidated financial statements were prepared in accordance with the interim reporting requirements of the SEC. As permitted under those rules, annual footnotes or other financial information that are normally required by 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 2012 Annual Report on Form 10-K and with the information contained in other publicly-available filings with the SEC.



**Table of Contents**

In November 2012, we completed the sale of Diversey G.K. ( Diversey Japan ) (an indirect subsidiary of Sealed Air). The operating results for Diversey Japan were reclassified to discontinued operations, net of tax, on the consolidated statements of operations for the three and nine months ended September 30, 2012. Prior year disclosures in the condensed consolidated statement of cash flows and the notes to condensed consolidated financial statements have been revised accordingly. See Note 3, Divestiture .

**(2) Recently Issued Accounting Standards***Adopted in 2013*

In October 2012, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2012-04, Technical Corrections and Improvement, which makes certain technical corrections (i.e., relatively minor corrections and clarifications) and conforming fair value amendments . The amendments affect various codification topics and apply to all reporting entities within the scope of those topics. This standard becomes effective for us upon issuance, except for amendments that are subject to transition guidance, which was effective for fiscal periods beginning after December 15, 2012. The adoption of this standard did not have any material effect on our consolidated financial condition or results of operations.

In July 2012, the FASB issued ASU No. 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment. This standard update, 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 was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption allowed. The adoption of this standard did not have any 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. The adoption of this standard did not have any material effect on our consolidated financial condition or results of operations as they are disclosure requirements only.

In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, a company is required to present either on the statement of operations or in the notes significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The disclosure requirements are effective for annual reporting periods beginning after December 15, 2012, prospectively. We have included footnote disclosures for the three months and nine months ended September 30, 2013. See Note 11, Derivatives and Hedging Activities and Note 15, Stockholders' Equity for further details. The adoption of this standard did not have any material effect on our consolidated financial condition or results of operations as they are disclosure requirements only.

In July 2013, the FASB issued ASU 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. This standard update permits companies to use the Fed Funds Effective Swap Rate as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the U.S. government (UST) and London Interbank Offered Rate. This amendment also removes the restriction on using different benchmark rates for similar hedges. This amendment was effective on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. There was no impact on our condensed consolidated financial statements upon adoption of this standard update.

*Pending in 2013*

In February 2013, the FASB issued ASU 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. This standard update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, as the sum of the following: (a) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (b) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This standard becomes effective for fiscal years and interim periods within those years beginning after December 15, 2013. This standard update is required to be applied retrospectively to all prior periods

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

presented for those obligations resulting from joint and several liability arrangements that existed at the beginning of the fiscal year of adoption. We do not believe the adoption of this standard will have a material impact to our consolidated financial position or results of operations.

In March 2013, the FASB issued ASU 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This standard update requires an entity to release any cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This standard update becomes effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2013. The impact of this standard update on our consolidated financial statements will be based on any future activity that qualifies within this guidance.

**Table of Contents**

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists. This standard update provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This standard update becomes effective for fiscal years and interim periods within those years beginning after December 15, 2013. The amendment should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Early adoptions and retrospective application are permitted. We do not believe the adoption of this standard will have a material impact to our consolidated financial statements.

**(3) Divestiture**

In November 2012, we completed the sale of Diversey Japan to an investment vehicle of The Carlyle Group ( Carlyle ) for gross proceeds of \$323 million, including certain purchase price adjustments. After transaction costs of \$10 million, we used substantially of all the net proceeds of \$313 million to prepay a portion of our term loans outstanding under our senior secured credit facilities in 2012. We recorded a pre-tax gain on the sale of \$211 million (\$179 million, net of tax) which was included in discontinued operations in the consolidated statement of operations for the year ended December 31, 2012.

Diversey Japan was acquired as part of the acquisition of Diversey Holdings, Inc. and its subsidiaries, ( Diversey ) on October 3, 2011. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of the Diversey Japan business are presented as discontinued operations, net of tax, in the condensed consolidated statements of operations and condensed consolidated statements of cash flows and all related disclosures and, as such, have been excluded from both continuing operations and segment results for the three and nine months ended September 30, 2012 presented.

Summary operating results for this discontinued operation were as follows:

|   | Three Months Ended<br>September 30,<br>2012 | Nine Months Ended<br>September 30,<br>2012 |
|---|---|--|
| Net sales   | \$ 78.9                                     | \$ 230.8                                   |
| Operating profit                                      | \$ 9.8                                      | \$ 25.9                                    |
| Earnings before income tax provision                  | \$ 9.6                                      | \$ 25.0                                    |
| Income tax provision                                  | 3.7   | 9.7  |
| Net earnings from discontinued operations, net of tax | \$ 5.9                                      | \$ 15.3                                    |

In connection with the sale, we entered into several agreements. While those agreements have generated revenues and cash flows for us, the amounts and our continuing involvement in operations in Japan are not significant to our consolidated financial condition or results of operations.

**(4) Segments**

During the fourth quarter of 2012, we began to operate under three new business divisions for our segment reporting structure. This new structure replaced our legacy seven business unit structure. We also refer to our new segment reporting structure as divisions . The changes to our segment reporting structure did not have any impact on the historical consolidated results of operations of the Company. Prior period segment results have been revised to the new segment presentation.

We report our segment information in accordance with the provisions of FASB ASU Topic 280, Segment Reporting. Our segment reporting corresponds with management's current approach of allocating resources and assessing the performance of our segments. Our segments are aligned with groups of similar products.



**Table of Contents**

In the third quarter of 2013, we renamed our global business divisions under our segment reporting structure, which did not have any impact to the reportable segment results. The following are the changes to the names of our three global business divisions:

Food Care, which was previously named Food & Beverage;

Diversey Care, which was previously named Institutional & Laundry; and

Product Care, which was previously named Protective Packaging.

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

|  | Three Months Ended<br>September 30, |                     | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|---------------------|------------------------------------|-------------------|
|  | 2013                                | 2012                | 2013                               | 2012              |
| <b>Net sales</b>   |                                     |                     |                                    |                   |
| Food Care  | \$ 950.5                            | \$ 935.5            | \$ 2,799.5                         | \$ 2,753.2        |
| Diversey Care  | 531.9                               | 527.2               | 1,614.6                            | 1,597.9           |
| Product Care   | 402.7                               | 388.9               | 1,183.6                            | 1,171.0           |
| Other Category   | 50.8                                | 48.7                | 152.5                              | 148.2             |
| <b>Total</b>   | <b>\$ 1,935.9</b>                   | <b>\$ 1,900.3</b>   | <b>\$ 5,750.2</b>                  | <b>\$ 5,670.3</b> |
| <b>Depreciation and amortization<sup>(1)</sup></b>           |                                     |                     |                                    |                   |
| Food Care  | \$ 30.6                             | \$ 34.9             | \$ 96.6                            | \$ 112.8          |
| Diversey Care  | 31.1                                | 32.6                | 97.4                               | 95.7              |
| Product Care   | 9.5                                 | 10.4                | 29.9                               | 29.6              |
| Other Category   | 2.3                                 | 4.2                 | 12.7                               | 9.7               |
| <b>Total</b>   | <b>\$ 73.5</b>                      | <b>\$ 82.1</b>      | <b>\$ 236.6</b>                    | <b>\$ 247.8</b>   |
| <b>Operating profit (loss)</b>                               |                                     |                     |                                    |                   |
| Food Care  | \$ 115.3                            | \$ (228.0)          | \$ 311.8                           | \$ (75.9)         |
| Diversey Care  | 18.1                                | (976.2)             | 46.8                               | (956.0)           |
| Product Care   | 52.9                                | 53.0                | 143.6                              | 150.6             |
| Other Category   | 3.4                                 | (1.7)               | (1.2)                              | (3.3)             |
| <b>Total segments and other</b>                              | <b>189.7</b>                        | <b>(1,152.9)</b>    | <b>501.0</b>                       | <b>(884.6)</b>    |
| Costs related to the acquisition and integration of Diversey | 0.3                                 | 1.3                 | 0.8                                | 4.8               |
| Restructuring and other charges <sup>(2)</sup>               | 49.5                                | 36.8                | 61.2                               | 110.1             |
| <b>Total</b>   | <b>\$ 139.9</b>                     | <b>\$ (1,191.0)</b> | <b>\$ 439.0</b>                    | <b>\$ (999.5)</b> |

- (1) Includes depreciation and amortization of \$68.1 million in the three months ended September 30, 2013, \$75.4 million in the three months ended September 30, 2012, \$216.3 million in the nine months ended September 30, 2013 and \$230.9 million in the nine months ended September 30, 2012, and amortization of share-based incentive compensation expense of \$5.4 million in the three months ended September 30, 2013, \$6.6 million in the three months ended September 30, 2012, \$20.3 million in the nine months ended September 30, 2013 and \$16.9 million in the nine months ended September 30, 2012.



**Table of Contents**

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

|                | Three Months Ended |                | Nine Months Ended |                 |
|----------------|--------------------|----------------|-------------------|-----------------|
|                | September 30,      |                | September 30,     |                 |
|                | 2013               | 2012           | 2013              | 2012            |
| Food Care      | \$ 16.4            | \$ 26.6        | \$ 19.1           | \$ 82.3         |
| Diversey Care  | 21.4               | 6.5            | 26.3              | 14.1            |
| Product Care   | 10.4               | 1.4            | 14.5              | 11.0            |
| Other Category | 1.3                | 2.3            | 1.3               | 2.7             |
| <b>Total</b>   | <b>\$ 49.5</b>     | <b>\$ 36.8</b> | <b>61.2</b>       | <b>\$ 110.1</b> |

The restructuring and other charges in 2013 primarily relate to our previously announced 2013 Earnings Quality Improvement Program (EQIP). See Note 9, Restructuring Activities.

**Allocation of Goodwill to Reportable Segments**

Our management views goodwill and identifiable intangible assets as a corporate asset, so we do not allocate their balances to the reportable segments. However, we are required to allocate their balances to each reporting unit to perform our annual impairment review of goodwill. See Note 7, Goodwill and Identifiable Intangible Assets, for the allocation of goodwill and the changes in goodwill in the nine months ended September 30, 2013 by our segment structure.

**(5) Inventories**

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

|  | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Inventories (at FIFO, which approximates replacement value): |                       |                      |
| Raw materials  | \$ 133.3              | \$ 128.4             |
| Work in process  | 133.0                 | 117.0                |
| Finished goods   | 614.0                 | 542.4                |
| <b>Subtotal (at FIFO)</b>                                    | <b>880.3</b>          | <b>787.8</b>         |
| Reduction of certain inventories to LIFO basis               | (50.4)                | (51.4)               |
| <b>Total</b>   | <b>\$ 829.9</b>       | <b>\$ 736.4</b>      |

We determine the value of some of our non-equipment U.S. inventories by the last-in, first-out, or LIFO, inventory method. U.S. inventories determined by the LIFO method were \$128 million at September 30, 2013 and \$104 million at December 31, 2012.

**(6) Property and Equipment, net**

The following table details our property and equipment, net:

|                         | September 30,<br>2013 | December 31,<br>2012 |
|-------------------------|-----------------------|----------------------|
| Land and improvements   | \$ 139.1              | \$ 142.5             |
| Buildings               | 737.9                 | 715.4                |
| Machinery and equipment | 2,511.5               | 2,548.9              |

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|   |            |            |
|---|------------|------------|
| Other property and equipment              | 176.8      | 154.2      |
| Construction-in-progress                  | 84.5       | 85.7       |
| Property and equipment, gross             | 3,649.8    | 3,646.7    |
| Accumulated depreciation and amortization | (2,504.4)  | (2,433.9)  |
| Property and equipment, net               | \$ 1,145.4 | \$ 1,212.8 |



**Table of Contents**

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

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |          |
|--|-------------------------------------|---------|------------------------------------|----------|
|  | 2013                                | 2012    | 2013                               | 2012     |
| Interest cost capitalized  | \$ 1.0                              | \$ 1.6  | \$ 3.7                             | \$ 3.9   |
| Depreciation and amortization expense for property and equipment | \$ 38.6                             | \$ 42.8 | \$ 122.9                           | \$ 131.1 |

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

The following table shows our goodwill balances by our new segment reporting structure. We review goodwill for impairment on a reporting unit basis annually during the fourth quarter of each year and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. As of September 30, 2013, we did not identify any changes in circumstances that would indicate the carrying value of goodwill may not be recoverable.

|                | Gross Carrying Value at |                        | Carrying Value at | Impact of Foreign Currency Translation |                                      | Gross Carrying Value at |                        | Carrying Value at |
|----------------|-------------------------|------------------------|-------------------|--|--------------------------------------|-------------------------|------------------------|-------------------|
|                | December 31, 2012       | Accumulated Impairment |                   | September 30, 2012                     | Nine Months Ended September 30, 2013 | December 31, 2013       | Accumulated Impairment |                   |
| Food Care      | \$ 837.7                | \$ (208.0)             | \$ 629.7          | \$ (9.3)                               | \$ 828.4                             | \$ (208.0)              | \$ 620.4               |                   |
| Diversey Care  | 2,026.1                 | (883.0)                | 1,143.1           | (25.0)                                 | 2,001.1                              | (883.0)                 | 1,118.1                |                   |
| Product Care   | 1,372.7                 |                        | 1,372.7           | (0.1)                                  | 1,372.6                              |                         | 1,372.6                |                   |
| Other category | 45.9                    |                        | 45.9              | 0.1                                    | 46.0                                 |                         | 46.0                   |                   |
| Total          | \$ 4,282.4              | \$ (1,091.0)           | \$ 3,191.4        | \$ (34.3)                              | \$ 4,248.1                           | \$ (1,091.0)            | \$ 3,157.1             |                   |

**Identifiable Intangible Assets**

The following tables summarize our identifiable intangible assets with definite and indefinite useful lives. We have determined that substantially all of the trademarks and trade names included below had indefinite useful lives as of September 30, 2013. As of September 30, 2013, there were no impairment indicators present.

|                            | September 30, 2013   |                          |                        |            | December 31, 2012    |                          |                        |            |
|----------------------------|----------------------|--------------------------|------------------------|------------|----------------------|--------------------------|------------------------|------------|
|                            | Gross Carrying Value | Accumulated Amortization | Accumulated Impairment | Net        | Gross Carrying Value | Accumulated Amortization | Accumulated Impairment | Net        |
| Customer relationships     | \$ 970.3             | \$ (158.8)               | (148.9)                | \$ 662.6   | \$ 978.1             | \$ (112.7)               | (148.9)                | \$ 716.5   |
| Trademarks and trade names | 881.5                | (0.1)                    | (630.2)                | 251.2      | 882.3                | (0.9)                    | (630.2)                | 251.2      |
| Technology                 | 246.7                | (115.7)                  | (22.2)                 | 108.8      | 243.5                | (79.1)                   | (22.2)                 | 142.2      |
| Contracts                  | 44.0                 | (19.9)                   |                        | 24.1       | 44.6                 | (14.8)                   |                        | 29.8       |
| Total                      | \$ 2,142.5           | \$ (294.5)               | \$ (801.3)             | \$ 1,046.7 | \$ 2,148.5           | \$ (207.5)               | \$ (801.3)             | \$ 1,139.7 |



**Table of Contents**

The following table shows the remaining estimated future amortization expense at September 30, 2013:

|              |                 |
|--------------|-----------------|
| 2013         | \$ 29.3         |
| 2014         | 111.2           |
| 2015         | 85.4            |
| 2016         | 83.0            |
| 2017         | 79.8            |
| Thereafter   | 406.9           |
| <b>Total</b> | <b>\$ 795.6</b> |

**(8) Accounts Receivable Securitization Programs*****U.S. Accounts Receivables Securitization Program***

We and a group of our U.S. subsidiaries maintain an accounts receivable securitization program with two banks and issuers of commercial paper administered by these banks. As of September 30, 2013, 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 this 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 the nine months ended September 30, 2013, 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 \$104 million at September 30, 2013. Although we do not believe restrictions under this program 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.

