SEALED AIR CORP/DE
Form 10-Q
November 09, 2012
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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 September 30, 2012

Or

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

For the transition period from to

Commission File Number: 1-12139

SEALED AIR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**65-0654331**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
200 Riverfront Boulevard	
Elmwood Park, New Jersey	**07407-1033**
(Address of principal executive offices)	(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 ¨

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 ¨

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 ¨	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 þ

There were 194,513,709 shares of the registrant s common stock, par value $0.10 per share, issued and outstanding as of October 31, 2012.

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SEALED AIR CORPORATION AND SUBSIDIARIES

FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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Cautionary Notice Regarding Forward-Looking Statements

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

The following are important factors that we believe could cause actual results to differ materially from those in our forward-looking statements: the implementation of our Settlement agreement (as defined in Note 15, Commitments and Contingencies) regarding the various asbestos-related, fraudulent transfer, successor liability, and indemnification claims made against the Company arising from a 1998 transaction with W. R. Grace & Co.; global economic conditions; changes in our credit ratings; changes in raw material pricing and availability; changes in energy costs; competitive conditions; currency translation and devaluation effects, including in Venezuela; the success of our financial growth, profitability, cash generation and manufacturing strategies and our cost reduction and productivity efforts; the effects of animal and food-related health issues; pandemics; consumer preferences; environmental matters; regulatory actions and legal matters; successful integration of Diversey and the other information referenced below in Part II, Item 1A, Risk Factors. Except as required by the federal securities laws, we undertake no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net sales:				
Food Packaging	$ 509.8	$ 529.8	$ 1,497.7	$ 1,506.6
Food Solutions	254.4	265.5	739.7	756.2
Protective Packaging	344.0	361.2	1,034.2	1,049.8
Diversey	698.5		2,113.6	
Other	93.6	90.6	285.1	275.6
Total net sales	1,900.3	1,247.1	5,670.3	3,588.2
Cost of sales	1,256.7	911.4	3,777.3	2,619.2
Gross profit	643.6	335.7	1,893.0	969.0
Marketing, administrative and development expenses	429.2	179.4	1,343.8	549.0
Amortization of intangible assets	33.0	2.5	99.5	7.5
Impairment of goodwill and other intangible assets	1,334.3		1,334.3	
Costs related to the acquisition of Diversey	1.3	24.1	4.8	30.7
Restructuring and other charges	36.8	(0.2)	110.1	(0.2)
Operating (loss) profit	(1,191.0)	129.9	(999.5)	382.0
Interest expense	(96.5)	(36.6)	(291.2)	(110.5)
Impairment of equity method investment			(23.5)	
Other income (expense), net	1.2	6.8	(8.5)	0.7
(Loss) earnings from continuing operations before income tax provision	(1,286.3)	100.1	(1,322.7)	272.2
Income tax (benefit) provision	(48.0)	26.4	(55.4)	73.8
Net (loss) earnings from continuing operations	(1,238.3)	73.7	(1,267.3)	198.4
Net earnings from discontinued operations, net of tax	5.9		15.3	
Net (loss) earnings available to common stockholders	$ (1,232.4)	$ 73.7	$ (1,252.0)	$ 198.4
Net (loss) earnings per common share:				
Basic				
Continuing operations	$ (6.41)	$ 0.46	$ (6.58)	$ 1.24
Discontinued operations	0.03		0.08	
Net (loss) earnings per common share basic	$ (6.38)	$ 0.46	$ (6.50)	$ 1.24
Diluted				
Continuing operations	$ (6.41)	$ 0.41	$ (6.58)	$ 1.11
Discontinued operations	0.03		0.08	

Net (loss) earnings per common share diluted	$	(6.38)	$	0.41	$	(6.50)	$	1.11
Dividends per common share	$	0.13	$	0.13	$	0.39	$	0.39
Weighted average number of common shares outstanding:								
Basic		193.2		159.3		192.7		159.1
Diluted		193.2		177.9		192.7		177.5

See accompanying Notes to Condensed Consolidated Financial Statements.

