SEALED AIR CORP/DE
Form 10-Q
November 02, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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)
2415 Cascade Pointe Boulevard Charlotte, North Carolina	28208
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (980) 221-3235
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," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. ¨

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

There were 156,925,124 shares of the registrant’s common stock, par value $0.10 per share, issued and outstanding as of October 31, 2018.

	Page
PART I. FINANCIAL INFORMATION	
Condensed Consolidated Balance Sheets — September 30, 2018 and December 31, 2017	5
Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017	6
Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017	7
Condensed Consolidated Statements of Stockholders' (Deficit) Equity for the Three and Nine Months Ended September 30, 2018 and 2017	8
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017	10
Notes to Condensed Consolidated Financial Statements	12
Note 1 Organization and Basis of Presentation	12
Note 2 Recently Adopted and Issued Accounting Standards	13
Note 3 Revenue Recognition, Contracts with Customers	16
Note 4 Discontinued Operations, Divestitures and Acquisitions	20
Note 5 Segments	23
Note 6 Inventories	26
Note 7 Property and Equipment, net	26
Note 8 Goodwill and Identifiable Intangible Assets, net	26
Note 9 Accounts Receivable Securitization Programs	27
Note 10 Restructuring Activities	28
Note 11 Debt and Credit Facilities	30
Note 12 Derivatives and Hedging Activities	31
Note 13 Fair Value Measurements and Other Financial Instruments	33
Note 14 Defined Benefit Pension Plans and Other Post-Employment Benefit Plans	36
Note 15 Income Taxes	36
Note 16 Commitments and Contingencies	38
Note 17 Stockholders' (Deficit) Equity	38
Note 18 Accumulated Other Comprehensive Income (Loss)	40
Note 19 Other (Expense) Income, Net	41
Note 20 Net Earnings (Loss) Per Common Share	42
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	43
Item 3. Quantitative and Qualitative Disclosures About Market Risk	60
Item 4. Controls and Procedures	63
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	64
Item 1A. Risk Factors	64
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 6. Exhibits	66
Signature	67

Cautionary Notice Regarding Forward-Looking Statements

This report contains “forward-looking statements” within the meaning of the safe harbor provisions 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. Therefore, you should not rely on any of these forward-looking statements. Forward-looking statements can be identified by such words as “anticipates,” “believes,” “plan,” “assumes,” “could,” “should,” “estimates,” “expects,” “intends,” “potential,” “seek,” “predict,” “may,” “wi references to future periods. 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. Examples of forward-looking statements include, among others, statements we make regarding expected future operating results, expectations regarding the results of restructuring and other programs, anticipated levels of capital expenditures and expectations of the effect on our financial condition of claims, litigation, environmental costs, contingent liabilities and governmental and regulatory investigations and proceedings.

The following are important factors that we believe could cause actual results to differ materially from those in our forward-looking statements: global economic and political conditions, currency translation and devaluation effects, changes in raw material pricing and availability, competitive conditions, the success of new product offerings, consumer preferences, the effects of animal and food-related health issues, pandemics, changes in energy costs, environmental matters, the success of our restructuring activities, the success of our financial growth, profitability, cash generation and manufacturing strategies and our cost reduction and productivity efforts, changes in our credit ratings, the tax benefit associated with the Settlement agreement (as defined in our Annual Report on Form 10-K for the year ended December 31, 2017), regulatory actions and legal matters, and the other information referenced in Part I, Item 1A, "Risk Factors", of our Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission, and as revised and updated by our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any forward-looking statement made by us in this report is based only on information currently available to us and speaks only as of the date on which it is made. We undertake no obligation to publicly update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

Non-U.S. GAAP Information

We present financial information that conforms to Generally Accepted Accounting Principles in the United States of America (“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. non-U.S. GAAP financial measures that we present may not be comparable with similarly titled measures used by others. Investors are cautioned against placing undue reliance on these non-U.S. GAAP measures. Further, investors are urged to review and consider carefully the adjustments made by management to the most directly comparable U.S. GAAP financial measure to arrive at these non-U.S. GAAP financial measures. See Note 5, “Segments,” of the Notes to Condensed Consolidated Financial Statements and our Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) for reconciliations of our U.S. GAAP financial measures to non-U.S. GAAP. Information reconciling forward-looking U.S. GAAP measures to non-U.S. GAAP measures is not available without unreasonable effort.

Our management may assess our financial results both on a U.S. GAAP basis and on a non-U.S. GAAP basis. 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 that we consider to be certain specified items ("Special Items"), such as restructuring charges, costs related to acquisitions and divestitures, special tax items ("Tax Special Items") and certain other infrequent or one-time items. We evaluate 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.

The Company measures segment performance using Adjusted EBITDA (a non-U.S. GAAP financial measure). Adjusted EBITDA is defined as Earnings before Interest Expense, Taxes, Depreciation and Amortization, adjusted to exclude the impact of Special Items.

We also present our adjusted income tax rate or provision ("Adjusted Tax Rate"). The Adjusted 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 as well as expense or benefit from any Tax Special Items. The Adjusted Tax Rate is an indicator of the taxes on our core business. The tax situations and effective tax rates in the specific countries where the Special Items occur will determine the impact (positive or negative) to the Adjusted Tax Rate.

In our "Net Sales by Geographic Region," "Net Sales by Segment" 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" and we exclude acquisition and divestiture activity and the impact of foreign currency translation when presenting net sales information, which we define as "organic." Changes in net sales excluding the impact of foreign currency translation and acquisition and divestiture activity 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 may 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.

We have not provided guidance for the most directly comparable U.S. GAAP financial measures, as they are not available without unreasonable effort due to the high variability, complexity, and low visibility with respect to certain Special Items, including gains and losses on the disposition of businesses, the ultimate outcome of certain legal or tax proceedings, foreign currency gains or losses and other unusual gains and losses. These items are uncertain, depend on various factors, and could be material to our results computed in accordance with U.S. GAAP.