This program expires annually in September and is renewable. In September 2013, before the expiration of the program, we extended the expiration date of the program to September 2014.

***European Accounts Receivables Securitization Program***

In February 2013, we entered into a European accounts receivable securitization program and purchase agreement with a special purpose vehicle, or SPV, two banks and a group of our European subsidiaries and in the second quarter of 2013, we added two additional subsidiaries into the program. The maximum purchase limit for receivable interests was 95 million, (\$128 million equivalent at September 30, 2013) subject to availability limits, and the program is scheduled to expire in February 2014. The terms and provisions of this program are similar to our U.S. program discussed above. As of September 30, 2013, the amount available under this program was 71 million (\$96 million equivalent as of September 30, 2013).

The European program is structured to be a securitization of certain trade receivables that are originated by certain of our European subsidiaries. We do not have an equity interest in the SPV. However, since we are considered the primary beneficiary of the SPV, it meets the criteria to be classified as a variable interest entity and is included in our consolidated financial statements. Any activity between the participating subsidiaries and the SPV is eliminated in consolidation. Loans from the banks to the SPV are classified as short-term borrowings in our financial statements.

As of September 30, 2013 and December 31, 2012, we had no amounts outstanding under either the U.S. or European program, and we did not utilize these programs during 2013. Under limited circumstances, the banks and the issuers of commercial paper can end purchases of receivables interests before the above expiration 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 programs. We were in compliance with these ratios at September 30, 2013 and December 31, 2012, as applicable.

**(9) Restructuring Activities*****2013 Earnings Quality Improvement Program (EQIP)***

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

In May 2013, we announced the commencement of EQIP, which is an initiative to deliver meaningful cost savings and network optimization. The costs associated with this plan consist primarily of (i) a reduction in headcount (expected to be approximately 400-500 employees) and other costs associated with divisional realignment and connected profitability improvement programs, including severance and termination benefits for employees, expected to be approximately \$90 million to \$95 million, (ii) costs and capital expenditures associated with incremental supply chain network optimization projects, including facility relocation and closures, expected to be approximately \$85 million to \$95 million, and (iii) other costs associated with the plan, currently estimated to be approximately \$5 million to \$10 million. As a result, we currently estimate that we will incur total costs of approximately \$180 million to \$200 million in connection with implementation of this plan, including capital expenditures of approximately \$55 million to \$70 million. The above amounts include anticipated cash payments of \$65 million in 2013. These amounts are preliminary estimates based on the information currently available to management. The plan is expected to be completed by the end of 2015.

**Table of Contents**

The associated costs and related restructuring charges for EQIP in the three and nine months ended September 30, 2013 are included in the table below:

|                       | <b>Three Months Ended<br/>September 30, 2013</b> | <b>Nine Months Ended<br/>September 30, 2013</b> |
|-----------------------|--|---|
| Associated costs      | \$ 4.8   | \$ 6.7  |
| Restructuring charges | 48.0   | 64.7  |
| <b>Total</b>          | <b>\$ 52.8</b>                                   | <b>\$ 71.4</b>                                  |

The associated costs included in the table above primarily consist of consulting and rebranding costs incurred in connection with the rebranding of the Company and its divisions, which were included in selling, general and administrative expenses on the condensed consolidated statements of operations for the three and nine months ended September 30, 2013. The restructuring charges included in the table above primarily consist of termination and benefit costs.

The restructuring accrual, spending and other activity for the nine months ended September 30, 2013 and the accrual balance remaining at September 30, 2013 related to this program were as follows:

|   |                |
|---|----------------|
| EQIP restructuring accrual at December 31, 2012         | \$             |
| Accrual and accrual adjustments                         | 64.7           |
| Cash payments during 2013                               | (7.1)          |
| Effect of changes in foreign currency exchange rates    | 0.5            |
| <b>EQIP restructuring accrual at September 30, 2013</b> | <b>\$ 58.1</b> |

Cash payments including associated costs were \$14 million in the nine months ended September 30, 2013. We expect to pay \$42 million of the accrual balance remaining at September 30, 2013 within the next twelve months. This amount is included in accrued restructuring costs on the condensed consolidated balance sheet at September 30, 2013. The majority of the remaining accrual of \$16 million is expected to be paid in 2014 and 2015 with minimal amounts to be paid out in 2016. This amount is included in other liabilities on our condensed consolidated balance sheet at September 30, 2013.

**2011-2014 Integration and Optimization Program (IOP)**

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, (iii) supply chain network optimization, and (iv) certain other capital expenditures. This program is expected to be completed by the end of 2014.

The associated costs and related restructuring charges for IOP in the three and nine months ended September 30, 2013 and 2012 are included in the table below:

|                       | <b>Three Months Ended<br/>September 30,</b> |                | <b>Nine Months Ended<br/>September 30,</b> |                 |
|-----------------------|---|----------------|--|-----------------|
|                       | <b>2013</b>                                 | <b>2012</b>    | <b>2013</b>                                | <b>2012</b>     |
| Associated costs      | \$ 3.6                                      | \$ 2.9         | \$ 12.1                                    | \$ 10.3         |
| Restructuring charges | 0.2   | 37.5           | (4.8)                                      | 110.6           |
| <b>Total</b>          | <b>\$ 3.8</b>                               | <b>\$ 40.4</b> | <b>\$ 7.3</b>                              | <b>\$ 120.9</b> |

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

The associated costs in the table above primarily consist of consulting fees included in selling, general and administrative expenses on the condensed consolidated statements of operations for the three and nine months ended September 30, 2013. The associated costs for the nine months ended September 30, 2012 include asset impairment charges of \$5 million related to a facility closure in the U.S., included in cost of sales in our Food Care segment.

**Table of Contents**

The restructuring charges included in the table above primarily consist of termination and benefits costs, including cash-settled stock appreciation rights that were previously issued to Diversey employees as a portion of the total consideration for the acquisition of Diversey of \$0.2 million and \$1 million for the three and nine months ended September 30, 2013. This compares to a nominal amount for the three months ended September 30, 2012 and \$8 million for the nine months ended September 30, 2012. See Note 15, Stockholders Equity, for further details of these awards. These charges were included in restructuring and other charges on our condensed consolidated statements of operations.

The restructuring accrual, spending and other activity for the nine months ended September 30, 2013 and the accrual balance remaining at September 30, 2013 related to this program were as follows:

|  |             |
|--|-------------|
| IOP restructuring accrual at December 31, 2012       | \$ 88.2     |
| Revision to accrual                                  | (8.7)       |
| Additional accrual                                   | 3.9         |
| Cash payments during 2013                            | (46.0)      |
| Effect of changes in foreign currency exchange rates | (1.4)       |
| <br>IOP restructuring accrual at September 30, 2013  | <br>\$ 36.0 |

Cumulative cash payments including associated costs made in connection with this program through September 30, 2013 were \$190 million. We expect to pay \$33 million of the accrual balance remaining at September 30, 2013 within the next twelve months. This amount is included in accrued restructuring costs on the condensed consolidated balance sheet at September 30, 2013. The majority of the remaining accrual of \$3 million is expected to be paid in 2014 with minimal amounts to be paid out in 2015. This amount is included in other liabilities on our condensed consolidated balance sheet at September 30, 2013.

**(10) Debt and Credit Facilities**

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

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Short-term borrowings   | \$ 75.2               | \$ 39.2              |
| Current portion of long-term debt <sup>(1)</sup>  | 180.0                 | 1.8                  |
| Total current debt  | 255.2                 | 41.0                 |
| <br>5.25% Senior Notes due April 2023   | <br>425.0             |                      |
| 12% Senior Notes due February 2014 <sup>(1)</sup>   |                       | 153.4                |
| Term Loan A Facility due October 2016, less unamortized lender fees of \$11.0 in 2013 and \$15.4 in 2012 <sup>(2)</sup>   | 761.5                 | 843.9                |
| 7.875% Senior Notes due June 2017, less unamortized discount of \$5.5 in 2012 <sup>(3)</sup>  |                       | 394.5                |
| Term Loan B Facility due October 2018, less unamortized lender fees of \$9.4 in 2013 and \$10.7 in 2012, and unamortized discount of \$13.8 in 2013 and \$15.6 in 2012 <sup>(2)</sup> | 772.5                 | 771.6                |
| 8.125% Senior Notes due September 2019  | 750.0                 | 750.0                |
| 6.50% Senior Notes due December 2020  | 425.0                 | 425.0                |
| 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 2013 and 2012  | 448.6                 | 448.6                |
| Other   | 2.6                   | 3.8                  |
| <br>Total long-term debt, less current portion  | <br>4,335.2           | <br>4,540.8          |

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|                           |            |            |
|---------------------------|------------|------------|
| Total debt <sup>(4)</sup> | \$ 4,590.4 | \$ 4,581.8 |
|---------------------------|------------|------------|

- (1) The 12% Senior Notes due February 2014 were reclassified to current portion of long-term debt as of September 30, 2013. In addition, we reclassified the third quarter 2014 Term Loan A and Term Loan B installment payments to current portion of long term debt.
- (2) In the nine months ended September 30, 2013, we prepaid a portion of our 2014 Term Loan A (\$51 million) and Term Loan B (\$4 million) installments.
- (3) During 2013, we purchased all of our outstanding \$400 million 7.875% Senior Notes due 2017. See below for further discussion.
- (4) The weighted average interest rate on our outstanding debt was 6.2% as of September 30, 2013 and 6.4% as of December 31, 2012.



**Table of Contents****Senior Notes****2013 Activity**

In March 2013, we issued \$425 million of 5.25% Senior Notes due April 2023 and used substantially all of the proceeds to retire the 7.875% Senior Notes due June 2017. The aggregate repurchase price was \$431 million, which included the principal amount of \$400 million, a 6% premium of \$23 million and accrued interest of \$8 million. As a result, we recognized a net pre-tax loss of \$32 million, which included the premium mentioned above, the acceleration of the unamortized debt issuance costs associated with the repurchase of the 7.875% senior notes and certain fees. The loss on debt redemption is included on our condensed consolidated statements of operations.

The 5.25% Senior Notes due April 2023 and their related guarantees were offered only to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended (the Securities Act), and to non-U.S. persons in transactions outside the U.S. under Regulation S of the Securities Act. These notes have not been registered under the Securities Act, and, unless so registered, may not be offered or sold in the U.S. absent registration or an applicable exemption form, or in a transaction not subject to, the registration requirements of the Securities Act and other applicable securities laws.

The 5.25% Senior Notes will mature on April 1, 2023 and interest is payable on April 1 and October 1 of each year, commencing October 1, 2013.

**Lines of Credit**

The following table summarizes our available lines of credit and committed and uncommitted lines of credit, including our senior secured credit facility, and the amounts available under our accounts receivable securitization programs. We are not subject to any material compensating balance requirements in connection with our lines of credit.

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Used lines of credit  | \$ 75.2               | \$ 39.2              |
| Unused lines of credit <sup>(1)</sup>                               | 1,003.4               | 989.5                |
| <b>Total available lines of credit</b>                              | <b>\$ 1,078.6</b>     | <b>\$ 1,028.7</b>    |
| Available lines of credit committed <sup>(2)</sup>                  | \$ 700.5              | \$ 700.5             |
| Available lines of credit uncommitted                               | 378.1                 | 328.2                |
| <b>Total available lines of credit</b>                              | <b>\$ 1,078.6</b>     | <b>\$ 1,028.7</b>    |
| Accounts receivable securitization program committed <sup>(2)</sup> | \$ 200.0              | \$ 112.0             |

(1) Includes a \$700 million revolving senior secured credit facility that expires October 2016.

(2) See Note 8, Accounts Receivable Securitization Programs, for further details.

**Other Lines of Credit**

Substantially all our short-term borrowings of \$75 million at September 30, 2013 and \$39 million at December 31, 2012 were outstanding under lines of credit available to several of our foreign subsidiaries. The following table details our other lines of credit.

| September 30,<br>2013 | December 31,<br>2012 |
|-----------------------|----------------------|
|-----------------------|----------------------|

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|                                |    |       |    |       |
|--------------------------------|----|-------|----|-------|
| Available lines of credit      | \$ | 378.7 | \$ | 328.3 |
| Unused lines of credit         |    | 303.5 |    | 289.0 |
| Weighted average interest rate |    | 13.1% |    | 10.2% |

### *Covenants*

Each issue of our outstanding senior notes imposes limitations on our operations and those of specified subsidiaries. Additionally, the senior secured 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 September 30, 2013.

**Table of Contents****(11) Derivatives and Hedging Activities**

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.

***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 (loss) 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 loss for the three and nine months ended September 30, 2013 and 2012 and any amounts reclassified to the consolidated statements of operations were not material. The unrealized amounts in other comprehensive income (loss) will fluctuate based on changes in the fair value of open contracts during each reporting period.

***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 substantially offset by the remeasurement of the underlying foreign currency denominated items indicated above. These contracts predominantly have original maturities of less than 12 months.

***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 September 30, 2013 and December 31, 2012, we had no foreign exchange options or interest rate and currency swap agreements outstanding.

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.

***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 <sup>(1)</sup> |                      | Fair Value of (Liability)<br>Derivatives <sup>(1)</sup> |                      |
|---|----------------------|---|----------------------|
| September 30,<br>2013                             | December 31,<br>2012 | September 30,<br>2013                                   | December 31,<br>2012 |

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|   |               |               |                  |                  |
|---|---------------|---------------|------------------|------------------|
| <b>Derivatives designated as hedging instruments:</b>     |               |               |                  |                  |
| Foreign currency forward contracts (cash flow hedges)     | \$ 1.9        | \$ 0.5        | \$ (2.0)         | \$ (0.8)         |
| <b>Derivatives not designated as hedging instruments:</b> |               |               |                  |                  |
| Foreign currency forward contracts                        | 3.4           | 4.9           | (33.1)           | (29.6)           |
| <b>Total</b>  | <b>\$ 5.3</b> | <b>\$ 5.4</b> | <b>\$ (35.1)</b> | <b>\$ (30.4)</b> |

(1) Asset derivatives are included in other assets and liability derivatives are included in other liabilities in the condensed consolidated balance sheets.

**Table of Contents**

The following table details the effect of our derivative instruments on our condensed consolidated statements of operations. The gains and losses on foreign currency forward contracts included below were substantially offset by the gains and losses 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.

|   | Amount of Gain (Loss) Recognized in Earnings on Derivatives <sup>(1)</sup> |         |                                      |        |
|---|--|---------|--------------------------------------|--------|
|   | Three Months Ended September 30, 2013                                      |         | Nine Months Ended September 30, 2012 |        |
| <b>Derivatives designated as hedging instruments:</b>     |  |         |                                      |        |
| Interest rate swaps                                       | \$   | \$      | \$                                   | \$ 0.4 |
| Foreign currency forward contracts                        | 1.5  |         | 1.7                                  | (0.1)  |
| <b>Derivatives not designated as hedging instruments:</b> |  |         |                                      |        |
| Foreign currency forward contracts                        | 11.1   | 13.6    | (5.1)                                | 8.0    |
| <b>Total</b>  | \$ 12.6  | \$ 13.6 | \$ (3.4)                             | \$ 8.3 |

<sup>(1)</sup> Amounts recognized on the foreign currency forward contracts were included in other expense, net. Amounts recognized on the interest rate swaps were included in interest expense in the condensed consolidated statements of operations.