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SEALED AIR CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(In millions)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net (loss) earnings available to common stockholders	$ (1,232.4)	$ 73.7	$ (1,252.0)	$ 198.4
Other comprehensive (loss) income, net of income taxes:				
Recognition of deferred pension items, net of taxes of $0.3 for the three months ended September 30, 2011, $2.1 for the nine months ended September 30, 2012 and $1.0 for the nine months ended September 30, 2011	(0.2)	2.1	2.9	4.2
Unrealized gains (losses) on derivative instruments, net of taxes of $0.1 for the three months ended September 30, 2011, $0.1 for the nine months ended September 30, 2012 and $0.3 for the nine months ended September 30, 2011	0.4	(0.1)	0.2	(0.4)
Foreign currency translation adjustments	90.4	(97.9)	48.7	(12.8)
Comprehensive (loss) income, net of income taxes	$ (1,141.8)	$ (22.2)	$ (1,200.2)	$ 189.4

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)

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 540.8	$ 703.6
Receivables, net of allowance for doubtful accounts of $23.3 in 2012 and $16.2 in 2011	1,354.5	1,314.2
Inventories	861.0	777.5
Deferred tax assets	362.4	156.2
Assets held for sale	264.1	279.0
Prepaid expenses and other current assets	99.1	119.7
Total current assets	3,481.9	3,350.2
Property and equipment, net	1,233.9	1,269.2
Goodwill	3,117.4	4,209.6
Intangible assets, net	1,772.4	2,035.7
Non-current deferred tax assets	118.5	112.3
Other assets, net	453.6	455.0
Total assets	$ 10,177.7	$ 11,432.0
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 49.0	$ 34.5
Current portion of long-term debt	402.0	1.9
Accounts payable	545.9	554.9
Deferred tax liabilities	17.1	16.0
Settlement agreement and related accrued interest	865.5	831.2
Accrued restructuring costs	73.0	36.3
Liabilities held for sale	198.5	216.7
Other current liabilities	764.8	814.7
Total current liabilities	2,915.8	2,506.2
Long-term debt, less current portion	4,486.3	4.966.7
Non-current deferred tax liabilities	528.3	439.7
Other liabilities	546.8	567.0
Total liabilities	8,477.2	8,479.6
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.10 par value per share, 50,000,000 shares authorized; no shares issued in 2012 and 2011		
Common stock, $0.10 par value per share, 400,000,000 shares authorized; shares issued: 204,493,191 in 2012 and 202,528,616 in 2011; shares outstanding; 194,422,170 in 2012 and 192,062,185 in 2011	20.5	20.3
Common stock reserved for issuance related to Settlement agreement, $0.10 par value per share, 18,000,000 shares in 2012 and 2011	1.8	1.8

Additional paid-in capital	1,685.6	1,689.6
Retained earnings	438.4	1,766.5
Common stock in treasury, 10,071,021 in 2012 and 10,466,431 in 2011	(353.1)	(375.6)
Accumulated other comprehensive loss, net of taxes:		
Unrecognized pension items	(40.3)	(43.2)
Cumulative translation adjustment	(55.3)	(104.0)
Unrealized gain on derivative instruments	2.3	2.1
Total accumulated other comprehensive loss, net of taxes	(93.3)	(145.1)
Total parent company stockholders equity	1,699.9	2,957.5
Noncontrolling interests	0.6	(5.1)
Total stockholders equity	1,700.5	2,952.4
Total liabilities and stockholders equity	$ 10,177.7	$ 11,432.0

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)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities from continuing operations:		
Net (loss) earnings available to common stockholders	$ (1,267.3)	$ 198.4
Adjustments to reconcile net (loss) earnings to net cash (used in) provided by operating activities from continuing operations:		
Impairment of goodwill and other intangible assets	1,334.3	
Depreciation and amortization	230.9	109.6
Share-based incentive compensation and profit sharing expense	31.6	31.7
Costs related to the acquisition of Diversey	4.8	30.7
Gains from foreign currency forward contracts related to the closing of the acquisition of Diversey		(6.3)
Amortization of senior debt related items and other	14.6	0.5
Impairment of equity method investment	25.8	
Provisions for (recovery of) bad debt	12.6	(1.3)
Provisions for inventory obsolescence	10.4	8.8
Deferred taxes, net	(119.8)	(10.9)
Excess tax benefit from share-based incentive compensation	(0.8)	(2.8)
Net gain on disposals of property and equipment and other	(0.9)	(2.4)
Changes in operating assets and liabilities:		
Receivables, net	(62.9)	(21.9)
Inventories	(89.0)	(90.9)
Other assets, net	(34.1)	(9.2)
Accounts payable	(17.4)	10.9
Other liabilities	(8.1)	32.1
Net cash provided by operating activities from continuing operations	64.7	277.0
Cash flows from investing activities from continuing operations:		
Capital expenditures for property and equipment	(97.8)	(78.1)
Businesses acquired in purchase transactions, net of cash and cash equivalents acquired	(2.6)	
Proceeds from sales of property and equipment	1.4	5.0
Other investing activities	1.9	1.7
Net cash used in investing activities from continuing operations	(97.1)	(71.4)
Cash flows from financing activities from continuing operations:		
Proceeds from long-term debt	18.5	1.4
Excess tax benefit from share-based incentive compensation	0.8	2.8
Payments of long-term debt	(88.6)	(6.2)
Payments of debt issuance costs		(5.3)
Acquisition of common stock for tax withholding obligations under our 2005 contingent stock plan	(9.4)	(12.8)
Net payments of short term borrowings		(0.9)
Dividends paid on common stock	(75.7)	(62.4)
Other financing payments	(1.7)	(1.0)
Net cash used in financing activities from continuing operations	(156.1)	(84.4)
Effect of foreign currency exchange rate changes on cash and cash equivalents	13.7	3.5