SEALED AIR CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In millions, except share and per share data)	September 30, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 191.3	$ 594.0
Trade receivables, net of allowance for doubtful accounts of $7.2 in 2018 and $6.5 in 2017	508.8	552.4
Income tax receivables	32.7	85.1
Other receivables	88.7	90.2
Inventories, net of inventory reserves of $19.9 in 2018 and $15.5 in 2017	605.4	506.8
Current assets held for sale	0.6	4.0
Prepaid expenses and other current assets	167.9	33.9
Total current assets	1,595.4	1,866.4
Property and equipment, net	1,022.0	998.4
Goodwill	1,951.9	1,939.8
Identifiable intangible assets, net	102.3	83.6
Deferred taxes	113.6	176.2
Other non-current assets	211.8	215.9
Total assets	$ 4,997.0	$ 5,280.3
Liabilities and Stockholders' (Deficit) Equity		
Current liabilities:		
Short-term borrowings	$ 308.3	$ 25.3
Current portion of long-term debt	5.1	2.2
Accounts payable	775.3	723.8
Current liabilities held for sale	—	2.2
Accrued restructuring costs	19.3	15.4
Income tax payable	58.6	47.3
Other current liabilities	400.0	562.0
Total current liabilities	1,566.6	1,378.2
Long-term debt, less current portion	3,242.5	3,230.5
Deferred taxes	18.5	28.5
Other non-current liabilities	615.1	490.8
Total liabilities	5,442.7	5,128.0
Commitments and contingencies - Note 16		
Stockholders' (deficit) equity:		
Preferred stock, $0.10 par value per share, 50,000,000 shares authorized; no shares issued in 2018 and 2017	—	—
Common stock, $0.10 par value per share, 400,000,000 shares authorized; shares issued: 231,609,331 in 2018 and 230,080,944 in 2017; shares outstanding: 156,936,418 in 2018 and 168,595,521 in 2017	23.2	23.0
Additional paid-in capital	2,043.2	1,939.6
Retained earnings	1,646.7	1,735.2
Common stock in treasury, 74,672,913 shares in 2018 and 61,485,423 shares in 2017	(3,288.1)	(2,700.6)
Accumulated other comprehensive loss, net of taxes	(870.7)	(844.9)
Total stockholders' (deficit) equity	(445.7)	152.3

Total liabilities and stockholders’ (deficit) equity	$ 4,997.0	$5,280.3

See accompanying Notes to Condensed Consolidated Financial Statements.

SEALED AIR CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

	Three Months Ended September 30, (unaudited)		Nine Months Ended September 30, (unaudited)	
(In millions, except per share data)	2018	2017	2018	2017
Net sales	$1,186.2	$1,131.3	$3,472.4	$3,233.8
Cost of sales[(1)(2)]	820.7	770.6	2,369.4	2,194.2
Gross profit	365.5	360.7	1,103.0	1,039.6
Selling, general and administrative expenses	192.1	207.9	578.9	608.2
Amortization expense of intangible assets acquired	3.6	3.1	10.9	9.2
Restructuring and other charges	6.6	6.2	22.3	9.2
Operating profit	163.2	143.5	490.9	413.0
Interest expense, net	(44.8)	(49.1)	(131.3)	(143.4)
Other (expense) income, net[(1)(2)]	(9.4)	11.8	(20.3)	4.7
Earnings before income tax provision	109.0	106.2	339.3	274.3
Income tax provision	33.4	43.7	388.4	236.5
Net earnings (loss) from continuing operations	75.6	62.5	(49.1)	37.8
Gain on sale of discontinued operations, net of tax	3.4	699.3	41.9	699.3
Net earnings from discontinued operations, net of tax	—	25.7	—	111.3
Net earnings (loss)	$79.0	$787.5	$(7.2)	$848.4
Basic:				
Continuing operations	$0.48	$0.33	$(0.31)	$0.20
Discontinued operations	0.02	3.86	0.26	4.22
Net earnings (loss) per common share - basic	$0.50	$4.19	$(0.05)	$4.42
Diluted:				
Continuing operations	$0.48	$0.33	$(0.31)	$0.19
Discontinued operations	0.02	3.82	0.26	4.18
Net earnings (loss) per common share - diluted	$0.50	$4.15	$(0.05)	$4.37
Dividends per common share	$0.16	$0.16	$0.48	$0.48
Weighted average number of common shares outstanding:				
Basic	157.2	186.9	160.8	190.9
Diluted	158.0	188.9	160.8	192.9

See accompanying Notes to Condensed Consolidated Financial Statements.

(1) Due to the adoption of ASU 2017-07, certain amounts related to defined benefit and other post-employment benefit plans were reclassified from cost of sales to other (expense) income, net. Refer to Note 2, "Recently Adopted and Issued Accounting Standards," in the Notes to Condensed Consolidated Financial Statements for more information.

(2) As part of our review of costs included in the corporate segment, amounts related to division operations were identified and reclassified out of other (expense) income, net to cost of sales. The impact for the three and nine months ended September 30, 2017 was $2.1 million and $5.3 million, respectively.

SEALED AIR CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three Months Ended September 30, (unaudited)						Nine Months Ended September 30, (unaudited)					
	2018			2017			2018			2017		
(In millions)	Gross	Taxes	Net	Gross	Taxes	Net	Gross	Taxes	Net	Gross	Taxes	Net
Net earnings (loss)			$79.0			$787.5			$(7.2)			$848.4
Other comprehensive income (loss):												
Recognition of pension items	$2.4	$(0.2)	2.2	$219.9	$(45.3)	174.6	$3.8	$(0.5)	3.3	$228.2	$(48.3)	179.9
Unrealized (losses) gains on derivative instruments for net investment hedge	(2.8)	0.7	(2.1)	(31.7)	12.1	(19.6)	12.1	(3.0)	9.1	(103.6)	39.6	(64.0)
Unrealized (losses) gains on derivative instruments for cash flow hedge	(0.2)	0.1	(0.1)	(2.5)	0.5	(2.0)	3.4	(1.0)	2.4	(10.1)	1.9	(8.2)
Foreign currency translation adjustments	(11.7)	(0.2)	(11.9)	(69.4)	1.1	(68.3)	(39.8)	(0.8)	(40.6)	—	5.5	5.5
Other comprehensive (loss) income	$(12.3)	$0.4	(11.9)	$116.3	$(31.6)	84.7	$(20.5)	$(5.3)	(25.8)	$114.5	$(1.3)	113.2
Comprehensive income (loss), net of taxes			$67.1			$872.2			$(33.0)			$961.6

See accompanying Notes to Condensed Consolidated Financial Statements.