**(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.

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

| September 30, 2013                              | Total Fair Value | Level 1 | Level 2  | Level 3 |
|---|------------------|---------|----------|---------|
| Cash equivalents                                | \$ 345.1         | \$      | \$ 345.1 | \$      |
| Derivative financial instruments net liability: |                  |         |          |         |



## **Table of Contents**

### ***Cash Equivalents***

Our cash equivalents at September 30, 2013 and December 31, 2012 consisted of commercial paper and time deposits (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.

Counterparties to these foreign currency forward contracts are rated at least A- by Standard & Poor's and Baa1 by Moody's. 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 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***

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.

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:

|  | September 30, 2013 |            | December 31, 2012 |            |
|--|--------------------|------------|-------------------|------------|
|  | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
| 12% Senior Notes due February 2014                   | \$ 151.1           | \$ 156.6   | \$ 153.4          | \$ 172.0   |
| Term Loan A Facility due October 2016 <sup>(1)</sup> | 786.9              | 786.9      | 843.9             | 843.9      |
| 7.875% Senior Notes due June 2017                    |                    |            | 394.5             | 424.8      |
| Term Loan B Facility due October 2018 <sup>(1)</sup> | 774.3              | 774.3      | 771.6             | 771.6      |
| 8.125% Senior Notes due September 2019               | 750.0              | 837.2      | 750.0             | 846.8      |
| 6.50% Senior Notes due December 2020                 | 425.0              | 445.3      | 425.0             | 463.1      |
| 8.375% Senior Notes due September 2021               | 750.0              | 842.8      | 750.0             | 858.5      |
| 5.25% Senior Notes due April 2023                    | 425.0              | 404.3      |                   |            |
| 6.875% Senior Notes due July 2033                    | 448.6              | 420.0      | 448.6             | 421.7      |

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|                      |            |            |            |            |
|----------------------|------------|------------|------------|------------|
| Other foreign loans  | 79.1       | 78.9       | 44.2       | 44.0       |
| Other domestic loans | 0.4        | 0.4        | 0.6        | 0.6        |
| Total debt           | \$ 4,590.4 | \$ 4,746.7 | \$ 4,581.8 | \$ 4,847.0 |

(1) Includes borrowings denominated in currencies other than U.S. dollars.



**Table of Contents**

As of September 30, 2013, we did not have any non-financial assets and liabilities that were carried at fair value on a recurring basis in the condensed consolidated financial statements or for which a fair value measurement was required. 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 effective income rate from continuing operations was 24.6% for the three months ended September 30, 2013 and was 19.0% for the nine months ended September 30, 2013. Our effective income tax rate for both the three and nine months ended September 30, 2013 benefited from a favorable earnings mix, with earnings in jurisdictions with low tax rates and losses in jurisdictions, including the U.S. with high tax rates. The favorable factors were partially offset by losses and restructuring charges in jurisdictions where we did not have any tax benefit due to the applicable tax rate or valuation allowances. The effective income tax rate for the nine months ended September 30, 2013 benefited from a retroactive reinstatement of certain tax provisions that were recorded as discrete items during the three months ended March 31, 2013. On January 2, 2013, the President signed the American Taxpayer Relief Act of 2012, retroactively reinstating and extending the research and development tax credit and certain foreign tax provisions from January 1, 2012 through December 31, 2013.

We incurred losses from continuing operations during the three month and nine month periods ended September 30, 2012. Our loss before income taxes from continuing operations for the three month and nine month periods ended September 30, 2012 was reduced by an income tax benefit of \$48 million and \$55 million, respectively (an effective income tax benefit rate of 4% in each period). The tax benefit for the three month and nine month periods was 4% because our net loss resulted from an impairment charge, substantially all of which related to non-deductible goodwill, with no corresponding tax benefit. Our tax provision for both the three month and nine 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 \$2 million in the three months ended September 30, 2012 and \$12 million in the nine months ended September 30, 2012. The favorable factors were partially offset by losses in jurisdictions where we did not have any tax benefit due to the applicable tax rate or valuation allowances. In addition, during the three months ended September 30, 2012, we increased our valuation allowances by a total of \$36 million to provide for certain foreign tax credits and net operating losses that we currently believe are not likely to be realized. This increase in our valuation allowance was offset by a reduction in our unrecognized tax benefits resulting in no material change to our tax expense for the three months ended September 30, 2012.

***Unrecognized Tax Benefits***

We made payments to foreign jurisdictions of approximately \$14 million (including \$2 million of interest) during the nine months ended September 30, 2013, which reduced our unrecognized tax benefits. We have not changed our policy with regard to the reporting of penalties and interest related to unrecognized tax benefits.

**(14) Commitments and Contingencies*****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 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

---

**Table of Contents**

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 \$400 million at September 30, 2013 and \$364 million at December 31, 2012.

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).

*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.

---

**Table of Contents**

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).

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

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

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

---

**Table of Contents**

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 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*).

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 *crum 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





---

**Table of Contents**

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 overruled 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. Thereafter, the appeals of the Libby Claimants and BNSF with respect to the PI Settlement Plan were dismissed by orders of the United States Court of Appeals for the Third Circuit (the Third Circuit Court of Appeals) dated September 24, 2012 and October 4, 2012. 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 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 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 appealed the Amended District Court Opinion and the Amended District Court Confirmation Order to the Third Circuit Court of Appeals and filed briefs in connection with their appeals. The Third Circuit Court of Appeals heard oral arguments with respect to the appeals on June 17, 2013 and took these matters under advisement. By separate opinions and judgments entered on July 24, 2013 and September 4, 2013, the Third Circuit Court of Appeals affirmed the District Court's decision to overrule objections to the PI Settlement Plan by Garlock, Anderson Memorial, the State of Montana, and Her Majesty the Queen in Right of Canada (the Third Circuit Opinions & Judgments). The Third Circuit Opinions & Judgments relate to the appeals filed by Garlock Sealing, Anderson Memorial, Montana, and the Queen and do not address an appeal filed by certain holders of Grace's prepetition bank debt.



**Table of Contents**

(the Bank Lender Appeal ). The Bank Lender Appeal remains pending before the Third Circuit Court of Appeals. We do not know when the Third Circuit Court of Appeals will rule on the Bank Lender Appeal or whether there will be further proceedings with respect to the Bank Lender Appeal or other appeals to the PI Settlement Plan (either in the Third Circuit Court of Appeals or other courts). Recently, Grace indicated that it could not reasonably expect to emerge from bankruptcy in 2013 given the appeals to the PI Settlement Plan. Grace also indicated that it would expect to emerge from bankruptcy by the end of January 2014 if there were a ruling by the Third Circuit Court of Appeals on the Bank Lender Appeal and if there were no further appeals to the United States Supreme Court (the Supreme Court ). Grace also indicated that if further appeals were filed, it believed that its emergence would probably be delayed by 2 to 3 months. We do not control the appellate timetable, including when or how the Third Circuit Court of Appeals will rule on the Bank Lender Appeal, whether the parties will seek to appeal any Third Circuit ruling to the Supreme Court, whether the Supreme Court will take up any of these appeals, or how any ruling on appeal might impact the PI Settlement Plan. We also cannot make assurances that Grace's timing for emergence is or will be correct or that the target date for Grace's emergence has not been or will not be revised.

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 appeals that have been filed with respect to the PI Settlement Plan (which include, without limitation, challenges to injunctions and releases in the PI Settlement Plan) and the possibility of further proceedings with respect to such appeals, 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 nor can there be any assurance that each of the parties whose consent or waiver is required for Grace to emerge from bankruptcy while the appeals are pending will provide such consent or waiver. 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 and the Third Circuit Opinions & Judgments. 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. As noted, parties have appealed the Amended District Court Confirmation Order to the Third Circuit Court of Appeals or have 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, the Bankruptcy and Amended District Court Confirmation Orders and the Third Circuit Opinions & Judgments may be subject to further appeal, challenge, and proceedings before the Bankruptcy Court, the District Court, the Third Circuit Court of Appeals, the Supreme Court, or elsewhere. Parties have challenged various issues with respect to the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, and the Bankruptcy and Amended District Court Confirmation Orders, including, without limitation, issues relating to releases and injunctions contained in the PI Settlement Plan.

While the Bankruptcy Court and the District Court have confirmed the PI Settlement Plan and the Third Circuit Court of Appeals has entered the Third Circuit Opinions & Judgments, 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 with respect to the Bank Lender Appeal, 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 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 and monitor the progress of the Grace bankruptcy proceedings (including any appeals and other proceedings relating to the PI Settlement Plan, the Bankruptcy and Amended District Court Opinions, the Bankruptcy and Amended District Court Confirmation Orders, and the Third Circuit Opinions & Judgments), 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.

---

## **Table of Contents**

### *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 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) 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.



---

## **Table of Contents**

### *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.

### *Environmental Matters*

We are subject to loss contingencies resulting from environmental laws and regulations, and we accrue for anticipated costs associated with investigatory and remediation efforts when an assessment has indicated that a loss is probable and can be reasonably estimated. These accruals are not reduced by potential insurance recoveries, if any. We do not believe that it is reasonably possible that our liability in excess of the amounts that we have accrued for environmental matters will be material to our consolidated financial condition or results of operations. Environmental liabilities are reassessed whenever circumstances become better defined or remediation efforts and their costs can be better estimated.

We evaluate these liabilities periodically based on available information, including the progress of remedial investigations at each site, the current status of discussions with regulatory authorities regarding the methods and extent of remediation and the apportionment of costs among potentially responsible parties. As some of these issues are decided (the outcomes of which are subject to uncertainties) or new sites are assessed and costs can be reasonably estimated, we adjust the recorded accruals, as necessary. We believe that these exposures are not material to our consolidated financial condition or results of operations. We believe that we have adequately reserved for all probable and estimable environmental exposures.

### *Guarantees and Indemnification Obligations*

We are a party to many contracts containing guarantees and indemnification obligations. These contracts primarily consist of:

product warranties with respect to certain products sold to customers in the ordinary course of business. These warranties typically provide that products will conform to specifications. We generally do not establish a liability for product warranty based on a percentage of sales or other formula. We accrue a warranty liability on a transaction-specific basis depending on the individual facts and circumstances related to each sale. Both the liability and annual expense related to product warranties are immaterial to our consolidated financial position and results of operations; and

licenses of intellectual property by us to third parties in which we have agreed to indemnify the licensee against third party infringement claims.

### *Development Grant Matter*

On May 25, 2010, one of our Italian subsidiaries received a demand from the Italian Ministry of Economic Development for the total repayment of grant monies paid to two of our former subsidiaries in the amount of \$5.1 million. With accrued interest the total value of the demand currently stands at \$10.1 million (\$13 million equivalent at September 30, 2013). The grant monies had previously been certified as payable by the Italian authorities and the grant process was finalized and closed in 2006. We acquired the former subsidiaries in September 2001 as part of an acquisition. The substance of the repayment demand is that the former owners of the subsidiaries made fraudulent claims and used fraudulent documents to support their grant application prior to our acquisition. There is no suggestion that we or our Italian subsidiary were directly

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

involved in the grant process, but as purchaser of the two companies, the Ministry is seeking repayment from our Italian subsidiary. Our Italian subsidiary submitted a total denial of liability in regard to this matter on June 30, 2010. A full hearing of the merits of the demand is scheduled for July 2014. At this interim stage of the proceedings we are not able to determine the eventual outcome of the case. Accordingly, we have not recorded a liability related to this matter. We do not expect this matter to be material to our full year consolidated financial condition or results of operations, however the amount may be material to an interim reporting period.

**Table of Contents****(15) Stockholders' Equity*****Quarterly Cash Dividends***

On October 10, 2013, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share. This dividend is payable on December 20, 2013 to stockholders of record at the close of business on December 6, 2013. The estimated amount of this dividend payment is \$25 million based on 196 million shares of our common stock issued and outstanding as of October 31, 2013.

On July 11, 2013, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share payable on September 20, 2013 to stockholders of record at the close of business on September 6, 2013. We used \$25 million of available cash to pay this quarterly cash dividend.

On April 11, 2013, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share payable on June 21, 2013 to stockholders of record at the close of business on June 7, 2013. We used \$25 million of available cash to pay this quarterly cash dividend.

On February 14, 2013, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share payable on March 15, 2013 to stockholders of record at the close of business on March 1, 2013. We used \$25 million of available cash to pay this quarterly cash dividend.

The dividend payments in the nine months ended September 30, 2013 discussed above are recorded as reductions to cash and cash equivalents and retained earnings on our condensed consolidated balance sheets. Our credit facility and our senior 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 (the date of acquisition) into cash-settled stock appreciation rights based on Sealed Air common stock. As of September 30, 2013, we had 1.4 million SARs outstanding and the weighted average remaining vesting life of outstanding SARs was less than one year.

Since these SARs are settled in cash, the amount of the related expense has fluctuated and the related future expense will fluctuate based on exercise and 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 SARs expense of \$9 million in the three months ended September 30, 2013 and \$27 million in the nine months ended September 30, 2013, related to SARs that were granted to Diversey employees who remained employees as of September 30, 2013. We also recognized SARs expenses of \$3 million in the three months ended September 30, 2012 and \$6 million in the nine months ended September 30, 2012, related to SARs that were granted to Diversey employees who remained employees as of September 30, 2012. Cash payments due to the exercise of these SARs were \$43 million in the nine months ended September 30, 2013 and \$23 million in the nine months ended September 30, 2012. As of September 30, 2013, the remaining liability for these SARs was \$25 million and is included in other current (\$8 million) and non-current liabilities (\$17 million) on the condensed consolidated balance sheet.

In addition to the amounts discussed above, we recognized restructuring expense of less than \$1 million in the three months ended September 30, 2013 and \$1 million in the nine months ended September 30, 2013 for SARs payments that were part of the termination and benefit costs for employees under the 2011-2014 IOP. 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 \$2 million in the nine months ended September 30, 2013. The remaining liability for SARs included in the restructuring program was less than \$1 million as of September 30, 2013.

***Share-based Incentive Compensation***

We record share-based incentive compensation expense in selling, general and administrative 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 and our stock leverage



## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

opportunity ( SLO ) award programs, the cumulative amount accrued to date is adjusted up or down to the extent the expected performance against the targets has improved or worsened for the performance conditions components of the awards.

**Table of Contents**

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

|  | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|--------|------------------------------------|---------|
|  | 2013                                | 2012   | 2013                               | 2012    |
| Total share-based incentive compensation expense <sup>(1)(2)</sup> | \$ 5.4                              | \$ 6.6 | \$ 20.3                            | \$ 16.9 |

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 at September 30, 2013.

|   | 2013   | 2014    | 2015    | 2016   | Total   |
|---|--------|---------|---------|--------|---------|
| Total share-based incentive compensation expense <sup>(1)</sup> | \$ 8.4 | \$ 16.6 | \$ 11.2 | \$ 3.4 | \$ 39.6 |

<sup>(1)</sup> 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 or the expense or income related to SARS as such contributions are not considered share-based incentive compensation.

<sup>(2)</sup> On February 28, 2013, the Organization and Compensation Committee of our Board of Directors ( O&C Committee ) approved a change in the vesting policy regarding the existing 2011 three-year PSU awards, and the newly granted 2013 three-year PSU awards, for William V. Hickey, our former Chairman and Chief Executive Officer. The approved change will result in the full vesting of the awards, rather than a pro-rata portion vesting as of the date of his retirement (May 16, 2013). Mr. Hickey's awards will still be subject to the performance metrics stipulated in the plan documents, and will be paid-out in accordance with the original planned timing. As a result of these approved changes, the expense related to these awards was accelerated and recognized over the applicable service period up until the date of his retirement. We recognized share-based compensation expense related to these awards of \$3 million in the nine months ended September 30, 2013.