Net change in cash and cash equivalents from continuing operations		(174.8)		124.7
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	$	703.6	$	675.6
Net change during the period		(162.8)		124.7
Balance, end of period	$	540.8	$	800.3
Supplemental Cash Flow Information:				
Interest payments, net of amounts capitalized	$	278.2	$	89.2
Income tax payments	$	92.4	$	73.2
Non-cash items:				
Transfers of shares of our common stock from treasury as part of our 2011 profit-sharing plan contribution	$	18.6	$	

See accompanying Notes to Condensed Consolidated Financial Statements.

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SEALED AIR CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

(1) Organization and Basis of Presentation

Organization

We are a global leader in food safety and security, facility hygiene and product protection. We serve an array of end markets including food and beverage processing, food service, retail, health care and industrial, commercial and consumer applications. We have widely recognized and inventive brands such as Bubble Wrap® brand cushioning, Cryovac® brand food packaging solutions and, as a result of our acquisition of Diversey Holdings, Inc. and its subsidiaries (Diversey) on October 3, 2011, Diversey® brand cleaning and hygiene solutions.

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

We conduct substantially all of our business through three wholly-owned subsidiaries, Cryovac, Inc., Sealed Air Corporation (US) and Diversey, Inc. We historically have conducted our operations through the following four business segments: Food Packaging, Food Solutions, Protective Packaging, Diversey and an Other category. See Note 5, Segments.

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, 2012 and our condensed consolidated statements of operations for the three and nine months ended September 30, 2012 and 2011 have been made. The results set forth in our condensed consolidated statements of operations for the three and nine months ended September 30, 2012 and in our condensed consolidated statements of cash flows for the nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year. All amounts are in millions, except per share amounts, and approximate due to rounding. Some prior period amounts have been reclassified to conform to the current year presentation. These reclassifications, individually and in the aggregate, had no impact on our consolidated financial condition, results of operations and cash flows.

The condensed consolidated financial statements and information included in this Quarterly Report on Form 10-Q (Form 10-Q) include the financial results of Diversey for the period beginning January 1, 2012 through September 30, 2012 and as of December 31, 2011. The financial results included in this Form 10-Q related to the acquisition method accounting for the Diversey transaction have been finalized. See Note 4, Acquisition of Diversey Holdings, Inc., for further information about the acquisition.

During the period between when we reported our quarterly earnings on November 2, 2012 and the filing date of this quarterly report on Form 10-Q on November 9, 2012, we revised our estimate of impairment of goodwill and other intangible assets related to our Diversey segment from $1,223.5 million ($1,194.6 million, net of taxes) to $1,334.3 million ($1,261.5 million, net of taxes) primarily due to an increase in the estimated impairment related to the Diversey trademark. See Note 8, Goodwill and Other Identifiable Intangible Assets, for further details of this impairment charge.

On October 30, 2012, we signed a definitive agreement to sell our Diversey operations in Japan. As a result, the operating results for Diversey Japan were reclassified to net earnings from discontinued operations, net of tax on the condensed consolidated statements of operations for the three months and nine months ended September 30, 2012, and the assets and liabilities of the Diversey Japan operations were reclassified to assets and liabilities held for sale as of September 30, 2012 and December 31, 2011. See Note 3, Divestiture .