SEALED AIR CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' (Deficit) Equity

(In millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock in Treasury	Accumulated Other Comprehensive Loss, Net of Taxes	Total Stockholders' (Deficit) Equity
Balance at June 30, 2018 (unaudited)	$ 23.2	$ 2,035.0	$ 1,593.2	$ (3,165.0)	$ (858.8)	$ (372.4)
Effect of share-based incentive compensation	—	8.2	—	(1.6)	—	6.6
Repurchases of common stock	—	—	—	(121.5)	—	(121.5)
Recognition of pension items, net of taxes	—	—	—	—	2.2	2.2
Foreign currency translation adjustments	—	—	—	—	(11.9)	(11.9)
Unrealized loss on derivative instruments, net of taxes	—	—	—	—	(2.2)	(2.2)
Net earnings	—	—	79.0	—	—	79.0
Dividends on common stock ($0.16 per share)	—	—	(25.5)	—	—	(25.5)
Balance at September 30, 2018 (unaudited)	$ 23.2	$ 2,043.2	$ 1,646.7	$ (3,288.1)	$ (870.7)	$ (445.7)
Balance at December 31, 2017	$ 23.0	$ 1,939.6	$ 1,735.2	$ (2,700.6)	$ (844.9)	$ 152.3
Effect of share-based incentive compensation	0.2	22.9	—	(8.0)	—	15.1
Stock issued for profit sharing contribution paid in stock	—	0.7	—	23.8	—	24.5
Repurchases of common stock	—	80.0	—	(603.3)	—	(523.3)
Recognition of pension items, net of taxes	—	—	—	—	3.3	3.3
Foreign currency translation adjustments	—	—	—	—	(40.6)	(40.6)
Unrealized gain on derivative instruments, net of taxes	—	—	—	—	11.5	11.5
Net loss	—	—	(7.2)	—	—	(7.2)
Dividends on common stock ($0.48 per share)	—	—	(77.9)	—	—	(77.9)
Impact of recently adopted accounting standards[(1)]	—	—	(3.4)	—	—	(3.4)
Balance at September 30, 2018 (unaudited)	$ 23.2	$ 2,043.2	$ 1,646.7	$ (3,288.1)	$ (870.7)	$ (445.7)
Balance at June 30, 2017 (unaudited)	$ 23.0	$ 1,943.7	$ 1,039.2	$ (1,729.4)	$ (920.6)	$ 355.9
Effect of share-based incentive compensation	—	15.6	—	(0.4)	—	15.2
Repurchase of common stock	—	(26.0)	—	(426.0)	—	(452.0)
Recognition of pension items, net of taxes	—	—	—	—	174.6	174.6
Foreign currency translation adjustments	—	—	—	—	(68.3)	(68.3)
Unrealized loss on derivative instruments, net of taxes	—	—	—	—	(21.6)	(21.6)
Net earnings	—	—	787.5	—	—	787.5
Dividends on common stock ($0.16 per share)	—	—	(30.7)	—	—	(30.7)
Balance at September 30, 2017 (unaudited)	$ 23.0	$ 1,933.3	$ 1,796.0	$ (2,155.8)	$ (835.9)	$ 760.6

8

SEALED AIR CORPORATION AND SUBSIDIARIES

Balance at December 31, 2016	$22.8	$1,974.1	$1,040.0	$(1,478.1)	$(949.1)	$609.7
Effect of share-based incentive compensation	0.2	38.7	—	(22.2)	—	16.7
Stock issued for profit sharing contribution paid in stock	—	0.5	—	21.8	—	22.3
Repurchases of common stock	—	(80.0)	—	(677.3)	—	(757.3)
Recognition of pension items, net of taxes	—	—	—	—	179.9	179.9
Foreign currency translation adjustments	—	—	—	—	5.5	5.5
Unrealized loss on derivative instruments, net of taxes	—	—	—	—	(72.2)	(72.2)
Net earnings	—	—	848.4	—	—	848.4
Dividends on common stock ($0.48 per share)	—	—	(92.4)	—	—	(92.4)
Balance at September 30, 2017 (unaudited)	$23.0	$1,933.3	$1,796.0	$(2,155.8)	$(835.9)	$760.6

See accompanying Notes to Condensed Consolidated Financial Statements.

(1) Due to the adoption of ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory and ASU 2014-09, Revenue from Contracts with Customers (Topic 606) the Company recorded decreases to retained earnings of $1.0 million and $2.4 million, respectively. See Note 2, "Recently Adopted and Issued Accounting Standards," in the Notes to Condensed Consolidated Financial Statements for more information.

