SEALED AIR CORP/DE
Form 10-Q
May 06, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

Or

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

For the transition period from to

Commission File Number: 1-12139

SEALED AIR CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**65-0654331** (I.R.S. Employer Identification Number)
200 Riverfront Boulevard **Elmwood Park, New Jersey** (Address of principal executive offices)	**07407-1033** (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 þ No o

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

There were 160,154,342 shares of the registrant s common stock, par value $0.10 per share, issued and outstanding as of April 30, 2011.

SEALED AIR CORPORATION AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net sales:		
Food Packaging	$ 474.9	$ 447.2
Food Solutions	228.8	219.1
Protective Packaging	335.1	306.5
Other	89.7	88.4
Total net sales	1,128.5	1,061.2
Cost of sales	819.5	761.2
Gross profit	309.0	300.0
Marketing, administrative and development expenses	186.0	175.5
Restructuring and other charges		0.6
Operating profit	123.0	123.9
Interest expense	(37.0)	(40.7)
Impairment of available-for-sale securities		(0.7)
Foreign currency exchange (losses) gains related to Venezuelan subsidiary	(0.2)	1.2
Other (expense) income, net	(3.9)	2.3
Earnings before income tax provision	81.9	86.0
Income tax provision	22.2	24.8
Net earnings available to common stockholders	$ 59.7	$ 61.2
Net earnings per common share:		
Basic	$ 0.37	$ 0.38
Diluted	$ 0.34	$ 0.35
Dividends per common share	$ 0.13	$ 0.12
Weighted average number of common shares outstanding:		
Basic	158.7	157.8
Diluted	176.9	176.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 696.0	$ 675.6
Receivables, net of allowance for doubtful accounts of $18.8 in 2011 and $17.0 in 2010	696.1	697.1
Inventories	559.0	495.8
Deferred tax assets	142.7	146.2
Other current assets	28.3	25.3
Total current assets	2,122.1	2,040.0
Property and equipment, net	958.3	948.3
Goodwill	1,952.1	1,945.9
Non-current deferred tax assets	167.3	179.6
Other assets, net	290.5	285.6
Total assets	$ 5,490.3	$ 5,399.4
Liabilities and stockholders equity		
Current liabilities:		
Short-term borrowings	$ 9.1	$ 23.5
Current portion of long-term debt	4.9	6.5
Accounts payable	265.5	232.0
Deferred tax liabilities	5.1	5.0
Settlement agreement and related accrued interest	798.7	787.9
Other current liabilities	357.7	392.8
Total current liabilities	1,441.0	1,447.7
Long-term debt, less current portion	1,398.8	1,399.2
Other liabilities	154.9	150.9
Total liabilities	2,994.7	2,997.8
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.10 par value per share, 50,000,000 shares authorized; no shares issued in 2011 and 2010		
Common stock, $0.10 par value per share, 400,000,000 shares authorized; shares issued: 170,550,339 in 2011 and 169,272,636 in 2010; shares outstanding: 160,154,232 in 2011 and 159,305,507 in 2010	17.1	17.0
Common stock reserved for issuance related to Settlement agreement, $0.10 par value per share, 18,000,000 shares in 2011 and 2010	1.8	1.8
Additional paid-in capital	1,160.6	1,152.7

Retained earnings	1,744.8	1,706.1
Common stock in treasury, 10,396,107 in 2011 and 9,967,129 shares in 2010	(374.7)	(362.7)
Accumulated other comprehensive loss, net of taxes:		
Unrecognized pension items	(46.8)	(47.9)
Cumulative translation adjustment	(6.9)	(65.9)
Unrealized gain on derivative instruments	3.3	3.5
Total accumulated other comprehensive loss, net of taxes	(50.4)	(110.3)
Total parent company stockholders equity	2,499.2	2,404.6
Non-controlling interests	(3.6)	(3.0)
Total stockholders equity	2,495.6	2,401.6
Total liabilities and stockholders equity	$ 5,490.3	$ 5,399.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net earnings available to common stockholders	$ 59.7	$ 61.2
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	36.0	39.6
Share-based incentive compensation	5.8	7.5
Amortization of senior debt related items and other	0.2	0.5
Provisions for bad debt	1.6	1.8
Provisions for inventory obsolescence	3.3	0.6
Impairment of available-for-sale securities		0.7
Deferred taxes, net	2.5	(5.1)
Excess tax benefit from share-based incentive compensation	(2.6)	
Net gain on disposals of property and equipment and other	(0.1)	(0.4)
Changes in operating assets and liabilities, net of effects of businesses and certain assets acquired:		
Receivables, net	21.6	26.1
Inventories	(51.6)	(33.3)
Other assets, net	(0.9)	3.4
Accounts payable	26.5	12.2
Income taxes payable	(4.7)	17.5
Other liabilities	(30.1)	(49.0)
Net cash provided by operating activities	67.2	83.3
Cash flows from investing activities:		
Capital expenditures for property and equipment	(19.5)	(15.4)
Proceeds from sales of property and equipment	0.3	2.4
Other investing activities	0.6	1.2
Net cash used in investing activities	(18.6)	(11.8)
Cash flows from financing activities:		
Proceeds from long-term debt	0.4	
Excess tax benefit from share-based incentive compensation	2.6	
Payments of contingent liabilities acquired	(1.0)	
Payments of long-term debt	(2.2)	(71.0)
Acquisition of common stock for tax withholding obligations under our 2005 contingent stock plan	(12.0)	
Net payments of short-term borrowings	(14.3)	(14.1)
Dividends paid on common stock	(20.8)	(19.1)