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

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

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

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(2) Recently Issued Accounting Standards

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

Adopted in 2012

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

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

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

Pending Adoption

In October 2012, the FASB issued 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 will be effective for fiscal periods beginning after December 15, 2012. We are currently evaluating the impact of this standard on our condensed consolidated financial statements.

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

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

(3) Divestiture

On October 30, 2012, we signed a definitive agreement to sell our Diversey operations in Japan for gross proceeds of USD equivalent $377 million, subject to customary closing conditions. The transaction is expected to be completed in the fourth quarter of 2012. The transaction is expected to generate approximately $300 million in net cash, on an after tax basis. We intend to use the cash generated from this transaction to prepay a portion of our outstanding debt. We expect to record a pre-tax gain on the sale of approximately $260 million.

We have classified the operating results from this business, together with certain costs related to the divestiture transaction, as discontinued operations, net of tax, in the condensed consolidated statements of operations for the three and nine months ended September 30, 2012. This business was acquired as part of the acquisition of Diversey on October 3, 2011 and therefore no restatement of the condensed consolidated statements of operations for the three and nine months ended September 30, 2011 is necessary. See Note 4, Acquisition of Diversey Holdings, Inc. Assets and liabilities of this business are classified as held for sale in the condensed consolidated balance sheets as of September 30, 2012 and December 31, 2011.

Summary operating results for this discontinued operation were as follows:

	Three Months Ended September 30, 2012		Nine Months Ended September 30, 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

We do not consider the results of the Diversey Japan to be material to our condensed consolidated financial statements.

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The carrying value of the major classes of assets and liabilities for these discontinued operations were as follows:

	September 30, 2012	December 31, 2011
Assets:		
Cash and cash equivalents	$ 12.1	$ 19.2
Receivables, net	61.0	68.8
Inventories	25.6	20.6
Deferred tax assets	9.4	9.3
Prepaid expenses and other current assets	2.8	8.8
Property and equipment, net	51.7	52.9
Goodwill	11.0	10.9
Intangible assets, net	66.8	69.4
Non-current deferred tax assets	20.1	17.0
Other assets, net	3.6	2.1
Assets held for sale	$ 264.1	$ 279.0
Liabilities:		
Accounts payable	$ 59.7	$ 64.1
Other current liabilities	20.7	29.9
Long-term debt, less current portion	41.0	44.2
Non-current deferred tax liabilities	30.3	27.6
Other liabilities	46.8	50.9
Liabilities held for sale	$ 198.5	$ 216.7

In connection with the sale, the Company will enter into several agreements. While those agreements are expected to generate future revenues and cash flows for the Company, the estimated amounts and the Company s continuing involvement in Diversey operations in Japan are not expected to be significant to the Company as a whole.

(4) Acquisition of Diversey Holdings, Inc.

Description of Transaction

On October 3, 2011, we completed the acquisition of 100% of the outstanding stock of Diversey. Under the terms of the acquisition agreement, we paid in aggregate $2.1 billion in cash consideration and an aggregate of approximately 31.7 million shares of Sealed Air common stock to the shareholders of Diversey. We financed the payment of the cash consideration and related fees and expenses through (a) borrowings under our new Credit Facility, (b) proceeds from our issuance of the Notes and (c) cash on hand. In connection with the acquisition, we also used our new borrowings and cash on hand to retire $1.6 billion of existing indebtedness of Diversey. The new Credit Facility and Notes are described in Note 11, Debt and Credit Facilities.

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

Summary Unaudited Pro Forma Financial Information

The following table presents unaudited supplemental pro forma financial information as if the acquisition of Diversey had occurred on January 1, 2010 for the periods presented below. The pro forma results provided below have been revised to reflect the discontinued operations of the Diversey Japan business and the impact of this revision was not material to the results included below.

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Net sales	$ 1,993.4	$ 5,820.9
Operating profit	$ 182.6	$ 507.8
Net earnings from continuing operations	$ 63.9	$ 138.7
Weighted average number of common shares outstanding:		
Basic	191.0	190.8
Diluted	209.6	209.2
Net earnings per common share:		
Basic	$ 0.33	$ 0.73
Diluted	$ 0.30	$ 0.66

There were no material non-recurring pro forma adjustments.