SEALED AIR CORPORATION AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

	Nine Months Ended September 30, (unaudited)	
(In millions)	2018	2017
Net (loss) earnings	$(7.2)	$848.4
Adjustments to reconcile net (loss) earnings to net cash provided by operating activities		
Depreciation and amortization	98.4	114.4
Share-based incentive compensation	22.9	38.7
Profit sharing expense	16.1	18.6
Provisions for bad debt	1.9	2.6
Provisions for inventory obsolescence	—	5.9
Deferred taxes, net	50.8	160.7
Net gain on sale of business	(41.3)	(701.4)
Other non-cash items	24.9	27.8
Changes in operating assets and liabilities:		
Trade receivables, net	(31.0)	(87.5)
Inventories	(113.2)	(100.5)
Accounts payable	45.0	135.2
Other assets and liabilities	82.7	(130.4)
Net cash provided by operating activities	$150.0	$332.5
Cash flows from investing activities:		
Capital expenditures	(114.8)	(126.5)
Proceeds, net from sale of business and property and equipment	6.6	4.4
Business acquired, net of cash acquired	(67.8)	(25.4)
Impact of sale of Diversey[3]	(19.6)	2,025.5
Investment in cost method investments	(7.5)	—
Settlement of foreign currency forward contracts	(5.5)	(1.1)
Other investing activities	(2.6)	—
Net cash (used in) provided by investing activities[3]	$(211.2)	$1,876.9
Cash flows from financing activities:		
Net proceeds from borrowings	293.3	(21.5)
Payments of borrowings[1]	—	(369.5)
Payments of debt modification/extinguishment costs	(6.1)	—
Proceeds from cross currency swap	—	17.4
Dividends paid on common stock	(79.3)	(92.4)
Acquisition of common stock for tax withholding	(7.8)	(21.9)
Repurchases of common stock[2]	(534.3)	(757.3)
Net cash used in financing activities[3]	$(334.2)	$(1,245.2)
Effect of foreign currency exchange rate changes on cash and cash equivalents	$(7.3)	$(18.9)
Cash Reconciliation[3]:		
Cash and cash equivalents	594.0	333.7
Restricted cash and cash equivalents[4]	—	52.9
Balance, beginning of period	$594.0	$386.6
Net change during the period	(402.7)	945.3
Cash and cash equivalents	191.3	1,304.7
Restricted cash and cash equivalents[4]	—	27.2

Balance, end of period	$191.3	$1,331.9
Supplemental Cash Flow Information:		
Interest payments, net of amounts capitalized	$137.4	$156.5
Income tax payments, net of cash refunds	$137.5	$126.6

SEALED AIR CORPORATION AND SUBSIDIARIES

Payments related to the sale of Diversey and efforts to address related stranded costs	$44.9	$61.2
Restructuring payments including associated costs	$7.4	$48.7
Non-cash items:		
Transfers of shares of common stock from treasury for 2017 and 2016 profit-sharing contributions	$23.8	$22.3

See accompanying Notes to Condensed Consolidated Financial Statements.

(1) Payments of borrowings included in financing activities excludes amounts which were paid using cash proceeds from the sale of Diversey. As a result, $755.2 million of payments of borrowings is included within investing activities for a total payment of borrowings of $1.1 billion through the nine months ended September 30, 2017.

(2) The Company entered into an accelerated share repurchase agreement with a third-party financial institution to repurchase $400.0 million of the Company’s common stock. The full amount was paid as of September 30, 2017 however, only $320.0 million was used to repurchase shares at that point in time.

(3) Due to the adoption of ASU 2016-18, the Company now is required to include restricted cash as part of the change in the total cash balance. As a result, amounts which were previously classified as cash flows from financing activities related to Sealed Air continuing operations and amounts which were previously classified as cash flows from investing activities related to restricted cash sold with the sale of Diversey have been reclassified as they are recognized in the total change in cash. Refer to Note 2, "Recently Adopted and Issued Accounting Standards," in the Notes to Condensed Consolidated Financial Statements for more information.

(4) Restricted cash and cash equivalents included compensating balance deposits related to certain short-term borrowings.

SEALED AIR CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 Organization and Basis of Presentation
Organization
We are a global leader in food safety and security and product protection. We serve an array of end markets including food and beverage processing, food service, retail and commercial and consumer applications. Our focus is on achieving quality sales growth through leveraging our geographic footprint, technological know-how and leading market positions to bring measurable, sustainable value to our customers and investors.
We conduct substantially all of our business through two wholly-owned subsidiaries, Cryovac, Inc. and Sealed Air Corporation (US). Throughout this report, when we refer to “Sealed Air,” the “Company,” “we,” “our,” or “us,” we are referrin 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 Sheets as of September 30, 2018 and our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 have been made. The results set forth in our Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and in our Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 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, did not have a material impact on our condensed consolidated financial condition, results of operations or cash flows.
Our Condensed Consolidated Financial Statements were prepared in accordance with the interim reporting requirements of the U.S. Securities and Exchange Commission (“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 Annual Report on Form 10-K for the fiscal year ended December 31, 2017 as filed with the SEC on February 21, 2018 (“2017 Form 10-K”) and with the information contained in other publicly-available filings with the SEC.
To accelerate productivity improvements and the elimination of operational redundancies, the Company implemented a change in allocation of Corporate expenses. These expenses are now allocated to Food Care and Product Care segments. For comparison purposes, the Company presented 2017 results to reflect the revised allocation of these costs. This segment reporting change has no impact on total Company operating results. See Note 5, “Segments,” of the Notes to Condensed Consolidated Financial Statements for further information.
Impact of Inflation and Currency Fluctuation
Argentina
Economic and political events in Argentina have continued to expose us to heightened levels of foreign currency exchange risk. As of July 1, 2018, Argentina was designated as a highly inflationary economy under U.S. GAAP, and the U.S. dollar replaced the Argentine peso as the functional currency for our subsidiaries in Argentina. All Argentine peso-denominated monetary assets and liabilities were remeasured into U.S. dollars using the current exchange rate

available to us, and any changes in the exchange rate are reflected in net foreign exchange transaction loss, within other (expense) income, net related to our Argentinian subsidiaries on the Condensed Consolidated Statements of Operations. For the three and nine months ended September 30, 2018, the Company recorded a $0.4 million remeasurement gain.