*Accumulated Other Comprehensive Loss*

Included in stockholders' equity on our condensed consolidated balance sheets is accumulated other comprehensive loss. Accumulated other comprehensive loss includes unrecognized pension items of \$137 million as of September 30, 2013.

In the nine months ended September 30, 2013, we reclassified \$7 million (\$5 million, net of taxes) out of accumulated other comprehensive income to other assets and other liabilities on the condensed consolidated balance sheets. Also, see Note 15, Profit Sharing, Retirement Savings Plans and Defined Benefit Plans, of the Notes to the Consolidated Financial Statements included in our 2012 Annual Report on Form 10-K for additional information related to unrecognized pension items included in accumulated other comprehensive loss.

**(16) Other Income (Expense), net**

The following table provides details of other expense, net:

|   | Three Months Ended<br>September 30, |        | Nine Months Ended<br>September 30, |          |
|---|-------------------------------------|--------|------------------------------------|----------|
|   | 2013                                | 2012   | 2013                               | 2012     |
| Interest and dividend income                    | \$ 2.6                              | \$ 3.5 | \$ 8.1                             | \$ 10.2  |
| Net foreign exchange transaction gains (losses) | 1.0                                 | (0.8)  | (4.6)                              | (10.8)   |
| Settlement agreement and related costs          | (0.3)                               | (0.4)  | (0.6)                              | (0.6)    |
| Noncontrolling interests                        |                                     | 0.4    | 0.7                                | 2.0      |
| Other, net                                      | (2.9)                               | (1.3)  | (6.4)                              | (9.0)    |
| Other income (expense), net                     | \$ 0.4                              | \$ 1.4 | \$ (2.8)                           | \$ (8.2) |



**Table of Contents****(17) Net Earnings (Loss) Per Common Share**

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

|   | <b>Three Months Ended<br/>September 30,</b> |                     | <b>Nine Months Ended<br/>September 30,</b> |                     |
|---|---|---------------------|--|---------------------|
|   | <b>2013</b>                                 | <b>2012</b>         | <b>2013</b>                                | <b>2012</b>         |
| <b>Basic Net Earnings (Loss) Per Common Share:</b>  |   |                     |  |                     |
| <b>Numerator</b>  |   |                     |  |                     |
| Net earnings (loss) available to common stockholders  | \$ 37.7                                     | \$ (1,232.4)        | \$ 96.7                                    | \$ (1,252.0)        |
| Distributed and allocated undistributed net earnings (loss) to non-vested restricted stockholders | (0.2)                                       | (0.1)               | (0.5)                                      | (0.4)               |
| Distributed and allocated undistributed net earnings (loss) to common stockholders                | 37.5  | (1,232.5)           | 96.2                                       | (1,252.4)           |
| Distributed net earnings dividends paid to common stockholders                                    | (25.3)                                      | (25.1)              | (75.9)                                     | (75.3)              |
| <b>Allocation of undistributed net earnings (loss) to common stockholders</b>                     | <b>\$ 12.2</b>                              | <b>\$ (1,257.6)</b> | <b>\$ 20.3</b>                             | <b>\$ (1,327.7)</b> |
| <b>Denominator<sup>(1)</sup></b>  |   |                     |  |                     |
| Weighted average number of common shares outstanding basic  | 194.9                                       | 193.2               | 194.5                                      | 192.7               |
| Basic net earnings (loss) per common share:   |   |                     |  |                     |
| Distributed net earnings (loss) to common stockholders  | \$ 0.13                                     | \$ 0.13             | \$ 0.39                                    | \$ 0.39             |
| Allocated undistributed net earnings (loss) to common stockholders                                | 0.06  | (6.51)              | 0.11                                       | (6.89)              |
| <b>Basic net earnings (loss) per common share:</b>  | <b>\$ 0.19</b>                              | <b>\$ (6.38)</b>    | <b>\$ 0.50</b>                             | <b>\$ (6.50)</b>    |
| <b>Diluted Net Earnings (Loss) Per Common Share:</b>  |   |                     |  |                     |
| <b>Numerator</b>  |   |                     |  |                     |
| Distributed and allocated undistributed net earnings (loss) to common stockholders                | \$ 37.5                                     | \$ (1,232.5)        | \$ 96.2                                    | \$ (1,252.4)        |
| Add: Allocated undistributed net earnings (loss) to non-vested restricted stockholders            | 0.1   |                     | 0.1  |                     |
| Less: Undistributed net earnings (loss) reallocated to non-vested restricted stockholders         | (0.1)                                       |                     | (0.1)                                      |                     |
| <b>Net earnings (loss) available to common stockholders diluted</b>                               | <b>\$ 37.5</b>                              | <b>\$ (1,232.5)</b> | <b>\$ 96.2</b>                             | <b>\$ (1,252.4)</b> |
| <b>Denominator<sup>(1)</sup></b>  |   |                     |  |                     |
| Weighted average number of common shares outstanding basic  | 194.9                                       | 193.2               | 194.5                                      | 192.7               |
| Effect of assumed issuance of Settlement agreement shares   | 18.0  |                     | 18.0                                       |                     |
| Effect of non-vested restricted stock units   | 0.8   |                     | 0.9  |                     |
| Weighted average number of common shares outstanding diluted                                      | 213.7                                       | 193.2               | 213.4                                      | 192.7               |
| <b>Diluted net earnings (loss) per common share</b>   | <b>\$ 0.18</b>                              | <b>\$ (6.38)</b>    | <b>\$ 0.45</b>                             | <b>\$ (6.50)</b>    |

<sup>(1)</sup> In calculating diluted net earnings (loss) per common share for 2012, our diluted weighted average number of common shares outstanding excludes the effect of assumed issuance of shares under the Settlement agreement and non-vested restricted stock units as the effect was anti-dilutive.

*PSU Awards*

Since the PSU awards include contingently issuable shares that are based on conditions 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 met the performance conditions as of September 30, 2012 were not included in the diluted weighted average number of common shares outstanding for the three and nine months ended September 30, 2012 as the effect was anti-dilutive.

**Table of Contents**

*Stock Leverage Opportunity Awards*

The shares or units associated with the 2013 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 nine months ended September 30, 2013. These shares or units 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 2014. Once this determination is made, the shares or units will be included in both the basic and diluted 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 three and nine months ended September 30, 2013 and 2012 were nominal and, for the three and nine months ended September 30, 2012, have not been included in the diluted weighted average number of common shares outstanding as the effect was anti-dilutive.

## **Table of Contents**

### **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 2012 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.

In November 2012, we completed the sale of Diversey Japan. The operating results of Diversey Japan were reclassified to discontinued operations, net of tax, on the condensed consolidated statements of operations for the three and nine months ended September 30, 2012. See Note 3, Divestiture, for details of our sale of Diversey Japan. The following MD&A is on a continuing operations basis unless otherwise noted.

### **Recent Events**

#### *Quarterly Cash Dividends*

On October 10, 2013, our Board of Directors declared a quarterly cash dividend of \$0.13 per common share. This dividend is payable on December 20, 2013 to stockholders of record at the close of business on December 6, 2013. The estimated amount of this dividend payment is \$25 million based on 196 million shares of our common stock issued and outstanding as of October 31, 2013.

In the third quarter of 2013, we renamed our global business divisions under our segment reporting structure. There was no impact to the reportable segment results. The following are the changes to the names of our three global business divisions:

Food Care, which was previously named Food & Beverage;

Diversey Care, which was previously named Institutional & Laundry; and

Product Care, which was previously named Protective Packaging.

See Note 4, Segments, for further details of our segment structure.

#### *2013 Earnings Quality Improvement Program (EQIP)*

As announced on May 1, 2013, we commenced with EQIP, which is an initiative to deliver meaningful cost savings and network optimization. See below, and Note 9, Restructuring Activities for further details of the program.

### **2013 Revised Outlook**

We now expect net sales in 2013 to be approximately \$7.7 billion (representing a 1% growth, as compared with 2012) and Adjusted EPS to be in the range of \$1.25 to \$1.30. Adjusted EBITDA is expected to be approximately \$1.055 billion and Free Cash Flow (Free Cash Flow represents cash flow from operations less capital expenditures) to be approximately \$375 million. Our core tax rate for 2013 is now expected to be in the range of 20% to 23% compared to previously provided guidance of approximately 25%.

Additional full year 2013 outlook information includes:

interest expense of approximately \$355 million (including \$290 million of cash interest payments);

depreciation and amortization expense of approximately \$310 million (including \$170 million for property and equipment, \$115 million for intangible assets and \$25 million for share-based compensation);

cash tax payments of approximately \$100 million; and

cash restructuring payments of approximately \$140 million.

Our Adjusted EBITDA and Adjusted EPS outlook excludes the impact of special items and the payment under the Settlement agreement. Special items are described in more detail below and in Non-U.S. GAAP Information section included in this Quarterly Report on Form 10-Q.



**Table of Contents****Highlights of Financial Performance**

Below are highlights of our financial performance.

|  | Three Months Ended<br>September 30, |              | %<br>Change | Nine Months Ended<br>September 30, |              | %<br>Change |
|--|-------------------------------------|--------------|-------------|------------------------------------|--------------|-------------|
|  | 2013                                | 2012         |             | 2013                               | 2012         |             |
| Net sales  | \$ 1,935.9                          | \$ 1,900.3   | 1.9%        | \$ 5,750.2                         | \$ 5,670.3   | 1.4%        |
| Gross profit   | \$ 656.4                            | \$ 643.6     | 2.0%        | \$ 1,939.5                         | \$ 1,893.0   | 2.5%        |
| <i>As a % of net sales</i>   | 33.9%                               | 33.9%        |             | 33.7%                              | 33.4%        |             |
| Operating profit (loss)  | \$ 139.9                            | \$ (1,191.0) | #%          | \$ 439.0                           | \$ (999.5)   | #%          |
| <i>As a % of net sales</i>   | 7.2%                                | (62.7)%      |             | 7.6%                               | (17.6)%      |             |
| Net earnings (loss) available to common stockholders from continuing operations                  | \$ 37.7                             | \$ (1,238.3) | #%          | \$ 96.7                            | \$ (1,267.3) | #%          |
| Net earnings (loss) per common share from continuing operations basic                            | \$ 0.19                             | \$ (6.41)    | #%          | \$ 0.50                            | \$ (6.58)    | #%          |
| Net earnings (loss) per common share from continuing operations diluted                          | \$ 0.18                             | \$ (6.41)    | #%          | \$ 0.45                            | \$ (6.58)    | #%          |
| Weighted average number of common shares outstanding:  |                                     |              |             |                                    |              |             |
| Basic  | 194.9                               | 193.2        |             | 194.5                              | 192.7        |             |
| Diluted  | 213.7                               | 193.2        |             | 213.4                              | 192.7        |             |
| Non-U.S. GAAP adjusted diluted net earnings per common share continuing operation <sup>(1)</sup> | \$ 0.39                             | \$ 0.28      | 39.3%       | \$ 0.92                            | \$ 0.62      | 48.4%       |

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

<sup>(1)</sup> 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 Earnings (Loss) 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 September 30, |              |                     |              | Nine Months Ended September 30, |              |                     |              |
|--|----------------------------------|--------------|---------------------|--------------|---------------------------------|--------------|---------------------|--------------|
|  | 2013                             |              | 2012                |              | 2013                            |              | 2012                |              |
|  | Net Earnings                     | EPS          | Net Earnings (Loss) | EPS          | Net Earnings                    | EPS          | Net Earnings (Loss) | EPS          |
| <b>U.S. GAAP net earnings (loss) and EPS available to common stockholders continuing operations</b>      | \$ 37.7                          | \$ 0.18      | \$ (1,238.3)        | \$ (6.41)    | \$ 96.7                         | \$ 0.45      | \$ (1,267.3)        | \$ (6.58)    |
| Adjusted net earnings and EPS impact of special items <sup>(1)</sup>                                     | 46.7                             | 0.21         | 1,296.8             | 6.69         | 99.8                            | 0.47         | 1,398.1             | 7.20         |
| <b>Non-U.S. GAAP net earnings and related EPS available to common stockholders continuing operations</b> | \$ 84.4                          | \$ 0.39      | \$ 58.5             | \$ 0.28      | \$ 196.5                        | \$ 0.92      | \$ 130.8            | \$ 0.62      |
| <b>Weighted average number of common shares outstanding Diluted<sup>2</sup></b>                          |                                  | <b>213.7</b> |                     | <b>211.5</b> |                                 | <b>213.4</b> |                     | <b>211.0</b> |

(1) For the three months ended September 30, 2013, this amount includes primarily restructuring and other charges of \$49 million (\$39 million, net of taxes) and associated costs of \$9 million (\$6 million, net of taxes), related to both our EQIP and IOP, and write down of non-strategic assets of \$2 million (\$2 million, net of taxes). For the three months ended September 30, 2012, this amount includes primarily impairment of goodwill and other intangible assets of \$1,334 million (\$1,262 million, net of taxes), restructuring and other charges of \$37 million (\$31 million, net of taxes) and associated costs of \$3 million (\$2 million, net of taxes) related to our IOP, non-recurring associated costs from Legacy Diversey restructuring programs of \$2 million (\$1 million, net of taxes) and costs related to the acquisition and integration of Diversey of \$1 million (\$1 million, net of taxes).

For the nine months ended September 30, 2013, this amount includes primarily restructuring and other charges of \$61 million (\$47 million, net of taxes) and associated costs of \$19 million (\$13 million, net of taxes), related to both our EQIP and IOP, loss on debt redemption of \$32 million (\$21 million, net of taxes), write down of non-strategic assets of \$8 million (\$6 million, net of taxes) and foreign currency exchange losses related to Venezuelan subsidiaries of \$13 million (\$11 million, net of taxes). For the nine months ended September 30, 2012, this amount includes primarily impairment of goodwill and other intangible assets of \$1,334 million (\$1,262 million, net of taxes), restructuring and other charges of \$110 million (\$84 million, net of taxes) and associated costs of \$10 million (\$7 million, net of taxes) related to our IOP, impairment of equity method investment of \$26 million (\$18 million, net of taxes), non-recurring associated costs from legacy Diversey restructuring programs of \$19 million (\$24 million, net of taxes) and costs related to the acquisition and integration of Diversey of \$5 million (\$3 million, net of taxes).

(2) For 2012, for purposes of calculating Adjusted EPS, the dilutive impact of: (i) the effect of the assumed issuance of 18 million shares of common stock reserved for the Settlement agreement and (ii) the effect of non-vested restricted stock and restricted stock units using the treasury stock method was included because we reported adjusted net earnings for 2012. These shares differ from the shares used to calculate net loss per common share included in the condensed consolidated statement of operations for U.S. GAAP reporting purposes because we reported a net loss for 2012, which does not include the effect of the items mentioned above as the effect was anti-dilutive. See Note 17, Net Earnings (Loss) Per Common Share, for details on the calculation of our U.S. GAAP basic and diluted EPS.