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(5) Segments

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

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Net sales				
Food Packaging	$ 509.8	$ 529.8	$ 1,497.7	$ 1,506.6
Food Solutions	254.4	265.5	739.7	756.2
Protective Packaging	344.0	361.2	1,034.2	1,049.8
Diversey	698.5		2,113.6	
Other	93.6	90.6	285.1	275.6
Total	$ 1,900.3	$ 1,247.1	$ 5,670.3	$ 3,588.2
Depreciation and amortization on property, plant and equipment and intangible assets				
Food Packaging	$ 16.3	$ 17.0	$ 53.6	$ 50.2
Food Solutions	8.4	8.2	24.2	23.9
Protective Packaging	6.1	6.4	17.8	19.8
Diversey	38.1		118.5	
Other	6.5	5.1	16.8	15.7
Total	$ 75.4	$ 36.7	$ 230.9	$ 109.6
Operating profit continuing operations				
Food Packaging	$ 68.5	$ 75.4	$ 174.8	$ 200.3
Food Solutions	31.9	29.4	84.7	74.0
Protective Packaging	48.5	48.5	137.8	134.8
Diversey	29.6		42.8	
Other	2.9	0.5	9.6	3.4
Total segments and other	181.4	153.8	449.7	412.5
Impairment of Diversey goodwill and other intangible assets	1,334.3		1,334.3	
Costs related to the acquisition of Diversey	1.3	24.1	4.8	30.7
Restructuring and other charges (1)	36.8	(0.2)	110.1	(0.2)
Operating (loss) profit	$ (1,191.0)	$ 129.9	$ (999.5)	$ 382.0

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

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012
Food Packaging	$ 6.0	$ 33.5
Food Solutions	0.9	6.7
Protective Packaging	1.5	8.1
Diversey	26.1	56.2
Other	2.3	5.6

Total	$	36.8	$	110.1

The restructuring and other charges in 2012 primarily relate to the 2011-2014 Integration and Optimization Program. See Note 10, Restructuring Activities.

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Assets by Reportable Segments

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

	September 30, 2012	December 31, 2011
Assets:		
Trade receivables, net, and finished goods inventory, net		
Food Packaging	$ 443.6	$ 420.4
Food Solutions	204.6	210.1
Protective Packaging	322.4	307.8
Diversey	820.3	758.3
Other	70.5	64.5
Total segments and other	$ 1,861.4	$ 1,761.1
Assets not allocated		
Cash and cash equivalents	540.8	703.6
Property and equipment, net	1,233.9	1,269.2
Goodwill	3,117.4	4,209.6
Intangibles, net	1,772.4	2,035.7
Assets held for sale	264.1	279.0
Other	1,387.7	1,173.8
Total	$ 10,177.7	$ 11,432.0

Allocation of Goodwill to Reportable Segments

Our management views goodwill as a corporate asset, so we do not allocate our goodwill balance to the reportable segments. However, we are required to allocate goodwill to each reporting unit to perform our annual impairment review of goodwill, which we do during the fourth quarter of the year. See Note 8, Goodwill and Identifiable Intangible Assets, for the allocation of goodwill and the changes in goodwill balances in the nine months ended September 30, 2012 by our reporting unit structure.

New Segment Structure

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

(6) Inventories

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

	September 30, 2012	December 31, 2011
Inventories (at FIFO, which approximates replacement value):		
Raw materials	$ 155.0	$ 150.8
Work in process	147.0	121.0

Finished goods		614.2		559.0
Subtotal (at FIFO)		916.2		830.8
Reduction of certain inventories to LIFO basis		(55.2)		(53.3)
Total	$	861.0	$	777.5

We determine the value of our legacy Sealed Air non-equipment U.S. inventories by the last-in, first-out or LIFO inventory method. U.S. inventories determined by the LIFO method were $140 million at September 30, 2012 and $121 million at December 31, 2011.

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(7) Property and Equipment, net

The following table details our property and equipment, net.

	September 30, 2012	December 31, 2011
Land and improvements	$ 142.0	$ 139.4
Buildings	712.0	702.3
Machinery and equipment	2,509.3	2,460.7
Other property and equipment	146.3	151.6
Construction-in-progress	97.9	103.9
	3,607.5	3,557.9
Accumulated depreciation and amortization	(2,373.6)	(2,288.7)
Property and equipment, net	$ 1,233.9	$ 1,269.2

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

	Three Months Ended September 30,		Nine Months Ended September 30	
	2012	2011	2012	2011
Interest cost capitalized	$ 1.6	$ 1.2	$ 3.9	$ 2.9
Depreciation and amortization expense for property and equipment	42.8	34.2	131.1	102.1