Note 2 Recently Adopted and Issued Accounting Standards

Recently Adopted Accounting Standards

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Updates ("ASU") 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities ("ASU 2017-12"). This update is intended to align the financial statements with an entity's risk management activities. ASU 2017-12 allows for changes in the designation and measurement of hedges as well as expands the disclosures of hedge results. The amendments in ASU 2017-12 are effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods. The Company elected to early adopt ASU 2017-12 as of January 1, 2018. The adoption did not have an impact on the Company's Condensed Consolidated Financial Results.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting ("ASU 2017-09"). ASU 2017-09 amends the considerations for determining what events require modification accounting. This new guidance requires an entity to consider the fair value of an award before and after modification, the vesting conditions of the modified award and the classification of the modified award as an equity instrument. The amendments in ASU 2017-09 are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company adopted ASU 2017-09 on January 1, 2018. The adoption did not have an impact on the Company's Condensed Consolidated Financial Results. This ASU will be applied prospectively when changes to the terms or conditions of a share-based payment award occur.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Benefit Postretirement Benefit Cost ("ASU 2017-07"). ASU 2017-07 changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. This new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component outside of income from operations. The amendments in ASU 2017-07 are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The Company adopted ASU 2017-07 on January 1, 2018. The effect of retrospectively adopting this guidance resulted in a reclassification of $14.5 million and $15.9 million from cost of sales and selling, general and administrative expenses to other (expense) income, net on the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and $16.7 million for the year ended December 31, 2017.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"). ASU 2017-04 eliminates Step 2 as part of the goodwill impairment test. The amount of the impairment charge to be recognized would now be the amount by which the carrying value exceeds the reporting unit's fair value. The loss to be recognized cannot exceed the amount of goodwill allocated to that reporting unit. The amendments in ASU 2017-04 are effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company has elected to early adopt ASU 2017-04 as of January 1, 2018. The Company will apply the guidance related to ASU 2017-04 during our annual impairment test in the fourth quarter of 2018.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 provides a screen to determine when a set of assets is a business. This screen states that when substantially all of the fair value of a group of assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. The amendments in ASU 2017-01 are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The Company adopted ASU 2017-01 on January 1, 2018. The adoption did not have an impact on the Company's Condensed Consolidated Financial Results however, it could have a material impact on the Company's Condensed Consolidated Financial Results if the Company enters into future business combinations.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (“ASU 2016-18”). ASU 2016-18 requires that entities include restricted cash and restricted cash equivalents with cash and cash equivalents in the beginning-of-period and end-of-period total amounts shown on the Statements of Cash Flows. The amendments in ASU 2016-18 are effective for fiscal years beginning after December 15, 2017, including interim reporting periods within those fiscal years. The Company adopted ASU 2016-18 on January 1, 2018. As a result of this retrospective adoption, the reclassification of restricted cash into a change in total cash resulted in an increase in financing activities of $1.8 million and a decrease in investing activities of $27.5 million for the nine months ended September 30, 2017 and a decrease in financing activities of $25.4 million and investing activities of $27.5 million for the year ended December 31, 2017.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”). ASU 2016-16 requires entities to recognize income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in ASU 2016-16 are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The Company adopted ASU 2016-16 on January 1, 2018. This was adopted using the modified retrospective approach which resulted in a decrease in other assets of $7.5 million, an increase in non-current deferred tax assets of $4.8 million, a decrease in other non-current liabilities of $1.7 million and a decrease in retained earnings was $1.0 million on the Condensed Consolidated Balance Sheets.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 provides guidance on eight specific cash flow issues in regard to how cash receipts and cash payments are presented and classified in the statements of cash flows. The amendments in ASU 2016-15 are effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. The Company adopted ASU 2016-15 on January 1, 2018. As a result of the adoption, there were no impacts on prior year statements of cash flow however this adoption may impact future periods.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”). This ASU requires equity investments except those under the equity method of accounting to be measured at fair value with the changes in fair value recognized in net income. The amendment simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. In addition, it also requires enhanced disclosures about investments. Additionally, in February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10), Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2018-03") and in March 2018, the FASB issued ASU 2018-04, Investments - Debt Securities (Subtopic 320) and Regulated Operations (Topic 980), Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update) ("ASU 2018-04") which were issued to clarify some of the language in ASU 2016-01. The amendments in ASU 2016-01, 2018-03 and 2018-04 are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. An entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The Company adopted ASU 2016-01, 2018-03 and 2018-04 on January 1, 2018. The adoption of these standards did not have an impact on the Company's Condensed Consolidated Financial Results.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), (“ASU 2014-09”) and issued subsequent amendments to the initial guidance, collectively, Topic 606. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 expands and enhances disclosure requirements which require disclosing sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. This includes both qualitative and quantitative information. The amendments in ASU 2014-09 are effective for annual reporting periods beginning after December 15, 2017.

The Company adopted the new revenue recognition standard using the modified retrospective approach with a cumulative effect adjustment to beginning retained earnings at January 1, 2018. Prior periods presented were not retrospectively adjusted for this change. The Company has applied the new revenue recognition standard only to contracts that were not completed as of January 1, 2018.

The Company elected to reflect the aggregate effect of all contract modifications that occurred before the beginning of the earliest period presented under the new revenue recognition standard when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations for the modified contract at transition. The effects of application of this relief are de minimis.

Changes in accounting policy resulting from adoption of Topic 606

The adoption of Topic 606 did not have a significant impact on our consolidated financial statements with the exception of new and expanded disclosures.