Our U.S. GAAP and non-U.S. GAAP income taxes are as follows:

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|   | Three Months Ended September 30, |                    |                     |                    | Nine Months Ended September 30, |                    |                     |                    |
|---|----------------------------------|--------------------|---------------------|--------------------|---------------------------------|--------------------|---------------------|--------------------|
|   | 2013                             |                    | 2012                |                    | 2013                            |                    | 2012                |                    |
|   | Provision                        | Effective Tax Rate | (Benefit) Provision | Effective Tax Rate | Provision                       | Effective Tax Rate | (Benefit) Provision | Effective Tax Rate |
| U.S. GAAP Income Taxes                  | \$ 12.3                          | 24.6%              | \$ (48.0)           | 3.7%               | \$ 22.7                         | 19.0%              | \$ (55.4)           | 4.2%               |
| Non-U.S. GAAP Income Taxes (Core Taxes) | \$ 25.6                          | 23.3%              | \$ 32.5             | 35.7%              | \$ 57.9                         | 22.8%              | \$ 51.5             | 28.3%              |

**Table of Contents****Net Sales by Geographic Region**

Net sales by geographic region for the three and nine months ended September 30, 2013 compared to 2012 were as follows:

|                            | Three Months Ended<br>September 30, |                   |               | Nine Months Ended<br>September 30, |                   |               |
|----------------------------|-------------------------------------|-------------------|---------------|------------------------------------|-------------------|---------------|
|                            | 2013                                | 2012              | %<br>Change   | 2013                               | 2012              | %<br>Change   |
| <b>North America</b>       | <b>\$ 768.7</b>                     | <b>\$ 754.0</b>   | <b>1.9%</b>   | <b>\$ 2,255.6</b>                  | <b>\$ 2,223.3</b> | <b>1.5%</b>   |
| <i>As a % of net sales</i> | <i>39.7%</i>                        | <i>39.7%</i>      |               | <i>39.2%</i>                       | <i>39.2%</i>      |               |
| <b>Europe</b>              | <b>616.1</b>                        | <b>595.9</b>      | <b>3.4%</b>   | <b>1,838.6</b>                     | <b>1,841.1</b>    | <b>(0.1)%</b> |
| <i>As a % of net sales</i> | <i>31.8%</i>                        | <i>31.4%</i>      |               | <i>32.0%</i>                       | <i>32.5%</i>      |               |
| <b>Latin America</b>       | <b>205.4</b>                        | <b>202.7</b>      | <b>1.3%</b>   | <b>611.1</b>                       | <b>583.6</b>      | <b>4.7%</b>   |
| <i>As a % of net sales</i> | <i>10.6%</i>                        | <i>10.7%</i>      |               | <i>10.6%</i>                       | <i>10.3%</i>      |               |
| <b>AMAT<sup>(1)</sup></b>  | <b>215.5</b>                        | <b>204.1</b>      | <b>5.6%</b>   | <b>636.4</b>                       | <b>592.7</b>      | <b>7.4%</b>   |
| <i>As a % of net sales</i> | <i>11.3%</i>                        | <i>10.7%</i>      |               | <i>11.1%</i>                       | <i>10.5%</i>      |               |
| <b>JANZ<sup>(2)</sup></b>  | <b>130.2</b>                        | <b>143.6</b>      | <b>(9.3)%</b> | <b>408.5</b>                       | <b>429.6</b>      | <b>(4.9)%</b> |
| <i>As a % of net sales</i> | <i>6.7%</i>                         | <i>7.6%</i>       |               | <i>7.1%</i>                        | <i>7.6%</i>       |               |
| <b>Total</b>               | <b>\$ 1,935.9</b>                   | <b>\$ 1,900.3</b> | <b>1.9%</b>   | <b>\$ 5,750.2</b>                  | <b>\$ 5,670.3</b> | <b>1.4%</b>   |

(1) AMAT = Asia, Middle East, Africa and Turkey

(2) JANZ = Japan, Australia and New Zealand

The components of the change in net sales by our geographic reporting regions for three months and nine months ended September 30, 2013 compared with 2012 were as follows:

| Three Months Ended September 30, 2013               | North<br>America | Europe          | Latin<br>America | AMAT <sup>(1)</sup> | JANZ <sup>(2)</sup> | Total          |
|---|------------------|-----------------|------------------|---------------------|---------------------|----------------|
| <b>Change in Net Sales</b>                          |                  |                 |                  |                     |                     |                |
| Volume-Units  | \$ 3.2           | 1.6             | 4.8              | 13.3                | 0.1                 | \$ 23.0        |
| <i>% change</i>                                     | <i>0.4%</i>      | <i>0.3%</i>     | <i>2.4%</i>      | <i>6.5%</i>         | <i>0.1%</i>         | <i>1.2%</i>    |
| Product price/mix                                   | 13.9             | (4.3)           | 12.6             | 4.6                 | 1.1                 | 27.9           |
| <i>% change</i>                                     | <i>1.8%</i>      | <i>(0.7)%</i>   | <i>6.2%</i>      | <i>2.3%</i>         | <i>0.8%</i>         | <i>1.5%</i>    |
| Foreign currency translation                        | (2.3)            | 23.1            | (14.7)           | (6.7)               | (14.7)              | (15.3)         |
| <i>% change</i>                                     | <i>(0.3)%</i>    | <i>3.9%</i>     | <i>(7.3)%</i>    | <i>(3.3)%</i>       | <i>(10.2)%</i>      | <i>(0.8)%</i>  |
| <b>Total</b>  | <b>\$ 14.8</b>   | <b>\$ 20.4</b>  | <b>\$ 2.7</b>    | <b>\$ 11.2</b>      | <b>\$ (13.5)</b>    | <b>\$ 35.6</b> |
| <i>% change</i>                                     | <i>1.9%</i>      | <i>3.5%</i>     | <i>1.3%</i>      | <i>5.5%</i>         | <i>(9.3)%</i>       | <i>1.9%</i>    |
| Impact of foreign currency translation              | 2.3              | (23.1)          | 14.7             | 6.7                 | 14.7                | 15.3           |
| <b>Total constant dollar change (Non-U.S. GAAP)</b> | <b>\$ 17.1</b>   | <b>\$ (2.7)</b> | <b>\$ 17.4</b>   | <b>\$ 17.9</b>      | <b>\$ 1.2</b>       | <b>\$ 50.9</b> |
| <i>Constant dollar % change</i>                     | <i>2.2%</i>      | <i>(0.4)%</i>   | <i>8.6%</i>      | <i>8.8%</i>         | <i>0.9%</i>         | <i>2.7%</i>    |

**Table of Contents**

| Nine Months Ended September 30, 2013                | North<br>America | Europe           | Latin<br>America | AMAT <sup>(1)</sup> | JANZ <sup>(2)</sup> | Total           |
|---|------------------|------------------|------------------|---------------------|---------------------|-----------------|
| <b>Change in Net Sales</b>                          |                  |                  |                  |                     |                     |                 |
| Volume-Units  | \$ 19.1          | (17.1)           | 37.3             | 44.2                | 4.0                 | \$ 87.5         |
| <i>% change</i>                                     | <i>0.9%</i>      | <i>(0.9)%</i>    | <i>6.4%</i>      | <i>7.5%</i>         | <i>0.9%</i>         | <i>1.5%</i>     |
| Product price/mix                                   | 17.1             | (1.5)            | 25.2             | 10.4                | (5.6)               | 45.6            |
| <i>% change</i>                                     | <i>0.8%</i>      | <i>(0.1)%</i>    | <i>4.3%</i>      | <i>1.8%</i>         | <i>(1.3)%</i>       | <i>0.8%</i>     |
| Foreign currency translation                        | (3.8)            | 16.3             | (34.9)           | (11.2)              | (19.6)              | (53.2)          |
| <i>% change</i>                                     | <i>(0.2)%</i>    | <i>0.9%</i>      | <i>(6.0)%</i>    | <i>(1.8)%</i>       | <i>(4.5)%</i>       | <i>(0.9)%</i>   |
| <b>Total</b>  | <b>\$ 32.4</b>   | <b>\$ (2.3)</b>  | <b>\$ 27.6</b>   | <b>\$ 43.4</b>      | <b>\$ (21.2)</b>    | <b>\$ 79.9</b>  |
| <i>% change</i>                                     | <i>1.5%</i>      | <i>(0.1)%</i>    | <i>4.7%</i>      | <i>7.5%</i>         | <i>(4.9)%</i>       | <i>1.4%</i>     |
| Impact of foreign currency translation              | 3.8              | (16.3)           | 34.9             | 11.2                | 19.6                | 53.2            |
| <b>Total constant dollar change (Non-U.S. GAAP)</b> | <b>\$ 36.2</b>   | <b>\$ (18.6)</b> | <b>\$ 62.5</b>   | <b>\$ 54.6</b>      | <b>\$ (1.6)</b>     | <b>\$ 133.1</b> |
| <i>Constant dollar % change</i>                     | <i>1.7%</i>      | <i>(1.0)%</i>    | <i>10.7%</i>     | <i>9.3%</i>         | <i>(0.4)%</i>       | <i>2.3%</i>     |

(1) AMAT = Asia, Middle East, Africa and Turkey

(2) JANZ = Japan, Australia and New Zealand

*Foreign Currency Translation Impact on Net Sales*

Approximately 60% of our consolidated net sales in the three and nine months ended September 30, 2013 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 to our consolidated net sales results. Historically, the most significant currencies that have impacted the translation of our net sales and our other consolidated financial results are the euro, the Australian dollar, the Brazilian real, the Canadian dollar, the British pound and the Mexican peso.

We experienced an unfavorable foreign currency translation impact on net sales of \$15 million in the three months ended September 30, 2013 and \$53 million in the nine months ended September 30, 2013 compared with the same periods of 2012. This was primarily due to the strengthening of the U.S. dollar relative to the Australian dollar, Canadian dollar and Brazilian real, partially offset by the weakening of the U.S. dollar relative to the euro.

We anticipate an unfavorable effect of foreign currency translation of approximately 1% on full year 2013 net sales compared with full year 2012.

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

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

|                            | Three Months Ended<br>September 30, |                   |             | Nine Months Ended<br>September 30, |                   |             |
|----------------------------|-------------------------------------|-------------------|-------------|------------------------------------|-------------------|-------------|
|                            | 2013                                | 2012              | %<br>Change | 2013                               | 2012              | %<br>Change |
| Net sales:                 |                                     |                   |             |                                    |                   |             |
| <b>Food Care</b>           | <b>\$ 950.5</b>                     | <b>\$ 935.5</b>   | <b>1.6%</b> | <b>\$ 2,799.5</b>                  | <b>\$ 2,753.2</b> | <b>1.7%</b> |
| <i>As a % of net sales</i> | <i>49.1%</i>                        | <i>49.2%</i>      |             | <i>48.7%</i>                       | <i>48.6%</i>      |             |
| <b>Diversey Care</b>       | <b>531.9</b>                        | <b>527.2</b>      | <b>0.9%</b> | <b>1,614.6</b>                     | <b>1,597.9</b>    | <b>1.0%</b> |
| <i>As a % of net sales</i> | <i>27.5%</i>                        | <i>27.7%</i>      |             | <i>28.1%</i>                       | <i>28.2%</i>      |             |
| <b>Product Care</b>        | <b>402.7</b>                        | <b>388.9</b>      | <b>3.5%</b> | <b>1,183.6</b>                     | <b>1,171.0</b>    | <b>1.1%</b> |
| <i>As a % of net sales</i> | <i>20.8%</i>                        | <i>20.5%</i>      |             | <i>20.6%</i>                       | <i>20.7%</i>      |             |
| <b>Other Category</b>      | <b>50.8</b>                         | <b>48.7</b>       | <b>4.3%</b> | <b>152.5</b>                       | <b>148.2</b>      | <b>2.9%</b> |
| <i>As a % of net sales</i> | <i>2.6%</i>                         | <i>2.6%</i>       |             | <i>2.7%</i>                        | <i>2.6%</i>       |             |
| <b>Total</b>               | <b>\$ 1,935.9</b>                   | <b>\$ 1,900.3</b> | <b>1.9%</b> | <b>\$ 5,750.2</b>                  | <b>\$ 5,670.3</b> | <b>1.4%</b> |

**Components of Change in Net Sales by Segment Reporting Structure**

The following table presents the components of change in net sales by our segment reporting structure for three and nine months ended September 30, 2013 compared with 2012.

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 as it eliminates the volatility of changes in foreign currency exchange rates.

| Three Months Ended September 30, 2013               | Food Care      |             | Diversey Care |             | Product Care   |             | Other Category |             | Total Company  |             |
|---|----------------|-------------|---------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|
| Volume Units  | \$ 13.8        | 1.5%        | \$ (3.7)      | (0.7)%      | \$ 13.1        | 3.4%        | \$ (0.2)       | (0.5)%      | \$ 23.0        | 1.2%        |
| Product price/mix <sup>(1)</sup>                    | 15.5           | 1.7         | 9.4           | 1.8         | 2.2            | 0.6         | 0.8            | 1.6         | 27.9           | 1.5         |
| Foreign currency translation                        | (14.3)         | (1.5)       | (1.0)         | (0.2)       | (1.5)          | (0.4)       | 1.5            | 3.2         | (15.3)         | (0.8)       |
| <b>Total change (U.S. GAAP)</b>                     | <b>\$ 15.0</b> | <b>1.7%</b> | <b>\$ 4.7</b> | <b>0.9%</b> | <b>\$ 13.8</b> | <b>3.6%</b> | <b>\$ 2.2</b>  | <b>4.3%</b> | <b>\$ 35.6</b> | <b>1.9%</b> |
| Impact of foreign currency translation              | \$ 14.3        | 1.5         | \$ 1.0        | 0.2         | \$ 1.5         | 0.4         | \$ (1.6)       | (3.2)       | \$ 15.3        | 0.8         |
| <b>Total constant dollar change (Non-U.S. GAAP)</b> | <b>\$ 29.3</b> | <b>3.2%</b> | <b>\$ 5.7</b> | <b>1.1%</b> | <b>\$ 15.3</b> | <b>4.0%</b> | <b>\$ 0.6</b>  | <b>1.1%</b> | <b>\$ 50.9</b> | <b>2.7%</b> |

**Table of Contents**

| Nine Months Ended September 30, 2013                |       | Food Care      |             | Diversey Care  |             | Product Care   |             | Other Category |             | Total Company   |             |
|---|-------|----------------|-------------|----------------|-------------|----------------|-------------|----------------|-------------|-----------------|-------------|
| Volume  | Units | \$ 53.4        | 1.9%        | 5.6            | 0.3%        | 28.1           | 2.4%        | 0.4            | 0.3%        | \$ 87.5         | 1.5%        |
| Product price/mix <sup>(1)</sup>                    |       | 29.0           | 1.1         | 23.1           | 1.4         | (9.2)          | (0.8)       | 2.7            | 1.8         | 45.6            | 0.8         |
| Foreign currency translation                        |       | (36.1)         | (1.3)       | (12.0)         | (0.7)       | (6.3)          | (0.5)       | 1.2            | 0.8         | (53.2)          | (0.9)       |
| <b>Total change (U.S. GAAP)</b>                     |       | <b>\$ 46.3</b> | <b>1.7%</b> | <b>\$ 16.7</b> | <b>1.0%</b> | <b>\$ 12.6</b> | <b>1.1%</b> | <b>\$ 4.3</b>  | <b>2.9%</b> | <b>\$ 79.9</b>  | <b>1.4%</b> |
| Impact of foreign currency translation              |       | \$ 36.1        | 1.3         | \$ 12.0        | 0.7         | \$ 6.3         | 0.5         | \$ (1.2)       | (0.8)       | \$ 53.2         | 0.9         |
| <b>Total constant dollar change (Non-U.S. GAAP)</b> |       | <b>\$ 82.4</b> | <b>3.0%</b> | <b>\$ 28.7</b> | <b>1.7%</b> | <b>\$ 18.9</b> | <b>1.6%</b> | <b>\$ 3.1</b>  | <b>2.1%</b> | <b>\$ 133.1</b> | <b>2.3%</b> |

<sup>(1)</sup> 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, euro or Latin American currencies denominated countries at selling prices denominated in U.S. dollars, euros or Latin America currencies. This primarily arises when we export products from the U.S., euro-zone and Latin American countries. The impact to our reported product price/mix of these purchases in other countries at selling prices denominated in U.S. dollars, euros, or Latin American currencies was not material in the periods included in the tables above. The following discussion of net sales is presented on a constant dollar or organic basis.