(8) Goodwill and Identifiable Intangible Assets

Goodwill

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

	Carrying Value at December 31, 2011	Purchase Price Adjustments	Impact of Foreign Currency Translation	Goodwill Impairment	Carrying Value at September 30, 2012
Food Packaging	$ 391.7	$	$ 0.7	$	$ 392.4
Food Solutions	147.9		0.3		148.2
Protective Packaging	1,260.0		2.2		1,262.2
Diversey	2,252.7	38.2(1)	13.0	(1,145.3)	1,158.6
Other category	157.3	(1.6)	0.3		156.0
Total	$ 4,209.6	$ 36.6	$ 16.5	$ (1,145.3)	$ 3,117.4

(1) Represents the purchase accounting adjustments related to the Diversey acquisition primarily reflecting changes in estimates during the measurement period related to certain legal contingencies that existed as of the acquisition date of October 3, 2011. These adjustments are not considered material to the carrying amount of goodwill or the other offsetting balance sheet line items and these adjustments had no impact to our condensed consolidated statement of operations in 2012. Therefore, we did not revise our previously reported consolidated

financial statements for these adjustments.

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. The goodwill impairment test involves a two-step process. In the first step, we compare the fair value of each of our reporting units to its carrying value. If the fair value of the reporting unit exceeds its carrying value, goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is less than the carrying value, we must perform the second step of the impairment test to measure the amount of impairment loss. In the second step, the reporting unit s fair value is allocated to all of the assets and liabilities of the reporting unit, including any unrecognized intangible assets, in a hypothetical analysis that calculates the implied fair value of goodwill in the same manner as if the reporting unit was being acquired in a business combination. If the implied fair value of the reporting unit s goodwill is less than the carrying value, the difference is recorded as an impairment loss.

The reporting units for the legacy Sealed Air business are consistent with the units identified in Note 7 of our 2011 Annual Report. The reporting units for the Diversey segment were defined by the regional geographic businesses previously reported by Diversey before our acquisition of Diversey on October 3, 2011.

During the third quarter of 2012, we determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the North America, Europe and Latin America reporting units of our Diversey segment. These indicators included the recent business performance of those reporting units, combined with the long-term market conditions and business trends within those regions.

We estimated the fair value of these three reporting units using a weighting of fair values derived from the income approach and the market approach. Under the income approach, we calculate the fair value of a reporting unit based on the present value of estimated future cash flows. Cash flow projections are based on management s estimates of revenue growth rates and operating margins, taking into consideration industry and market conditions. The discount rate used is based on a weighted average cost of capital adjusted for the relevant risk associated with the characteristics of the business and the projected cash flows. The market approach estimates fair value based on market multiples of revenue and earnings derived from comparable publicly traded companies with similar operating and investment characteristics as the reporting unit.

Due to the complexity and the effort required to estimate the fair value of the reporting units in step one of the impairment test and to estimate the fair value of all assets and liabilities of the reporting units in the second step of the test, the fair value estimates were derived based on preliminary assumptions and analyses that are subject to change. Based on our preliminary analyses, the implied fair value of goodwill was substantially lower than the carrying value of goodwill for the three reporting units of the Diversey segment. As a result, we recorded our best estimate of $1.1 billion for the goodwill impairment charge in the three months ended September 30, 2012, which is included in impairment of goodwill and other intangible assets in the condensed consolidated statements of operations. Any adjustments to the estimated impairment loss following the completion of the measurement of the impairment will be recorded in the fourth quarter of 2012.

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During the fourth quarter of 2012, we will perform our annual goodwill impairment review for all of our reporting units as of October 1, 2012. If there are changes in our stock price, or significant changes in the business climate or operating results of our reporting units, we may incur additional goodwill impairment charges.

Identifiable Intangible Assets

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

	September 30, 2012				December 31, 2011		
	Gross Carrying Value	**Accumulated Amortization**	**Impairment (1)**	**Net**	**Gross Carrying Value**	**Accumulated Amortization**	**Net**
Customer relationships	$ 965.1	$ (92.0)		$ 873.1	$ 960.2	$ (36.6)	$ 923.6
Trademarks and trade names	882.3	(0.9)	(189.0)	692.4	882.3	(0.8)	881.5
Technology	242.3	(67.1)		175.2	229.9	(33.4)	196.5
Contracts	44.3	(12.6)		31.7	40.2	(6.1)	34.1
Total	$ 2,134.0	$ (172.6)	$ (189.0)	$ 1,772.4	$ 2,112.6	$ (76.9)	$ 2,035.7

(1) During the third quarter of 2012, we determined that sufficient indicators also existed to require an interim impairment review of our trademarks and trade names. Based on our preliminary analysis, the fair value of the Diversey trademark was lower than the carrying value. As a result, we recorded an impairment of $189 million ($117 million, net of taxes), which is included in impairment of goodwill and other intangible assets on the condensed consolidated statements of operations in the three and nine months ended September 30, 2012.