The following tables summarizes the effect of adoption of the new revenue recognition standard by line item on the Company's Condensed Consolidated Financial Statements, and the reason for the change:

	Three Months Ended September 30, 2018		
(In millions)	As Reported	Balances without Adoption of Topic 606	Effect of Change
Net sales	$ 1,186.2	$ 1,185.9	$ 0.3

	Nine Months Ended September 30, 2018		
(In millions)	As Reported	Balances without Adoption of Topic 606	Effect of Change
Net sales	$ 3,472.4	$ 3,471.0	$ 1.4
Other current liabilities	400.0	399.2	0.8
Other non-current liabilities	615.1	611.4	3.7

Impact by Line Item	Reason for Change	Opening Balance Sheet Adjustment as of January 1, 2018 (In millions)
Other current liabilities	Certain contracts include an equipment accrual, whereby a customer is awarded a credit based on consumable purchases that can be redeemed for future equipment purchases. Long term contracts that include an equipment accrual create a timing difference between when cash is collected and the performance obligation is satisfied. Upon the adoption of Topic 606 the equipment accrual balance was increased to reflect the standalone selling price within our equipment portfolio.	$ 2.4
Retained earnings	The modified retrospective adoption of the new revenue standard resulted in a cumulative adjustment decreasing retained earnings, which was associated with adjusting our equipment accrual contract offering to the standalone selling price value.	(2.4)

Lease income was an additional line item impacted by the new revenue standard; however, there is no timing change associated with the change in presentation. Under the new revenue standard, certain contracts that include free-on-loan equipment, with minimum purchase obligations and associated substantive penalties for noncompliance, were deemed to include a lease component that was not previously identified as an element to the contract under ASC 605. As such, a portion of the transaction price is reclassified from revenue to lease income.

Recently Issued Accounting Standards

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU 2018-15"). ASU 2018-15 amends ASC 350-40 and aligns the accounting for costs incurred to implement a cloud computing arrangement that is a service contract with the guidance on capitalizing costs associated with developing or obtaining internal-use software. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. We are currently in the process of evaluating the effect that ASU 2018-15 will have on the Company's Condensed Consolidated Financial Results.

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20), Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans ("ASU 2018-14"). ASU 2018-14 eliminates, adds and clarifies certain disclosure requirements related to defined benefit plans and other postretirement plans. The guidance is effective for fiscal years ending after December 15, 2020, with early adoption permitted for reporting periods for which financial statements have yet to be issued or made available for issuance. We are currently in the process of evaluating the effect that ASU 2018-14 will have on the Company's Condensed Consolidated Financial Results.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). ASU 2018-13 amends the fair value measurement disclosure requirements of ASC 820, including new, eliminated and modified disclosure requirements. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted upon the issuance of this ASU, including interim periods for which financial statements have not yet been issued or made available for issuance. If adopted early, entities are permitted to early adopt the eliminated or modified disclosure requirements and delay the adoption of the new disclosure requirements until their effective date. We are currently in the process of evaluating the effect that ASU 2018-13 will have on the Company's Condensed Consolidated Financial Results.

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("ASU 2018-02"). As a result of the Tax Cut and Jobs Act ("TCJA"), this ASU was issued to provide entities with the option to reclassify stranded tax effects in accumulated other comprehensive income to retained earnings. ASU 2018-02 can be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. federal income tax rate pursuant to the TCJA is recognized. The guidance is effective for interim and annual periods beginning after December 15, 2018, with early adoption permitted for reporting periods for which financial statements have yet to be issued or made available for issuance. We are currently in the process of evaluating the effect that ASU 2018-02 will have on the Company's Condensed Consolidated Financial Results.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments — Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). ASU 2016-13 requires entities to measure all expected credit losses for most financial assets held at the reporting date based on an expected loss model which includes historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. The ASU also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity’s portfolio. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal periods. Entities may adopt earlier as of the fiscal year beginning after December 15, 2018, including interim periods within those fiscal years. We are currently in the process of evaluating this new standard update however we do not anticipate this to have a material impact on the Company's Condensed Consolidated Financial Results.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), (“ASU 2016-02”). This ASU requires an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. Similar modifications have been made to lessor accounting in-line with revenue recognition guidance. The amendments also require certain quantitative and qualitative disclosures about leasing arrangements. The amendments in ASU 2016-02, and subsequent related amendments, are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The guidance permits two methods of adoption: modified retrospective where an entity initially applies the new leases standard at the beginning of the earliest period presented in the financial statements or an alternative transition method where an entity can initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We are currently in the process of evaluating this new standard update. We expect there to be a material impact on the Company's Condensed Consolidated Balance Sheets.

Note 3 Revenue Recognition, Contracts with Customers

Revenue from contracts with customers is recognized using a five-step model consisting of the following: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Performance obligations are satisfied when the Company transfers control of a good or service to a customer, which can occur over time or at a point in time. The amount of

revenue recognized is based on the consideration to which the Company expects to be entitled in exchange for those goods or services, including the expected value of variable consideration. The customer's ability and intent to pay the transaction price is assessed in determining whether a contract exists with the customer. If collectability of substantially all of the consideration in a contract is not probable, consideration received is not recognized as revenue unless the consideration is nonrefundable and the Company no longer has an obligation to transfer additional goods or services to the customer or collectability becomes probable.

Description of Revenue Generating Activities

We employ sales, marketing and customer service personnel throughout the world who sell and market our products and services to and/or through a large number of distributors, fabricators, converters, e-commerce and mail order fulfillment firms, and contract packaging firms as well as directly to end-users such as food processors, foodservice businesses, supermarket retailers, pharmaceutical companies, healthcare facilities, medical device manufacturers, and other manufacturers.

As discussed in Note 5, "Segments," of the Notes to Condensed Consolidated Financial Statements, our reporting segments include: Food Care and Product Care. Our Food Care applications are largely sold directly to end customers, while most of our Product Care products are sold through business supply distributors.

Food Care:

The Food Care division focuses on providing processors, retailers and food service operators a broad range of integrated system solutions that improve the management of contamination risk during the food and beverage production process, extend product shelf life through packaging technologies, and improve merchandising, ease-of-use, and back-of-house preparation processes. Our systems are designed to be turn-key and reduce customers' total operating costs through improved operational efficiencies and reduced food waste, as well as lower water and energy use. As a result, processors are able to produce and deliver their products more cost-effectively, safely, efficiently, and with greater confidence through their supply chain with a trusted partner.

The business largely serves perishable food and beverage processors, predominantly in fresh red meat, smoked and processed meats, beverages, poultry and dairy (solids and liquids) markets worldwide, and maintains a leading position in the applications it targets.