**Food Care Segment Net Sales***Three Months Ended September 30, 2013 Compared With the Same Period of 2012*

The \$29 million, or 3%, constant dollar increase in net sales in 2013 compared with 2012 was primarily due to:

favorable product price/mix in Latin America of \$10 million, or 7%, primarily in Brazil and Argentina as a result of our pricing initiatives implemented to offset increases in raw material costs;

favorable product price/mix in North America of \$8 million, or 2%, due to increased sales of products with higher average selling prices;

higher unit volumes in AMAT of \$7 million, or 10%, and in Latin America of \$3 million, or 2%, due to an increase in beef production rates, hygiene standards as well as strong customer acceptance of new products; and

higher unit volumes in North America of \$4 million, or 1%, and in Europe \$2.4 million, or 1%, due to increases in equipment sales to new and existing customers.

These favorable factors were partially offset by lower sales in New Zealand of \$2 million, or 2%, due to the current drought in this region and its impact on the dairy market.

*Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

The \$82 million, or 3%, constant dollar increase in net sales in 2013 compared with 2012 was primarily due to:

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

higher unit volumes in Latin America of \$27 million, or 7%, and in AMAT of \$26 million, or 14%, due to an increase in beef production rates, hygiene standards as well as strong customer acceptance of new products;

favorable product price/mix in Latin America of \$20 million, or 5%, reflecting favorable results from the progression of our pricing initiatives implemented to offset increases in raw material costs, specifically in Brazil and Argentina; and

higher unit volumes in North America of \$7 million, or 1%, mainly due to an increase in sales to new and existing customers. These favorable factors were partially offset by lower unit volumes in Europe of \$4 million, or 1%, due to the challenging economic environment, especially in Western Europe.



**Table of Contents**

**Diversey Care Segment Net Sales**

*Three Months Ended September 30, 2013 Compared With the Same Period of 2012*

The \$6 million, or 1%, constant dollar increase in net sales in 2013 compared with 2012 was primarily due to:

favorable product price/mix of \$9 million, or 2%. This increase is primarily due to our pricing actions in 2013 in most regions, primarily in the hospitality sector, which have more than offset input cost increases;

higher unit volumes in AMAT of \$4 million, or 5%, due to growth in primarily in India and Africa in all sectors; and

higher unit volumes in Latin America of \$3 million, or 6%, due to increased sales to new and existing customers in the retail and channel sectors.

These favorable factors were offset by:

lower unit volumes in North America of \$7 million, or 5%, due to destocking in the distribution channel as result of inventory buildup in 2012 and decline of the floor care sales in the government and education sector due to budget constraints; and

lower unit volumes in Europe of \$3 million, or 1%, due to the economic challenges in most European countries, despite the strong performance in Eastern European countries.

*Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

The \$29 million, or 2%, constant dollar increase in net sales in 2013 compared with 2012 was primarily due to:

favorable product price/mix of \$23 million, or 1%. This increase is primarily due to our pricing actions in 2013 in most regions, primarily in the hospitality sector, which have more than offset input cost increases;

higher unit volumes in AMAT of \$19 million, or 7%, due to growth primarily in the hospitality and food service sectors; and

higher unit volumes in Latin America of \$10 million, or 7%, due to growth in food services, channel and retail sectors.

These favorable factors were offset by:

lower unit volumes in Europe of \$19 million, or 3%, due to the economic challenges in this region; and

lower unit volumes in North America of \$4 million, or 1%, due primarily to destocking in the distribution channel.

**Product Care Segment Net Sales**

*Three Months Ended September 30, 2013 Compared With the Same Period of 2012*

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

The \$15 million, or 4%, constant dollar increase in net sales in 2013 compared with 2012 was primarily due to higher unit volumes in North America of \$6 million, or 3%, and in Europe of \$4 million, or 4%, primarily related to increased sales to the e-commerce and retail sectors. There was also a favorable impact from product price/mix of \$2 million, or 1%, primarily in North America, as a result of price increases announced in April 2013.

### *Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

The \$19 million, or 2%, constant dollar increase in net sales in 2013 compared with 2012 was primarily due to the higher unit volumes in North America of \$16 million, or 2%, and in JANZ of \$6 million, or 9%. These increases were partially offset by unfavorable product price/mix of \$9 million, or 1%. These factors were mainly related to increased sales of products to the e-commerce and retail sectors at lower average selling prices and to a lesser extent, the unfavorable impact of distributors' inventory destocking.

**Table of Contents****Cost of Sales**

|  | Three Months Ended<br>September 30, |              |             | Nine Months Ended<br>September 30, |              |             |
|--|-------------------------------------|--------------|-------------|------------------------------------|--------------|-------------|
|  | 2013                                | 2012         | %<br>Change | 2013                               | 2012         | %<br>Change |
| Cost of sales  | \$ 1,279.5                          | \$ 1,256.7   | 1.8 %       | \$ 3,810.7                         | \$ 3,777.3   | 0.9%        |
| <i>As a % of net sales</i>   | <i>66.1%</i>                        | <i>66.1%</i> |             | <i>66.3%</i>                       | <i>66.6%</i> |             |
| <i>Three Months Ended September 30, 2013 Compared With the Same Period of 2012</i> |                                     |              |             |                                    |              |             |

Cost of sales was impacted by favorable foreign currency translation of \$15 million. On a constant dollar basis, cost of sales increased \$38 million, or 3%, primarily due to the unfavorable impact of:

higher raw material costs of \$21 million;

inflationary costs including salaries and benefit expenses of \$11 million;

higher freight costs of \$3 million;

incremental expenses associated with IOP of \$1 million; and

increased costs to support higher unit volumes.

These factors were partially offset by incremental cost synergies associated with IOP of \$9 million.

*Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

Cost of sales was impacted by favorable foreign currency translation of \$43 million. On a constant dollar basis, cost of sales increased \$76 million, or 2%, primarily due to the unfavorable impact of:

higher raw material costs of \$34 million;

inflationary costs including salaries and benefit expenses of \$33 million;

higher freight costs of \$6 million; and

increased costs to support higher unit volumes.

These factors were partially offset by the favorable impact of:

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

incremental cost synergies associated with IOP of \$27 million; and

lower expenses associated with IOP of \$4 million.

We anticipate raw material costs continue to have an unfavorable impact on cost of sales in the fourth quarter of 2013 as compared with 2012. We have historically implemented and will continue to implement pricing actions as appropriate to offset increases in raw material costs along with increases in other input costs we may experience.

### Selling, General and Administrative Expenses

Selling, general and administrative expense for the three and nine months ended September 30, 2013 and 2012 are included in the table below.

|  | Three Months Ended    |                       |      | Nine Months Ended     |                       |        |
|--|-----------------------|-----------------------|------|-----------------------|-----------------------|--------|
|  | September 30,<br>2013 | September 30,<br>2012 | %    | September 30,<br>2013 | September 30,<br>2012 | %      |
| Selling, general and administrative expenses                                       | \$ 428.5              | \$ 426.3              | 0.5% | \$ 1,318.3            | \$ 1,338.2            | (1.5)% |
| <i>As a % of net sales</i>   | <i>22.1%</i>          | <i>22.4%</i>          |      | <i>22.9%</i>          | <i>23.6%</i>          |        |
| <i>Three Months Ended September 30, 2013 Compared With the Same Period of 2012</i> |                       |                       |      |                       |                       |        |

Selling, general and administrative expenses increased \$2 million, or 1% on a reported and constant dollar basis, primarily due to the unfavorable impact of:

inflationary costs, including the impact of salaries and benefit expenses of \$9 million; and

incremental expenses associated with EQIP and IOP of \$5 million.

These factors were partially offset by incremental cost synergies associated with IOP of \$13 million and other cost control measures.

**Table of Contents***Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

Selling, general and administrative expenses were impacted by favorable foreign currency translation of \$8 million. On a constant dollar basis, selling, general and administrative expenses decreased \$12 million, or 1%, primarily due to cost synergies associated with IOP of \$44 million.

Partially offset by the unfavorable impact of:

inflationary costs, including the impact of salaries and benefit expenses of \$36 million; and

incremental expenses incurred from EQIP and IOP of \$13 million.

**Amortization of Intangible Assets Acquired**

Amortization of intangible assets for the three and nine months ended September 30, 2013 and 2012 were as follows:

|  | Three Months Ended |                    |          | Nine Months Ended  |                    |          |
|--|--------------------|--------------------|----------|--------------------|--------------------|----------|
|  | September 30, 2013 | September 30, 2012 | % Change | September 30, 2013 | September 30, 2012 | % Change |
| Amortization of intangible assets acquired | \$ 29.5            | \$ 33.0            | (10.6)%  | \$ 93.4            | \$ 99.5            | (6.1)%   |
| <i>As a % of net sales</i>                 | <i>1.5%</i>        | <i>1.7%</i>        |          | <i>1.6%</i>        | <i>1.8%</i>        |          |

The decreases in amortization expense in the three and nine months ended September 30, 2013 as compared with the same periods in 2012 were primarily due to the impact of the impairment charge recorded in 2012, which lowered the carrying value of certain intangible assets acquired, which in turn resulted in lower amortization expense.

**Impairment of Goodwill and Other Intangible Assets**

In the three months ended September 30, 2012, we recorded an estimated pre-tax impairment charge of \$1,334 million on goodwill (\$1,145 million) and trademark intangible asset (\$189 million) related to our Diversey segment.

During the third quarter of 2012, due to the continuing unfavorable economic conditions primarily in Europe and North America, we re-evaluated the near and long-term expected business performance of our Diversey business. Our Diversey business had experienced operating results that were significantly lower than expected during the first half of 2012 and lower than originally forecasted at the time of the acquisition of Diversey in 2011. Also during the third quarter of 2012, we started our annual multi-year strategic forecasting and planning process, which is prepared for all reporting units in the second half of each year. In connection with this process, we re-evaluated the near and long-term expected business performance of the Diversey business and considered the long-term market conditions and business trends within each of the Diversey regional reporting units. As a result of our re-evaluation, we determined that our European business was not expected to achieve any significant growth until late 2013 or 2014. Additionally, in North America, we were not able to pass along to our customers, increases in raw material costs that began in late 2011 and continued into 2012, consequently causing margins to be significantly lower than originally expected. Also, the impact of lower sales and increases in raw material costs in Latin America caused that region's operating results to be lower than expected. When we factored the impact of these unfavorable conditions into our strategic forecasting and planning process, we determined that these were significant indicators of potential impairment in accordance with ASC 350, Intangibles-Goodwill and Other. Accordingly, we performed an interim impairment test for both the goodwill and long-lived assets of the Diversey European, North American and Latin American reporting units.

During the fourth quarter of 2012, we began to operate under our new business division structure, which created the Institutional & Laundry ( I&L ) (which is included in Diversey Care Segment) and Hygiene Solutions (which is included in the Food Care segment) reporting units from the previous legacy Diversey segment. In connection with this new business division structure, we revised our multi-year forecast under the new reporting unit structure. Included in the revised multi-year forecast was our expectation that there would be further economic weakness in Europe, particularly in Southern Europe, which was more severe than we initially forecasted during our third quarter 2012 interim impairment review at the end of the third quarter of 2012. The I&L and Hygiene Solutions reporting units both derive a significant portion of their revenue from Europe. Also, included in the revised multi-year forecast for the I&L and Hygiene Solutions reporting units were the reported results for

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

these reporting units for the fourth quarter of 2012. The reported results for both the I&L and Hygiene Solutions reporting units were lower than originally forecasted at the end of the third quarter of 2012. In particular, the I&L reporting unit experienced lower unit volumes in its consumer brands and lower equipment sales in Europe as compared with the fourth quarter of 2011. In addition, the I&L reporting unit continued to incur higher sales and marketing expenses compared with the fourth quarter of 2011. During the fourth quarter of 2012, several new members of our senior management team believed that a new and enhanced business strategy was required to successfully operate both the I&L and Hygiene Solutions businesses. The combination of the factors mentioned above unfavorably impacted our near and long-term forecasted revenues and cash flows for the I&L and Hygiene Solutions reporting units.

**Table of Contents**

At December 31, 2012, we considered the factors mentioned above, including our new business division structure, and we determined that further indicators of impairment were present. Accordingly, we performed an interim assessment of impairment of our goodwill and long-lived assets for the I&L and Hygiene Solutions reporting units.

**Stock Appreciation Rights Expense**

Stock appreciation rights expense for the three and nine months ended September 30, 2013 and 2012 were as follows:

|                                   | Three Months Ended    |                       |             | Nine Months Ended     |                       |             |
|-----------------------------------|-----------------------|-----------------------|-------------|-----------------------|-----------------------|-------------|
|                                   | September 30,<br>2013 | September 30,<br>2012 | %<br>Change | September 30,<br>2013 | September 30,<br>2012 | %<br>Change |
| Stock appreciation rights expense | \$ 8.7                | \$ 2.9                | #%          | \$ 26.8               | \$ 5.6                | #%          |
| <i>As a % of net sales</i>        | <i>0.4%</i>           | <i>0.2%</i>           |             | <i>0.5%</i>           | <i>0.1%</i>           |             |

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

SARs expense increased \$6 million in the three months ended September 30, 2013 and \$21 million in the nine months ended September 30, 2013 as compared with the same periods in 2012. SARs expense includes the impact of changes in the share price of our common stock. The share price of our common stock increased approximately 14% in the three months ended September 30, 2013 and approximately 55% in the nine months ended September 30, 2013 as compared with the same periods in 2012. We continue to explore opportunities to mitigate the impact of the volatility SARs expense is having on our consolidated results of operations. See Note 15, *Stockholders' Equity*, for further details of our SARs program.

As of September 30, 2013, we had 1.4 million SARs outstanding, of which 1.3 million were unvested. The 1.3 million unvested SARs vest as follows: 0.5 million on December 31, 2013, 0.5 million in 2014, and the remainder in the first quarter of 2015. Based on recent experience, we would expect vested SARs to be exercised within a few months of their vesting date.

**Costs Related to the Acquisition and Integration of Diversey**

We recorded transaction and integration costs directly related to the acquisition of Diversey of less than \$1 million in the three and nine months ended September 30, 2013. This compares to costs of \$1 million in the three months ended September 30, 2012 and \$5 million in the nine months ended September 30, 2012. These costs primarily consist of professional and consulting fees.

**Restructuring Activities****2013 Earnings Quality Improvement Program (EQIP)**

As announced on May 1, 2013, we commenced with EQIP, which is an initiative to deliver meaningful cost savings and network optimization. The plan is estimated to generate annualized savings of approximately \$80 million by the end of 2015. Savings for 2013 are expected to be minimal.

**2011-2014 Integration and Optimization Program (IOP)**

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. This program is expected to be completed by the end of 2014. We achieved \$22 million of incremental cost synergies in the three months ended September 30, 2013 and \$71 million in the nine months ended September 30, 2013 related to this program compared with the same periods in 2012. We achieved these synergies in cost of sales and selling, general and administrative expenses primarily in our Food Care and Diversey Care divisions.

The actual timing of future costs and cash payments related to the programs described above are subject to change due to a variety of factors that may cause a portion of the costs, spending and benefits to occur later than expected. In addition, changes in foreign exchange rates may impact future costs, spending, cost synergies and other benefits. See Note 9, *Restructuring Activities*, for further discussion of the charges and liabilities associated with these programs.

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

We may from time to time implement additional restructuring programs if management determines that they are necessary and will deliver meaningful savings and/or synergies.