These intangible assets include $714 million of intangible assets that we have determined to have indefinite useful lives, which primarily include $692 million of trademarks and trade names acquired in connection with the acquisition of Diversey and $22 million of in-process research and development primarily acquired in an acquisition in 2010.

(9) Accounts Receivable 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, 2012, the maximum purchase limit for receivable interests was $125 million, subject to the availability limits described below.

The program, originally scheduled to mature in December 2012, was renewed in September 2012, and now matures in September 2013. 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. The amount available to us under the program was $118 million at September 30, 2012. Although we do not believe that these restrictive provisions presently materially restrict our operations, if an additional event occurs that triggers one of these restrictive provisions, we could experience a further decline in the amounts available to us under the program or termination of the program.

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

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

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(10) Restructuring Activities

2011-2014 Integration and Optimization Program

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

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

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Cumulative as of September 30, 2012
Associated costs	$ 2.9	$ 10.3	$ 10.3
Restructuring charges	37.5	110.6	162.9
Total	$ 40.4	$ 120.9	$ 173.2

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

The restructuring charges included in the table above primarily consisted of termination and benefits costs, including a nominal amount for the three months ended September 30, 2012 and $8 million for the nine months ended September 30, 2012 of cash-settled stock appreciation rights that were previously issued to Diversey employees as a portion of the total consideration for the acquisition of Diversey. See Note 16, Stockholders Equity, for further details of these awards. These charges were included in restructuring and other charges on the condensed consolidated statements of operations.

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

Restructuring accrual at December 31, 2011	$ 23.7
Additional accrual and accrual adjustments for severance and termination benefits	110.6
Cash payments during 2012	(57.8)
Effect of changes in foreign currency exchange rates	(1.0)
Restructuring accrual at September 30, 2012	$ 75.5

Cumulative cash payments made in connection with this program through September 30, 2012 were $86 million. We expect to pay $68 million of the accrual balance remaining at September 30, 2012 within the next twelve months. This amount is included in accrued restructuring costs on the condensed consolidated balance sheet at September 30, 2012. The majority of the remaining accrual of $7 million is expected to be paid in 2013 with minimal amounts to be paid out in 2014 and 2015. This amount is included in other liabilities on the condensed consolidated balance sheet at September 30, 2012.

European Principal Company (EPC)

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

In connection with this reorganization, we recognized associated costs of $1 million for the three months ended September 30, 2012 and $12 million for the nine months ended September 30, 2012, which are included in marketing, administrative and development expenses in the condensed consolidated statements of operations, and nominal amounts for restructuring charges for severance and termination benefits.

(11) Debt and Credit Facilities

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

	September 30, 2012	December 31, 2011
Short-term borrowings	$ 49.0	$ 34.5
Current portion of long-term debt, less unamortized discount of $0.1 in 2012	402.0	1.9
Total current debt	451.0	36.4
5.625% Senior Notes due July 2013, less unamortized discount of $0.3 in 2011(1)(2)		401.0
12% Senior Notes due February 2014(1)	154.2	156.3
Term Loan A Facility due October 2016, less unamortized lender fees of $14.7 in 2012 and $19.6 in 2011(3)	875.1	945.7
7.875% Senior Notes due June 2017, less unamortized discount of $5.7 in 2012 and $6.5 in 2011	394.3	393.5
Term Loan B Facility due October 2018, less unamortized lender fees of $18.1 in 2012 and $21.3 in 2011 and unamortized discount of $23.4 in 2012 and $26.5 in 2011(3)	1,111.2	1,118.8
8.125% Senior Notes due September 2019	750.0	750.0
8.375% Senior Notes due September 2021	750.0	750.0
6.875% Senior Notes due July 2033, less unamortized discount of $1.4 in 2012 and 2011	448.6	448.6
Other	2.9	2.8
Total long-term debt, less current portion	4,486.3	4,966.7
Total debt(4)	$ 4,937.3	$ 5,003.1