Product Care:

Product Care provides the industries we serve with a wide range of sustainable packaging solutions designed to reduce shipping and fulfillment costs, increase operational efficiency, reduce damage, and enhance customer and brand experience. While serving a broad range of industries and market sectors, Product Care solutions are especially valuable to the E-Commerce Fulfillment, General Manufacturing, Electronics and Transportation sectors. The breadth of the Product Care portfolio, extensive packaging engineering and technical services, and global reach supports the needs of multinational customers who require excellent, consistent performance and supply reliability.

Today, Product Care solutions are largely sold through business supply distribution that sells to business/industrial end-users. Additionally, solutions are sold directly to fabricators, original equipment manufacturers/contract manufacturers, third party logistics partners, e-commerce/fulfillment operations, and at retail centers, where Product Care offers select products for consumer use on a global basis.

Identify Contract with Customer:

For Sealed Air, the determination of whether an arrangement meets the definition of a contract under Topic 606 depends on whether it creates enforceable rights and obligations. While enforceability is a matter of law, we believe that enforceable rights and obligations in a contract must be substantive in order for the contract to be in scope of Topic 606. That is, the penalty for noncompliance must be significant relative to the minimum obligation. Fixed or minimum purchase obligations with penalties for noncompliance are the most common examples of substantive enforceable rights present in our contracts. We determined that the contract term is the period of enforceability outlined by the terms of the contract. This means that in many cases, the term stated in the contract is different than

the period of enforceability. After the minimum purchase obligation is met, subsequent sales are treated as separate contracts on a purchase order by purchase order basis. If no minimum purchase obligation exists, each purchase order represents the contract.

Performance Obligations:

The most common goods and services determined to be distinct performance obligations are consumables/materials, equipment sales, and maintenance. Free on loan and leased equipment is typically identified as a separate lease component in scope of Topic 840. The other goods or services promised in the contract with the customer in most cases do not represent performance obligations because they are neither separate nor distinct, or they are not material in the context of the contract.

Transaction Price and Variable Consideration:

Sealed Air has many forms of variable consideration present in its contracts with customers, including rebates and other discounts. Sealed Air estimates variable consideration using either the expected value method or the most likely amount method as described in the standard. We include in the transaction price some or all of an amount of variable consideration estimated to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

For all contracts that contain a form of variable consideration, Sealed Air estimates at contract inception, and periodically throughout the term of the contract, what volume of goods and/or services the customer will purchase in a given period and determines how much consideration is payable to the customer or how much consideration Sealed Air would be able to recover from the customer based on the structure of the type of variable consideration. In most cases the variable consideration in contracts with customers results in amounts payable to the customer by Sealed Air. Sealed Air adjusts the contract transaction price based on any changes in estimates each reporting period and performs an inception to date cumulative adjustment to the amount of revenue previously recognized. When the contract with a customer contains a minimum purchase obligation, Sealed Air only has enforceable rights to the amount of consideration promised in the minimum purchase obligation through the enforceable term of the contract. This amount of consideration, plus any variable consideration, makes up the transaction price for the contract.

Charges for rebates and other allowances are recognized as a deduction from revenue on an accrual basis in the period in which the associated revenue is recorded. When we estimate our rebate accruals, we consider customer-specific contractual commitments including stated rebate rates and history of actual rebates paid. Our rebate accruals are reviewed at each reporting period and adjusted to reflect data available at that time. We adjust the accruals to reflect any differences between estimated and actual amounts. These adjustments of transaction price impact the amount of net sales recognized by us in the period of adjustment. Revenue recognized in the three and nine months ended September 30, 2018 from performance obligations satisfied in previous reporting periods is immaterial and $3.2 million, respectively.

The Company does not adjust consideration in contracts with customers for the effects of a significant financing component if the Company expects that the period between transfer of a good or service and payment for that good or service will be one year or less. This is expected to be the case for the majority of contracts.

Sales taxes collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales on the Condensed Consolidated Statements of Operations.

Allocation of Transaction Price:

Sealed Air determines the standalone selling price for a performance obligation by first looking for observable selling prices of that performance obligation sold on a standalone basis. If an observable price is not available, we estimate the standalone selling price of the performance obligation using one of the three suggested methods in the following order of preference: adjusted market assessment approach, expected cost plus a margin approach, and residual approach.

Sealed Air often offers rebates to customers in their contracts that are related to the amount of consumables purchased. We believe that this form of variable consideration should only be allocated to consumables because the entire amount of variable consideration relates to the customer’s purchase of and Sealed Air’s efforts to provide consumables. Additionally, Sealed Air has many contracts that have pricing tied to third party indices. We believe that variability from index-based pricing should be allocated specifically to consumables because the pricing formulas in these contracts are related to the cost to produce consumables.

Transfer of Control:

Revenue is recognized upon transfer of control to the customer. Revenue for consumables and equipment sales is recognized based on shipping terms, which is the point in time the customer obtains control of the promised goods. Maintenance revenue is recognized straight-line on the basis that the level of effort is consistent over the term of the contract. Lease components within contracts with customers are recognized in accordance with Topic 840.

Disaggregated Revenue

For the three and nine months ended September 30, 2018, revenues from contracts with customers summarized by Segment Geography were as follows:

(In millions)	Three Months Ended September 30, 2018		
	Food Care	Product Care	Total
North America	$375.8	$277.6	$653.4
EMEA[(1)]	156.7	89.3	246.0
Latin America	89.7	12.0	101.7
APAC[(2)]	100.3	77.7	178.0
Topic 606 Segment Revenue	722.5	456.6	1,179.1
Non-Topic 606 Revenue (Leasing)	4.7	2.4	7.1
Total	$727.2	$459.0	$1,186.2

(In millions)	Nine Months Ended September 30, 2018		
	Food Care	Product Care	Total
North America	$1,068.7	$784.5	$1,853.2
EMEA[(1)]	476.1	287.5	763.6
Latin America	270.9	36.2	307.1
APAC[(2)]	306.2	220.9	527.1
Topic 606 Segment Revenue	2,121.9	1,329.1	3,451.0
Non-Topic 606 Revenue (Leasing)	14.6	6.8	21.4
Total	$2,136.5	$1,335.9	$3,472.4