Net cash used in financing activities	(47.3)	(104.2)
Effect of foreign currency exchange rate changes on cash and cash equivalents	19.1	(34.3)
Cash and cash equivalents:		
Balance, beginning of period	$ 675.6	$ 694.5
Net change during the period	20.4	(67.0)
Balance, end of period	$ 696.0	$ 627.5
Supplemental Cash Flow Information:		
Interest payments, net of amounts capitalized	$ 36.1	$ 44.7
Income tax payments	$ 25.2	$ 13.0
Non-cash items:		
Transfer of shares of our common stock from treasury as part of our 2009 profit-sharing plan contribution	$	$ 7.2
Net unrealized gain on available-for-sale securities	$	$ 0.9

See accompanying Notes to Condensed Consolidated Financial Statements.

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SEALED AIR CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In millions)

	Three Months Ended March 31,	
	2011	**2010**
Net earnings available to common stockholders	$ 59.7	$ 61.2
Other comprehensive income, net of taxes:		
Recognition of deferred pension items, net of taxes of $0.3 in 2011 and $0.4 in 2010	1.1	1.7
Unrealized losses on derivative instruments, net of taxes of $0.1 in 2011 and 2010	(0.2)	(0.2)
Unrealized gains on available-for-sale securities, reclassified to net earnings, net of taxes of $0.1		(0.1)
Unrealized gains on available-for-sale securities, net of taxes of $0.3		0.6
Foreign currency translation adjustments	59.0	(26.9)
Comprehensive income, net of taxes	$ 119.6	$ 36.3

See accompanying Notes to Condensed Consolidated Financial Statements.

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SEALED AIR CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Amounts in tables are in millions, except per share data)

(1) Organization and Basis of Presentation

Organization

We are a leading global innovator and manufacturer of a wide range of packaging and performance-based materials and equipment systems that serve an array of food, industrial, medical and consumer applications.

We conduct substantially all of our business through two direct wholly-owned subsidiaries, Cryovac, Inc. and Sealed Air Corporation (US). These two subsidiaries, directly and indirectly, own substantially all of the assets of the business and conduct operations themselves and through subsidiaries around the world. We adopted this corporate structure in connection with the Cryovac transaction. See Cryovac Transaction Commitments and Contingencies, of Note 13, Commitments and Contingencies, for a description of the Cryovac transaction and related terms used in these Notes to Condensed Consolidated Financial Statements. 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.

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 March 31, 2011 and our condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010 have been made. The results set forth in our condensed consolidated statements of operations for the three months ended March 31, 2011 and in our condensed consolidated statements of cash flows for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year. All amounts are 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 position, results of operations and cash flows.

Our condensed consolidated financial statements were prepared following the interim reporting requirements of the Securities and Exchange Commission, or the SEC. As permitted under those rules, annual footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America, or U.S. GAAP, have been condensed or omitted. The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in our condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

We are responsible for the unaudited condensed consolidated financial statements and notes included in this document. As these are condensed financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and with the information contained in other publicly-available filings with the SEC.

(2) Recently Issued Accounting Standards

Adopted in 2011

In September 2009, the FASB ratified an amendment to accounting standards addressing revenue recognition for arrangements with multiple revenue-generating activities. The amendment addresses how revenue should be allocated to separate elements that could impact the timing of recognizing revenue. The amendment is effective for us on a prospective basis for revenue arrangements entered into or materially modified on or after January 1, 2011, and earlier application is permitted. We adopted this amendment on January 1, 2011 on a prospective basis, and any impact to our consolidated financial position and results of operations will depend on future revenue arrangements we enter into. Currently, we do not believe the adoption of this amendment will materially impact our consolidated financial position and results of operations.

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(3) Segments

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net sales		
Food Packaging	$ 474.9	$ 447.2
Food Solutions	228.8	219.1
Protective Packaging	335.1	306.5
Other	89.7	88.4
Total	$ 1,128.5	$ 1,061.2
Depreciation and amortization		
Food Packaging	$ 16.3	$ 18.9
Food Solutions	7.5	7.9
Protective Packaging	7.0	7.8
Other	5.2	5.0
Total	$ 36.0	$ 39.6
Operating profit(1)		
Food Packaging	$ 62.6	$ 56.5
Food Solutions	19.4	20.9
Protective Packaging	40.0	39.5
Other	1.0	7.6
Total segments and other	123.0	124.5
Restructuring and other charges(2)		0.6
Total	$ 123.0	$ 123.9

(1) Before taking into consideration restructuring and other charges.

(2) The amounts primarily represent charges associated with the implementation of our global manufacturing strategy, the majority of which were related to our Food Packaging segment.