**Table of Contents****Operating Profit (Loss)**

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

|   | Three Months Ended<br>September 30, |                     |               | Nine Months Ended<br>September 30, |                   |                |
|---|-------------------------------------|---------------------|---------------|------------------------------------|-------------------|----------------|
|   | 2013                                | 2012                | %<br>Change   | 2013                               | 2012              | %<br>Change    |
| <b>Food Care</b>  | <b>\$ 115.3</b>                     | <b>\$ (228.0)</b>   | <b>#%</b>     | <b>\$ 311.8</b>                    | <b>\$ (75.9)</b>  | <b>#%</b>      |
| <i>As a % of Food Care net sales</i>                            | 12.1%                               | (24.4)%             |               | 11.1%                              | (2.8)%            |                |
| <b>Diversey Care</b>  | <b>18.1</b>                         | <b>(976.2)</b>      | <b>#%</b>     | <b>46.8</b>                        | <b>(956.0)</b>    | <b>#%</b>      |
| <i>As a % of Diversey Care net sales</i>                        | 3.4%                                | (185.2)%            |               | 2.9%                               | (59.8)%           |                |
| <b>Product Care</b>   | <b>52.9</b>                         | <b>53.0</b>         | <b>(0.2)%</b> | <b>143.6</b>                       | <b>150.6</b>      | <b>(4.6)%</b>  |
| <i>As a % of Product Care net sales</i>                         | 13.1%                               | 13.6%               |               | 12.1%                              | 12.9%             |                |
| <b>Other Category</b>   | <b>3.4</b>                          | <b>(1.7)</b>        | <b>#%</b>     | <b>(1.2)</b>                       | <b>(3.3)</b>      | <b>(63.6)%</b> |
| <i>As a % of Other Category net sales</i>                       | 6.7%                                | (3.5)%              |               | (0.8)%                             | (2.2)%            |                |
| <b>Total</b>  | <b>189.7</b>                        | <b>(1,152.9)</b>    | <b>#%</b>     | <b>501.0</b>                       | <b>(884.6)</b>    | <b>#%</b>      |
| <i>As a % of net sales</i>                                      | 9.8%                                | (60.7)%             |               | 8.7%                               | (15.6)%           |                |
| Costs related to the acquisition and integration of<br>Diversey | 0.3                                 | 1.3                 | (76.9)%       | 0.8                                | 4.8               | (83.3)%        |
| Restructuring and other charges <sup>(1)</sup>                  | 49.5                                | 36.8                | 34.5%         | 61.2                               | 110.1             | (44.4)%        |
| <b>Total operating profit(loss)</b>                             | <b>\$ 139.9</b>                     | <b>\$ (1,191.0)</b> | <b>#%</b>     | <b>\$ 439.0</b>                    | <b>\$ (999.5)</b> | <b>#%</b>      |
| <i>As a % of net sales</i>                                      | 7.2%                                | (62.7)%             |               | 7.6%                               | (17.6)%           |                |

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

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

|                | Three Months Ended<br>September 30, |                | Nine Months Ended<br>September 30, |                 |
|----------------|-------------------------------------|----------------|------------------------------------|-----------------|
|                | 2013                                | 2012           | 2013                               | 2012            |
| Food Care      | \$ 16.4                             | \$ 26.6        | \$ 19.1                            | \$ 82.3         |
| Diversey Care  | 21.4                                | 6.5            | 26.3                               | 14.1            |
| Product Care   | 10.4                                | 1.4            | 14.5                               | 11.0            |
| Other Category | 1.3                                 | 2.3            | 1.3                                | 2.7             |
| <b>Total</b>   | <b>\$ 49.5</b>                      | <b>\$ 36.8</b> | <b>61.2</b>                        | <b>\$ 110.1</b> |

**Food Care Operating Profit (Loss)**

*Three Months Ended September 30, 2013 Compared With the Same Period of 2012*

Food Care operating profit was \$115 million in the three months ended September 30, 2013, compared with a \$228 million operating loss in 2012. The operating loss in 2012 included a \$333 million estimated charge for impairment of goodwill and other intangible assets. Excluding the 2012 estimated impairment charge, operating profit increased \$10 million in 2013, primarily due to the impact of higher unit volumes of \$4 million and cost synergies associated with IOP of \$10 million. These factors were partially offset by higher selling, general and administrative expenses of \$2 million primarily in support of the increase in net sales and higher SARs expense of \$2 million. Raw material cost increases of \$11 million, were fully offset by favorable product/price mix and manufacturing efficiency improvements.



**Table of Contents**

*Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

Food Care operating profit was \$312 million in the nine months ended September 30, 2013 compared with a \$76 million operating loss in 2012. The operating loss in 2012 included a \$333 million estimated charge for impairment of goodwill and other intangible assets. Excluding the 2012 estimated impairment charge, operating profit increased \$55 million in 2013, primarily due to the impact of higher volumes of \$19 million, cost synergies associated with IOP of \$35 million and manufacturing efficiency improvements of \$31 million. These factors were partially offset by higher raw material costs of \$14 million, higher SARs expense of \$6 million and higher selling, general and administrative expenses of \$4 million primarily in support of the increase in net sales.

***Diversey Care Operating Profit (Loss)***

*Three Months Ended September 30, 2013 Compared With the Same Period of 2012*

Diversey Care operating profit was \$18 million in the three months ended September 30, 2013 compared with a \$976 million operating loss in 2012. The operating loss in 2012 included a \$1.0 billion estimated charge for impairment of goodwill and other intangible assets. Excluding the 2012 estimated impairment charge, operating profit decreased \$7 million in 2013, primarily due to higher raw material costs of \$3 million, higher SARs expense of \$4 million and higher selling, general and administrative expenses of \$6 million as a result of inflationary costs including increases in salaries and benefit expenses, as well as increased inventory obsolescence costs. These factors were partially offset by cost synergies associated with IOP of \$8 million.

*Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

Diversey Care operating profit was \$47 million in the nine months ended September 30, 2013 compared with a \$956 million operating loss in the 2012. The operating loss in 2012 included a \$1.0 billion estimated impairment charge of goodwill and other intangible assets. Excluding the 2012 estimated impairment charge, operating profit was relatively flat in 2013 as compared with 2012. Raw material costs increases of \$8 million, were fully offset by pricing actions and manufacturing efficiency improvements.

***Product Care Operating Profit***

*Three Months Ended September 30, 2013 Compared With the Same Period of 2012*

Product Care operating profit of \$53 million was flat in the three months ended September 30, 2013 compared to 2012. Raw material cost increases of \$7 million, were offset by the impact of higher volumes of \$5 million and cost synergies associated with IOP of \$3 million and favorable product price/mix of \$2 million.

*Nine Months Ended September 30, 2013 Compared With the Same Period of 2012*

Product Care operating profit declined 5% to \$144 million in the nine months ended September 30, 2013 from \$151 million in 2012. This decline of \$7 million was primarily due to higher raw material costs of \$12 million and inflationary costs of \$5 million, partially offset by incremental cost synergies associated with IOP of \$11 million.

**Table of Contents****Interest Expense**

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 the changes in interest expense.

|   | Three Months Ended |               | 2013 vs. 2012 | Nine Months Ended |               | 2013 vs. 2012 |
|---|--------------------|---------------|---------------|-------------------|---------------|---------------|
|   | September 30,      | September 30, | Change        | September 30,     | September 30, | Change        |
|   | 2013               | 2012          |               | 2013              | 2012          |               |
| Interest expense on the amount payable for the Settlement agreement | \$ 12.1            | \$ 11.4       | \$ 0.7        | \$ 36.2           | \$ 34.3       | \$ 1.9        |
| Interest expense on our various debt instruments:                   |                    |               |               |                   |               |               |
| 5.625% Senior Notes due July 2013 <sup>(1)</sup>                    |                    | 5.3           | (5.3)         |                   | 15.9          | (15.9)        |
| 12% Senior Notes due February 2014                                  | 3.8                | 3.8           |               | 11.4              | 11.4          |               |
| Term Loan A due October 2016 <sup>(2)</sup>                         | 6.9                | 8.4           | (1.5)         | 22.0              | 26.4          | (4.4)         |
| 7.875% Senior Notes due June 2017 <sup>(3)</sup>                    |                    | 8.3           | (8.3)         | 7.6               | 25.0          | (17.4)        |
| Term Loan B due October 2018 <sup>(2)</sup>                         | 9.5                | 16.7          | (7.2)         | 28.2              | 50.0          | (21.8)        |
| 8.125% Senior Notes due September 2019 <sup>(2)</sup>               | 15.6               | 15.6          |               | 46.7              | 46.7          |               |
| 8.375% Senior Notes due September 2021 <sup>(2)</sup>               | 15.9               | 15.9          |               | 47.8              | 47.8          |               |
| 6.875% Senior Notes due July 2033                                   | 7.7                | 7.7           |               | 23.2              | 23.2          |               |
| 6.50% Senior Notes due December 2020 <sup>(1)</sup>                 | 7.1                |               | 7.1           | 21.3              |               | 21.3          |
| 5.25% Senior Notes due April 2023 <sup>(3)</sup>                    | 5.7                |               | 5.7           | 12.0              |               | 12.0          |
| Revolving Credit Facility <sup>(2)</sup>                            | 1.0                | 1.0           |               | 3.1               | 3.0           | 0.1           |
| Other interest expense  | 4.6                | 4.1           | 0.5           | 13.6              | 11.4          | 2.2           |
| Less: capitalized interest  | (1.0)              | (1.6)         | 0.6           | (3.7)             | (3.9)         | 0.2           |
| Total   | \$ 88.9            | \$ 96.6       | \$ (7.7)      | \$ 269.4          | \$ 291.2      | \$ (21.8)     |

- (1) In November 2012, we issued \$425 million of 6.50% senior notes due 2020. Substantially all of the proceeds from this offering were used to purchase the outstanding amount (\$400 million) of the 5.625% Senior Notes due July 2013.
- (2) In connection with the acquisition of Diversey on October 3, 2011, we entered into a senior credit facility consisting of: (a) a \$1.1 billion multicurrency Term Loan A Facility, (b) a \$1.2 billion multicurrency Term Loan B Facility and (c) a \$700 million revolving credit facility. We also issued \$750 million of 8.125% Senior Notes and \$750 million of 8.375% Senior Notes.
- (3) In March 2013, we issued \$425 million of 5.25% senior notes due 2023. Substantially all of the proceeds from this offering were used to purchase the outstanding amount (\$400 million) of the 7.875% Senior Notes due July 2017. See Note 10, Debt and Credit Facilities, and Loss on Debt Redemption below for further details.

**Foreign Currency Exchange Loss Related to Venezuelan Subsidiaries**

In February 2013, the Venezuelan government announced a devaluation of the bolivar from an official exchange rate of 4.3 to 6.3 bolivars per U.S. dollar. Due to this devaluation, as of September 30, 2013, we re-measured our bolivar denominated monetary assets and liabilities using the official exchange rate of 6.3 bolivars per U.S. dollar. As a result, we recorded a pre-tax gain of \$1 million in the three months ended September 30, 2013 and pre-tax loss of \$13 million in the nine months ended September 30, 2013 due to this devaluation and other transaction losses. See Foreign Exchange Rates, below for further details.

**Loss on Debt Redemption**

In March 2013, we completed an offering of \$425 million aggregate principal amount of 5.25% Senior Notes due April 2023. Substantially all of the net proceeds from these notes were used to repurchase \$400 million aggregate principal amount of 7.875% Senior Notes due June 2017. The \$32 million pre-tax loss on debt redemption included in our results of operations for the nine months ended September 30, 2013 consists of a 6% premium, the acceleration of the unamortized debt issuance costs associated with the repurchase of the 7.875% senior notes and certain fees.



---

**Table of Contents**
**Impairment of Equity Method Investment**

2013

In the three months ended September 30, 2013, we recognized an impairment of \$2 million in connection with an equity method investment included in our Other Category. This investment was not material to our consolidated financial position or results of operations.

2012

In September 2007, we established a joint venture that supports our Food Care 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 the first half of 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. 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. 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. However, as a result of the impairment, we have included the guarantee liability in other current liabilities on the consolidated balance sheet as of December 31, 2012 as we believe it is probable that we will need to perform under this guarantee. As of September 30, 2013, the joint venture has performed its obligations under the terms of the credit facility and the debt holders have not requested that we perform under the terms of the guarantee.

As a result, in the second quarter of 2012 we recognized other-than-temporary impairment of \$26 million (\$18 million, net of taxes, or \$0.09 per diluted share). This impairment consisted of the recognition of a current liability for the guarantee of the uncommitted credit facility mentioned above of \$20 million and 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 our Food Care division. We have no additional obligations to support the operations of the joint venture in the future.

**Other Income (Expense), net**

See Note 16, Other Income (Expense), net, for the components and details of other expense, net.

**Income Taxes**

Our effective income rate from continuing operations was 24.6% for the three months ended September 30, 2013 and was 19.0% for the nine months ended September 30, 2013. Our effective income tax rate for both the three and nine months ended September 30, 2013 benefited from a favorable earnings mix, with earnings in jurisdictions with low tax rates and losses in jurisdictions, including the U.S. with higher tax rates. The favorable factors were partially offset by losses and restructuring charges in jurisdictions where we did not have any tax benefit due to the applicable tax rate or valuation allowances. The effective income tax rate for the nine months ended September 30, 2013 benefited from a retroactive reinstatement of certain tax provisions that were recorded as discrete items during the three months ended March 31, 2013. On January 2, 2013, the President signed the American Taxpayer Relief Act of 2012, retroactively reinstating and extending the research and development tax credit and certain foreign tax provisions from January 1, 2012 through December 31, 2013. Our effective tax rate for the full year may be higher or lower depending on, among other factors, our mix of foreign earnings and the amount and location of restructuring charges incurred during the year.

We incurred losses from continuing operations during the three month and nine month periods ended September 30, 2012. Our loss before income taxes from continuing operations for the three month and nine month periods ended September 30, 2012 was reduced by an income tax benefit of \$48 million and \$55 million, respectively (an effective income tax benefit rate of 4% in each period). The tax benefit for the three month and nine month periods was 4% because our net loss resulted from an impairment charge, substantially all of which related to non-deductible goodwill, with no corresponding tax benefit. Our tax provision for both the three month and nine 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 \$2 million in the three months ended September 30, 2012 and \$12 million in the nine months ended September 30,

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

2012. The favorable factors were partially offset by losses in jurisdictions where we did not have any tax benefit due to the applicable tax rate or valuation allowances. In addition, during the three

## **Table of Contents**

months ended September 30, 2012, we increased our valuation allowances by a total of \$36 million to provide for certain foreign tax credits and net operating losses that we currently believe are not likely to be realized. This increase in our valuation allowance was offset by a reduction in our unrecognized tax benefits resulting in no material change to our tax expense for the three months ended September 30, 2012.

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.

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 we do not fund a significant portion of the Settlement agreement before the end of 2013 or the price of our common stock at the time we fund the Settlement agreement is less than \$17.86 per share. As described in connection with the Settlement Agreement and Related Costs portion of the Material Commitments and Contingencies section of the Liquidity and Capital Resources discussion, these conditions could result in a significant increase in our effective tax rate and could have a material adverse effect on our consolidated financial position and results of operations in the periods in which these conditions occur. For example, a delay in funding a significant portion of the Settlement agreement until 2014, could require us to increase our valuation allowance, resulting in an increased tax expense of as much as \$50 million in 2013. In addition, changes in statutory tax rates or other new legislation or regulation may change our deferred tax assets or liability balances, with an 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 2012 Annual Report on Form 10-K and should be read in conjunction with that discussion.

The discussion that follows contains descriptions of:

our material commitments and contingencies;

our principal sources of liquidity;

our outstanding indebtedness;

our historical cash flows, free cash flow and changes in working capital;

changes in our stockholders' equity; and

our derivative financial instruments.

## ***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, known as Grace. 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 liquidity facilities. Our 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 \$400 million at September 30, 2013 and is recorded in Settlement agreement and related accrued interest on our consolidated balance sheet. The total liability on our consolidated balance sheet was \$913 million at September 30, 2013. 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 17, *Net Earnings (Loss) Per Common Share*, for details of our calculation of EPS.