[(1)] EMEA = Europe, Middle East and Africa
[(2)] APAC = Asia, Australia and New Zealand

Contract Balances

The time between when a performance obligation is satisfied and when billing and payment occur is closely aligned, with the exception of equipment accruals. An equipment accrual is a contract offering, whereby a customer is incentivized to use a portion of the consumables transaction price for future equipment purchases. Long term contracts that include an equipment accrual create a timing difference between when cash is collected and the performance obligation is satisfied, resulting in a contract liability (unearned revenue). The opening and closing balances of contract assets and contract liabilities arising from contracts with customers as of September 30, 2018 were as follows:

(In millions)	December 31, 2017	January 1, 2018, as adjusted	September 30, 2018
Contract assets	$ —	$ —	$ —
Contract liabilities	3.1	5.5	9.1

Revenue recognized in the three and nine months ended September 30, 2018 that was included in the contract liability balance at the beginning of the period was $1.6 million and $4.6 million, respectively. This revenue was driven primarily by equipment performance obligations being satisfied.

The contract liability balance represents deferred revenue, primarily related to equipment accruals. The increase in 2018 to deferred revenue was driven predominately by new contracts recently entered.

Remaining Performance Obligations

Our enforceable contractual obligations tend to be short term in nature, and the following table does not include the transaction price of any remaining performance obligations that are part of the contracts with expected durations of less than one year. Additionally, the following table summarizes the estimated transaction price from contracts with customers allocated to performance obligations or portions of performance obligations that have not yet been satisfied as of September 30, 2018, as well as the expected timing of recognition of that transaction price.

(In millions)	Short-Term (12 months or less)	Long-Term	Total
Total transaction price	$ 1.6	$ 7.5	$ 9.1

Assets recognized for the costs to obtain or fulfill a contract

The Company recognizes incremental costs to fulfill a contract as an asset if such incremental costs are expected to be recovered, relate directly to a contract or anticipated contract, and generate or enhance resources that will be used to satisfy performance obligations in the future.

The Company recognizes incremental costs to obtain a contract as an expense when incurred if the amortization period of the asset that otherwise would have been recognized is one year or less. For example, the Company generally expenses sales commissions when incurred because the amortization period would have been one year or less. These costs are recorded within sales and marketing expenses.

Costs for shipping and handling activities performed after a customer obtains control of a good are accounted for as costs to fulfill a contract and are included in cost of goods sold.

Note 4 Discontinued Operations, Divestitures and Acquisitions

Discontinued Operations

On March 25, 2017, we entered into a definitive agreement to sell our Diversey Care division and the food hygiene and cleaning business within our Food Care division (collectively, "Diversey") for gross proceeds of USD equivalent of $3.2 billion, subject to customary closing conditions. The transaction was completed on September 6, 2017. During 2018, we recorded an additional net gain on the sale of Diversey of $41.9 million, net of taxes. This was related to the final net working capital settlement as well as the release of tax indemnity reserves upon expiration of statute of limitations.

We have classified the operating results of Diversey, 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, 2017.

Summary operating results of Diversey were as follows:

(In millions)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Net sales	$ 434.6	$ 1,667.5
Cost of sales	249.1	949.5
Gross profit	185.5	718.0
Selling, general and administrative expenses	131.0	537.8
Amortization expense of intangible assets acquired	7.7	23.9
Operating profit	46.8	156.3
Other expense, net	(9.0)	(17.0)
Earnings from discontinued operations before income tax provision	37.8	139.3
Income tax provision from discontinued operations[1]	12.1	28.0
Net earnings from discontinued operations, net of tax	$ 25.7	$ 111.3

[1] For the three and nine months ended September 30, 2017, net earnings from discontinued operations was impacted by $12.1 million and $28.0 million expense, respectively, related to a change in the repatriation strategy of foreign earnings offset by favorable earnings mix in jurisdictions with lower rates.

20

The following table presents selected financial information regarding cash flows of Diversey that are included within discontinued operations in the Condensed Consolidated Statements of Cash Flows:

(In millions)	Nine Months Ended September 30, 2017
Non-cash items included in net earnings from discontinued operations:	
Depreciation and amortization	$ 29.3
Share-based incentive compensation	10.2
Profit sharing expense	3.0
Provision for bad debt	2.3
Capital expenditures	11.9

The amounts disclosed in the tables above have been excluded from the Notes to Condensed Consolidated Financial Statements unless otherwise noted.

Divestitures

Divestiture of Embalagens Ltda.

On August 1, 2017, we entered into an agreement to sell our polystyrene food tray business in Guarulhos, Brazil for a gross purchase price of R$26.9 million (or $8.2 million as of the closing date of March 19, 2018). The purchase price is subject to working capital, cash and debt adjustments. For the three and nine months ended September 30, 2018, the Company recognized an immaterial net loss on sale and a net gain on the sale of $1.0 million, respectively, within other (expense) income, net on the Condensed Consolidated Statements of Operations.

Acquisitions

Acquisition of AFP

On August 1, 2018, the Company acquired AFP, Inc., a leading, privately held fabricator of foam, corrugated, molded pulp and wood packaging solutions, to join its Product Care division. This acquisition further expands our protective packaging solutions in the electronics, transportation and industrial markets with custom-engineered applications. We acquired 100% of AFP shares for an estimated consideration of $70.8 million, excluding $2.9 million of cash acquired, subject to purchase price adjustments which will be finalized in 2019.

The following table summarizes the consideration transferred to acquire AFP and the preliminary allocation of the purchase price among the assets acquired and liabilities assumed. As of September 30, 2018 there were no adjustments made to the preliminary allocation.

(In millions)	Preliminary Allocation As of August 1, 2018
Total consideration transferred	$ 70.8
Assets:	
Cash and cash equivalents	