(1) Amount includes adjustments due to interest rate swaps. See Interest Rate Swaps, of Note 12, Derivatives and Hedging Activities, for further discussion.
(2) Our 5.625% Senior Notes mature in July 2013. Accordingly, we reclassed the carrying value of these notes to current portion of long-term debt from long-term debt, less current portion in July 2012.
(3) In the nine months ended September 30, 2012, we prepaid our 2013 Term Loan A ($78 million) and Term Loan B ($8 million) installments.
(4) The weighted average interest rate on our outstanding debt was 6.4% as of September 30, 2012 and 2.6% as of December 31, 2011.

Credit Facility

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

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

The amortization expense of the original issuance discount and lender and non-lender fees are calculated using the effective interest rate method over the lives of the respective debt instruments. Total amortization expense related to the debt instruments above was $6 million in the three months ended September 30, 2012 and $17 million in the nine months ended September 30, 2012. These amounts are included in interest expense on our condensed consolidated statements of operations.

The Revolving Credit Facility may be used for working capital needs and general corporate purposes, including the payment of the amounts required upon effectiveness of the Settlement agreement (defined below in Note 15, Commitments and Contingencies). We did not use our Revolving Credit Facility in the nine months ended September 30, 2012, and no amounts were outstanding as of September 30, 2012 or December 31, 2011.

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

Lines of Credit

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

	September 30, 2012	December 31, 2011
Used lines of credit	$ 49.0	$ 34.5
Unused lines of credit	991.3	1,028.7

Total available lines of credit	$	1,040.3	$	1,063.2
Available lines of credit committed	$	703.0	$	703.9
Available lines of credit uncommitted		337.3		359.3
Total available lines of credit	$	1,040.3	$	1,063.2
Accounts receivable securitization program committed(1)	$	118.0	$	92.0

(1) See Note 9, Accounts Receivable Securitization Program, for further details of this program.

Other Lines of Credit

Substantially all our short-term borrowings of $49 million at September 30, 2012 and $35 million at December 31, 2011 were outstanding under lines of credit available to several of our foreign subsidiaries. The following table details our other lines of credit.

	September 30, 2012	December 31, 2011
Available lines of credit	$ 340.4	$ 363.2
Unused lines of credit	291.3	328.7

Covenants

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

(12) 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 Not Designated as Hedges

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

The estimated fair value of these derivative contracts, which represents the estimated net balance that would be paid or that would be received by us in the event of their termination, based on the then current foreign currency exchange rates, was a net current asset of $6 million at September 30, 2012 and a net current asset of $15 million at December 31, 2011.

Foreign Currency Forward Contracts Designated as Cash Flow Hedges

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

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

Interest Rate Swaps

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

In the third quarter of 2012, we terminated the swaps linked to the 12% Senior Notes, although the 12% Senior Notes remained outstanding. We received cash of $2 million resulting from the gain on the termination of the swaps, which is being amortized over the remaining life of the 12% Senior Notes.

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

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

As a result of our interest rate swap agreements, interest expense was reduced by $0.2 million in the three months ended September 30, 2012, $2 million in the three months ended September 30, 2011, $0.7 million in the nine months ended September 30, 2012 and $4 million in the nine months ended September 30, 2011.

Other Derivative Instruments

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

See Note 13, 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.

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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 Derivatives(1)		Fair Value of (Liability) Derivatives(1)	
	September 30, 2012	**December 31, 2011**	**September 30, 2012**	**December 31, 2011**
Derivatives designated as hedging instruments:				
Foreign currency forward contracts (cash flow hedges)	$	$ 0.5	$	$ (0.5)
Interest rate swaps (fair value hedges)		2.1		
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts	22.8	18.0	(16.8)	(3.0)
Total	$ 22.8	$ 20.6	$ (16.8)	$ (3.5)

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

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

	Amount of Gain (Loss) Recognized in Net Earnings on Derivatives(1)			
	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2012	**2011**	**2012**	**2011**
Derivatives designated as hedging instruments:				
Interest rate swaps	$	$ 1.3	$ 0.4	$ 3.6
Foreign currency forward contracts(2)		(0.1)	(0.1)	
Derivatives not designated as hedging instruments:				
Foreign currency forward contracts(2)	13.6	7.2	8.0	7.8
Total	$ 13.6	$ 8.4	$ 8.3	$ 11.4