**Table of Contents**

Tax benefits resulting from the anticipated funding of the Settlement agreement were recorded as a \$415 million net deferred tax asset on our consolidated balance sheet as of September 30, 2013. 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.

We intend to carry back a significant portion of the loss resulting from our deduction under the Settlement agreement. The efficiency of any amount carried back and the benefit therefrom, as well as the benefit from the amount carried forward, may depend upon, among other factors, the year we fund the Settlement agreement. Our tax benefit may be significantly reduced resulting in an increased tax expense which could have a material adverse effect on our consolidated results of operations if we do not fund a significant portion of the Settlement agreement before the end of 2013 or are unable to generate sufficient U.S. taxable income. For example, a delay in funding a significant portion of the Settlement agreement until 2014, could require us to increase our valuation allowance, resulting in an increased tax expense of as much as \$50 million in 2013. The timing of our funding, however, is subject to certain factors beyond our control. Recently, Grace indicated that it could not reasonably expect to emerge from bankruptcy in 2013 given the appeals to its current proposed joint plan of reorganization (the PI Settlement Plan). We therefore, understand that Grace may not emerge from bankruptcy in 2013. We are pursuing available options to preserve the full amount of the net deferred tax asset, but no assurances can be given that the full amount of the net deferred tax asset will be preserved. Other facts that will impact our tax benefit include the amount of cash we pay, our tax position and the applicable tax codes, our past and anticipated future earnings in the U.S., as well as the price of our common stock at the time we fund the Settlement agreement. Changes in statutory tax rates or other new legislation or regulation may also change our deferred tax assets or liability balances, with an either favorable or unfavorable impact on our effective tax rate.

While the Bankruptcy Court and the District Court have confirmed the PI Settlement Plan, and the United States Court of Appeals for the Third Circuit (the Third Circuit Court of Appeals) has issued opinions and judgments overruling certain objections and appeals to the PI Settlement Plan, the Third Circuit Court of Appeals has not yet ruled on the appeal filed by certain holders of Grace's prepetition bank debt (the Bank Lender Appeal). We do not know when the Third Circuit Court of Appeals will rule on the Bank Lender Appeal or whether there will be further proceedings with respect to the Bank Lender Appeal or other appeals. Matters relating to the PI Settlement Plan may be subject to further appeal, challenge, and proceedings before the Bankruptcy Court, the District Court, the Third Circuit Court of Appeals, the United States Supreme Court (the Supreme Court) or elsewhere. Parties have challenged various issues with respect to 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 and monitor the progress of the Grace bankruptcy proceedings (including appeals and other proceedings relating to the PI Settlement Plan, the Bankruptcy and the 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 the Bankruptcy and the Amended District Court Opinions and Confirmation Orders, to verify compliance with the Settlement agreement. We do not control the appellate timetable, including when or how the Third Circuit Court of Appeals will rule on the Bank Lender Appeal, whether the parties will seek to appeal any Third Circuit ruling to the Supreme Court, whether the Supreme Court will take up any of these appeals, or how any ruling on appeal might impact the PI Settlement Plan. 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 2013 Revised Outlook above, our full year 2013 diluted net earnings per common share guidance continues to exclude the payment under the Settlement agreement, as the timing is unknown.

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

*Cryovac Transaction Commitments and Contingencies*

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

***Principal Sources of Liquidity***

Our primary sources of cash are the collection of trade receivables generated from the sales of our products and services to our customers and amounts available under our existing lines of credit, including our credit facility, and our accounts receivable securitization programs. Our primary uses of cash are payments for operating expenses, restructuring expenses, investments in working capital, capital expenditures, interest, taxes, dividends, debt obligations and other long-term liabilities. 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



**Table of Contents**

mentioned above, and the cash payment under the Settlement agreement should it become payable in the next 12 months. We expect to retain approximately \$200 million of cash and cash equivalents following the payment of the cash portion of the Settlement agreement. We plan to repay our 12% senior notes at their maturity in February 2014 with available cash and/or committed liquidity. See Note 10, Debt and Credit Facilities, for further details.

As of September 30, 2013, the Company had cash and cash equivalents of \$777 million, of which approximately \$411 million, or 53%, was located outside of the U.S. As of September 30, 2013, there were certain foreign government regulations restricting transfers on less than \$50 million of the cash located outside of the U.S. As of September 30, 2013, the Company's U.S. cash balances and committed liquidity facilities available to U.S. borrowers were sufficient to fund its U.S. operating requirements and capital expenditures, current debt obligations and dividends. The Company does not expect that in the near term cash located outside of the U.S. will be needed to satisfy its obligations, dividends and other demands for cash in its U.S. operations, except for the funding of payment of the Settlement agreement if it were to be settled in the near term. Should we need to fund the payment of the Settlement agreement liability and related accrued interest in 2013, the Company expects that it would also repatriate cash from its international operations. The Company believes that the repatriation of its cash located outside of the U.S. would result in cash taxes of approximately \$10 million.

*Cash and Cash Equivalents*

The following table summarizes our cash and cash equivalents.

|                           | September 30,<br>2013 | December 31,<br>2012 |
|---------------------------|-----------------------|----------------------|
| Cash and cash equivalents | \$ 776.7              | \$ 679.6             |

See Analysis of Historical Cash Flows below.

Cash flow from operations has tended to be lower in the first quarter and higher in the fourth quarter, reflecting seasonality of sales and working capital changes, including the timing of certain annual incentive compensation payments and seasonal inventory builds.

*Lines of Credit*

There were no amounts outstanding under the credit facility at September 30, 2013 and December 31, 2012. See Note 10, Debt and Credit Facilities, for further details.

*Accounts Receivable Securitization Programs*

At September 30, 2013, we had \$200 million available under our programs, and we did not utilize our programs in 2013. See Note 8, Accounts Receivable Securitization Program, for further information.

*Covenants*

At September 30, 2013, we were in compliance with our financial covenants and limitations, as discussed in Covenants of Note 10, Debt and Credit Facilities and in Note 8, Accounts Receivable Securitization Programs.

*Debt Ratings*

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<br>Investor<br>Services | Standard<br>& Poor's |
|------------------|---------------------------------|----------------------|
| Corporate Rating | Ba3                             | BB-                  |

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

|                                       |        |        |
|---------------------------------------|--------|--------|
| Senior Unsecured Rating               | B1     | BB-    |
| Senior Secured Credit Facility Rating | Ba1    | BB     |
| Outlook                               | 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 and Free Cash Flow***

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

|  | <b>Nine Months Ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2013</b>              | <b>2012</b> |
| Net cash provided by operating activities from continuing operations | \$ 278.2                 | \$ 64.7     |
| Net cash used in investing activities from continuing operations     | (75.4)                   | (97.1)      |
| Net cash used in financing activities from continuing operations     | (101.8)                  | (156.1)     |

***Net Cash Provided by Operating Activities from Continuing Operations******2013***

Net cash provided by operating activities from continuing operations in 2013 of \$278 million was primarily attributable to net earnings adjusted to reconcile to net cash provided by operating activities of \$372 million, which primarily included adjustments for depreciation and amortization, share-based incentive compensation expenses, profit sharing expense, loss on debt redemption and deferred taxes. Net changes in operating assets and liabilities resulted in a net cash use of \$94 million in 2013 primarily in trade receivables, net, inventories and accounts payable. This activity reflects our seasonality of sales and collections, along with the timing of inventory purchases and the related receipts and payments of cash.

***2012***

Net cash provided by operating activities from continuing operations in 2012 of \$65 million was primarily attributable to net loss adjusted to reconcile to net cash provided by operating activities of \$276 million, which primarily included adjustments for impairment of goodwill and other intangible assets, depreciation and amortization, share-based incentive compensation expenses, profit sharing expenses impairment of equity method investment and deferred taxes. Net changes in operating assets and liabilities resulted in a net cash use of \$211 million in 2012. Changes in trade receivables, net, inventories and accounts payable were a net use of cash of \$173 million. This activity reflects the seasonality of sales and collections, along with the timing of inventory purchases and the related receipts and payments of cash.

***Net Cash Used in Investing Activities from Continuing Operations******2013***

Net cash used in investing activities from continuing operations in 2013 of \$75 million primarily consisted of capital expenditures of \$80 million related to capacity expansions to support growth in net sales. Capital expenditure related to IOP were \$9 million in 2013.

***2012***

Net cash used in investing activities from continuing operations in 2012 of \$97 million primarily consisted of capital expenditures of \$98 million primarily for property and equipment, productivity improvements and capacity expansions to support the growth in net sales. Capital expenditure related to IOP were \$14 million in 2012.

***Net Cash Used in Financing Activities from Continuing Operations******2013***

Net cash used in financing activities from continuing operations of \$102 million was primarily due to the following:

repurchase of \$400 million on 7.875% Senior Notes due June 2017 for \$431 million;

prepayment of term loan installments of \$55 million; and

payment of \$76 million of quarterly dividends.

These factors were partially offset by issuance of \$425 million of 5.25% Senior Notes due April 2023 and short term borrowings of \$43 million.

**Table of Contents****2012**

Net cash used in financing activities from continuing operations in 2012 of \$156 million was primarily due to the following:

the cash payment of quarterly dividends of \$76 million; and

prepayments of our term loan installments of \$89 million.

**Free Cash Flow**

In addition to net cash provided by operating activities, we use free cash flow as a useful measure of performance and as an indication of the strength and ability to generate cash. We define free cash flow as cash provided by operating activities less capital expenditures (which is classified as an investing activity). Free cash flow is not defined under U.S. GAAP. Therefore, it should not be considered a substitute for net income or cash flow data prepared in accordance with U.S. GAAP and may not be comparable to similarly titled measures used by other companies. Free cash flow does not represent residual cash available for discretionary expenditures, including certain debt servicing requirements or non-discretionary expenditures that are not deducted from this measure. We typically generate the majority of our annual free cash flow in the second half of the year. Below find details of free cash flow for the nine months ended September 30, 2013 and 2012.

|  | Nine Months Ended<br>September 30, |           |          |
|--|------------------------------------|-----------|----------|
|  | 2013                               | 2012      | Increase |
| Cash flow provided by operating activities continuing operations | \$ 278.2                           | \$ 64.7   | \$ 213.5 |
| Capital expenditures for property and equipment                  | (80.0)                             | (97.8)    | 17.8     |
| Free cash flow   | \$ 198.2                           | \$ (33.1) | \$ 231.3 |

**Changes in Working Capital**

|   | September 30,<br>2013 | December 31,<br>2012 | Increase  |
|---|-----------------------|----------------------|-----------|
| Working capital (current assets less current liabilities)                     | \$ 802.8              | \$ 888.8             | \$ (86.0) |
| Current ratio (current assets divided by current liabilities)                 | 1.3x                  | 1.4x                 |           |
| Quick ratio (current assets, less inventories divided by current liabilities) | 1.0x                  | 1.1x                 |           |

The \$86 million, or 10%, decrease in working capital in the nine months ended September 30, 2013 was primarily due to the classification of our 12% Senior Notes due 2014, and a portion of our Term Loan A and Term Loan B to current portion of long-term debt from long-term debt.

**Changes in Stockholders' Equity**

The \$28 million, or 2%, decrease in stockholders' equity in the nine months ended September 30, 2013 was primarily due to dividends paid and accrued on our common stock of \$77 million and cumulative translation adjustment of \$89 million, partially offset by net earnings of \$97 million and an increase in treasury stock of \$26 million primarily due to the transfer of common stock from treasury stock as part of our 2012 profit sharing plan contribution.

**Derivative Financial Instruments****Foreign Currency Forward Contracts**



## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

At September 30, 2013, 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, 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.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

There have been no material changes in our critical accounting policies and estimates from those disclosed in our 2012 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 2012 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**

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

At September 30, 2013, we had no outstanding interest rate swaps, outstanding collars or options.

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 \$110 million in the fair value of the total debt balance at September 30, 2013. This change in the fair value of our fixed rate debt does not alter our obligations to repay the outstanding principal amount or any related interest of such debt. 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.

#### **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 the mix of our transactions denominated in currencies other than the U.S. dollar changes 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, re-measure and settle transactions. Therefore, it is difficult to predict the future impact until each transaction settles at its applicable exchange rate or is re-measured into U.S. dollars.

For the nine months ended September 30, 2013, less than 1% of our consolidated net sales and operating income were derived from our businesses in Venezuela. As of September 30, 2013, we had net assets of \$46 million in Venezuela, which primarily consisted of cash and cash equivalents of \$37 million. Also, as of September 30, 2013, our Venezuelan subsidiaries had a negative cumulative translation adjustment balance of \$46 million.

##### *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 September 30, 2013 would have caused us to pay approximately \$151 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.

## Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

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 September 30, 2013, we had no foreign exchange options or interest rate and currency swap agreements outstanding.

## **Table of Contents**

### *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 \$445 million at September 30, 2013 and \$429 million at December 31, 2012.

### **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 \$3 million in the three months ended September 30, 2013, \$1 million in the three months ended September 30, 2012, \$10 million in the nine months ended September 30, 2013 and \$12 million in the nine months ended September 30, 2012. The allowance for doubtful accounts was \$36 million at September 30, 2013 and \$26 million at December 31, 2012.

### **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 September 30, 2013 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 2012 Annual Report on Form 10-K, as subsequently updated by our Quarterly Reports on Form 10-Q, as well as the information incorporated by reference in that item.

We are also involved in various other legal actions incidental to our business. We believe, after consulting with counsel, that the disposition of these other legal proceedings and matters will not have a material effect on our consolidated financial condition or results of operations.

**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, 2012. 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.

**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 September 30, 2013, 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 (1)<br>(a) | Average Price<br>Paid<br>Per<br>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 June 30, 2013                  |  |  |  | 15,546,142  |
| July 1, 2013 through July 30, 2013           | 6,422  |  |  | 15,546,142  |
| August 1, 2013 through August 31, 2013       | 13,504   |  |  | 15,546,142  |
| September 1, 2013 through September 30, 2013 |  |  |  | 15,546,142  |
| <b>Total</b>                                 | 19,926   | \$   |  | 15,546,142  |

- (1) We did not purchase any shares during the quarter ended September 30, 2013 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.

Edgar Filing: SEALED AIR CORP/DE - Form 10-Q

| Period         | Shares withheld for tax obligations and charges<br>(a) | Average withholding price for shares in column a<br>(b) | Forfeitures under 2005 Contingent Stock Plan<br>(c) | Total<br>(d) |
|----------------|--|---|---|--------------|
| July 2013      | 1,172  | \$ 27.61  | 5,250   | 6,422        |
| August 2013    | 2,404  | 27.61   | 11,100  | 13,504       |
| September 2013 |  |   |   |              |
| Total          | 3,576  | \$  | 16,350  | 19,926       |

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.

**Table of Contents****Item 6. Exhibits.**

| <b>Exhibit</b> |  |
|----------------|--|
| <b>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 3.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, File No. 1-12139, is incorporated herein by reference.)                  |
| 31.1           | Certification of Jerome A. Peribere pursuant to Rule 13a-14(a), dated November 8, 2013.  |
| 31.2           | Certification of Carol P. Lowe pursuant to Rule 13a-14(a), dated November 8, 2013.   |
| 32             | Certification of Jerome A. Peribere and Carol P. Lowe, pursuant to 18 U.S.C. § 1350, dated November 8, 2013.   |
| 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  |

**Table of Contents**

**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: November 8, 2013

By: /s/ William G. Stiehl  
William G. Stiehl  
*Chief Accounting Officer and Controller (Duly Authorized  
Executive Officer and Principal Accounting Officer)*