Assets by Reportable Segments

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

	March 31, 2011	December 31, 2010
Assets:		

Trade receivables, net, and finished goods inventory, net		
Food Packaging	$ 415.2	$ 409.8
Food Solutions	210.8	204.7
Protective Packaging	308.7	297.9
Other	64.7	54.9
Total segments and other	999.4	967.3
Assets not allocated		
Cash and cash equivalents	696.0	675.6
Property and equipment, net	958.3	948.3
Goodwill	1,952.1	1,945.9
Other	884.5	862.3
Total	$ 5,490.3	$ 5,399.4

Allocation of Goodwill to Reportable Segments

Our management views goodwill as a corporate asset, so we do not allocate our goodwill balance to the reportable

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segments. However, we are required to allocate goodwill to each reporting unit to perform our annual impairment review of goodwill, which we do during the fourth quarter of the year. See Note 8, Goodwill and Identifiable Intangible Assets, for the allocation of goodwill and the changes in goodwill balances in the three months ended March 31, 2011 by our segment reporting structure.

(4) Restructuring Activities

European Manufacturing Facility Closure

In December 2010, we informed affected employees that we would be closing a small industrial shrink packaging manufacturing facility in Europe. We are taking this action based on our review of operating costs and technology levels in an effort to simplify our plant network and improve our operating efficiency.

We recorded associated costs and restructuring and other charges of $7 million in 2010. We will record the remaining costs of approximately $1 to 2 million predominantly in 2011.

The table below shows the restructuring accrual balance and activity.

Restructuring accrual at December 31, 2010	$ 3.7
Adjustment to accrual for termination benefits	0.8
Cash payments during 2011	(0.8)
Effect of changes in foreign currency rates	0.3
Restructuring accrual at March 31, 2011	$ 4.0

We expect to pay the accrual balance remaining at March 31, 2011 within the next 12 months, and this amount is included in other current liabilities on our condensed consolidated balance sheet at March 31, 2011.

(5) Accounts Receivable Securitization Program

We and a group of our U.S. subsidiaries maintain an accounts receivable securitization program with a bank and an issuer of commercial paper administered by the bank. As of March 31, 2011, the maximum purchase limit for receivable interests was $125 million, subject to the availability limits described below.

The amounts available from time to time under the program may be less than $125 million due to a number of factors, including but not limited to our credit ratings, trade receivable balances, the creditworthiness of our customers and our receivables collection experience. During the three months ended March 31, 2011, the level of eligible assets available under the program was lower than $125 million primarily due to our current credit rating. As a result, the amount available to us under the program was approximately $84 million at March 31, 2011. Although we do not believe that these restrictive provisions presently materially restrict our operations, if an additional event occurs that triggers one of these restrictive provisions, we could experience a further decline in the amounts available under the program or termination of the program.

As of March 31, 2011 and December 31, 2010, we had no amounts outstanding under this program, and we did not utilize this program during the first quarter of 2011.

The overall program is scheduled to expire in December 2012; however, the program includes a bank financing commitment that must be renewed annually. The bank financing commitment is scheduled to expire on December 2, 2011. We plan to seek an additional 364 day renewal of the bank commitment before its expiration. While the bank is not obligated to renew the bank financing commitment, we have negotiated annual renewals since the commencement of the program in 2001.

Under limited circumstances, the bank and the issuer of commercial paper can end purchases of receivables interests before the above dates. A downgrade of our long-term senior unsecured debt to BB- or below by Standard & Poor s Rating Services or Ba3 or below by Moody s Investors Service, Inc., or failure to comply with interest coverage, debt leverage or various other ratios related to our receivables collection experience could result in termination of the receivables program. We were in compliance with the credit rating provisions and these ratios at March 31, 2011 and December 31, 2010.

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Any transfers of ownership interests in receivables under this program are considered secured borrowings and will be recorded as liabilities on our condensed consolidated balance sheets. Also, the fees on outstanding borrowings under this program, if any, will be included in interest expense, and the costs of commitment fees on the unused portion of this program are included in other (expense) income, net, on our condensed consolidated statements of operations.

(6) Inventories

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

	March 31, 2011	December 31, 2010
Inventories (at FIFO, which approximates replacement value):		
Raw materials	$ 104.5	$ 94.5
Work in process	127.7	112.6
Finished goods	374.8	337.8
Subtotal (at FIFO)	607.0	544.9
Reduction of certain inventories to LIFO basis	(48.0)	(49.1)
Total	$ 559.0	$ 495.8

We determine the value of non-equipment U.S. inventories by the last-in, first-out or LIFO inventory method. U.S. inventories determined by the LIFO method were $123 million at March 31, 2011 and $102 million at December 31, 2010.

(7) Property and Equipment, net

The following table details our property and equipment, net.

	March 31, 2011	December 31, 2010
Land and improvements	$ 59.5	$ 53.0
Buildings	639.1	620.1
Machinery and equipment	2,392.1	2,325.8
Other property and equipment	110.5	106.3
Construction-in-progress	47.6	43.6
	3,248.8	3,148.8
Accumulated depreciation and amortization	(2,290.5)	