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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2001

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)
Park 80 East Saddle Brook, New Jersey	07663-5291
(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 |X| NO | |

There were 83,734,577 shares of the registrant's common stock, par value $0.10 per share, outstanding as of July 31, 2001.

PART I
FINANCIAL INFORMATION

SEALED AIR CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings
For the Three and Six Months Ended June 30, 2001 and 2000
(In thousands of dollars except for per share data)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2001	2000	2001	2000
Net sales	$ 761,599	$ 756,841	$ 1,519,871	$ 1,498,305
Cost of sales	519,445	502,868		

1,037,472
986,343 -----
---- --------
- -----------

Gross profit
242,154
253,973
482,399
511,962
Marketing,
administrative
and
development
expenses
126,682
129,226
258,844
258,984
Goodwill
amortization
14,104 12,381
28,364 24,691
Restructuring
and other
charges 6,057
-- 6,057 -- -
-------- ----
----- -------
---- --------
--- Operating
profit 95,311
112,366
189,134
228,287 Other
income
(expense):
Interest
expense
(18,878)
(13,923)
(38,892)
(27,011)
Other
(expense)
income, net
(1,400) 329
(11,563)
(1,617) -----
---- --------
- -----------

Other
(expense),
net (20,278)
(13,594)
(50,455)
(28,628) ----
----- -------
-- ----------
- -----------
Earnings
before income
taxes 75,033
98,772
138,679
199,659
Income taxes
35,769 44,941
64,855 90,845
--------- ---
------ ------
----- -------
---- Net
earnings $
39,264 $
53,831 $
73,824 $
108,814
=========
=========

===========
===========
Less: Series A preferred stock dividends 13,804 17,002 27,558 34,099
Add: Excess of book value over repurchase price of Series A preferred stock -- 32 4,035 2,811
----------- ----------- ----------- -----------
Net earnings ascribed to common shareholders $ 25,460 $ 36,861 $ 50,301 $ 77,526
========= ========= =========== ===========
Earnings per common share (See Note 3):
Basic $ 0.30 $ 0.44 $ 0.60 $ 0.93
========= ========= =========== ===========
Diluted $ 0.30 $ 0.44 $ 0.55 $ 0.89
========= ========= =========== ===========
Weighted average number of common shares outstanding (000): Basic 83,660 83,674 83,654 83,651
========= ========= =========== ===========
Diluted 83,660 83,831 83,695 84,134
========= ========= =========== ===========

See accompanying notes to consolidated financial statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000

(In thousands of dollars, except share data)

	June 30, 2001	December 31, 2000
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,675	$ 11,229
Notes and accounts receivable, net of allowances for doubtful accounts of $22,485 in 2001 and $21,171 in 2000	460,610	505,935
Inventories	307,433	309,116
Other current assets	58,116	50,800
Total current assets	890,834	877,080
Property and equipment:		
Land and buildings	433,076	440,468
Machinery and equipment	1,401,535	1,405,119
Other property and equipment	112,049	112,184
Construction-in-progress	120,730	85,707
	2,067,390	2,043,478
Less accumulated depreciation and amortization	1,045,832	1,011,337
Property and equipment, net	1,021,558	1,032,141

Goodwill,
less
accumulated
amortization
of $163,245
in 2001 and
$135,240 in
2000
1,927,239
1,959,909
Other assets
173,604
178,968 ----
------ -----
----- Total
Assets
$4,013,235
$4,048,098
==========
==========

See accompanying notes to consolidated financial statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000 (Continued)
(In thousands of dollars, except share data)

June 30,
December 31,
2001 2000 --
--------- --

(Unaudited)
LIABILITIES,
PREFERRED
STOCK &
SHAREHOLDERS'
EQUITY - ---

Current
Liabilities:
Short-term
borrowings $
207,984 $
290,428
Current
portion of
long-term
debt 1,072
1,418
Accounts
payable
153,662
154,881
Other
current
liabilities
185,543
194,958
Income taxes
payable
75,515
32,883 -----
------ -----
------ Total
current
liabilities
623,776
674,568
Long-term
debt, less

current portion 933,719 944,453 Deferred income taxes 205,340 210,581 Other liabilities 73,496 72,994 ----------- ----------- Total Liabilities 1,836,331 1,902,596 ----------- ----------- Authorized 50,000,000 preferred shares. Series A convertible preferred stock, $50.00 per share redemption value, authorized 28,289,714 shares in 2001 and 2000, outstanding 27,608,562 shares in 2001 and 27,847,462 shares in 2000, mandatory redemption in 2018 1,380,428 1,392,373 Shareholders' equity: Common stock, $.10 par value per share. Authorized 400,000,000 shares; issued 84,374,692 shares in 2001 and 84,352,492 shares in 2000 8,438 8,435 Additional paid-in capital 693,758 689,084 Retained earnings 339,392 293,126 Accumulated translation adjustment (201,593) (187,779) ----------- -----------

839,995
802,866 ----
------- ----

Less:
Deferred
compensation
10,873
17,073 Less:
Cost of
treasury
common
stock,
709,265
shares in
2001 and
706,265
shares in
2000 31,125
31,143 Less:
Minimum
pension
liability
1,521 1,521

Total
Shareholders'
Equity
796,476
753,129 ----
------- ----

Total
Liabilities,
Preferred
Stock and
Shareholders'
Equity $
4,013,235 $
4,048,098
===========
===========

See accompanying notes to consolidated financial statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2001 and 2000
(In thousands of dollars)
(Unaudited)

2001 2000 --
------- ----
----- Cash
flows from
operating
activities:
Net earnings
$ 73,824 $
108,814
Adjustments
to reconcile
net earnings
to net cash
provided by
operating
activities:
Depreciation
and
amortization
113,374
109,289
Amortization
of bond
discount 171

161 Deferred
tax benefit
(5,472)
(175) Non-
cash portion
of
restructuring
and other
charges
1,557 -- Net
(gain)loss
on disposals
of property
and
equipment
(50) 113
Changes in
operating
assets and
liabilities,
net of
businesses
acquired:
Notes and
accounts
receivable
30,253
(28,177)
Inventories
(7,137)
(30,708)
Other
current
assets
(4,832)
(1,746)
Other assets
(3,561)
(4,348)
Accounts
payable
3,435
(10,275)
Other
current
liabilities
39,842
10,837 Other
liabilities
2,925 835 --
------- ----
----- Net
cash
provided by
operating
activities
244,329
154,620 ----
----- ------
--- Cash
flows from
investing
activities:
Capital
expenditures
for property
and
equipment
(80,951)
(55,814)
Proceeds
from sales
of property
and
equipment
1,731 662
Businesses
acquired in
purchase
transactions,
net of cash

acquired
(12,088)
(28,342) ---
------ -----
---- Net
cash used in
investing
activities
(91,308)
(83,494) ---
------ -----
---- Cash
flows from
financing
activities:
Proceeds
from long-
term debt
442,181
182,901
Payment of
long-term
debt
(431,939)
(141,426)
Payment of
senior debt
issuance
costs
(1,875) --
Dividends
paid on
preferred
stock
(28,019)
(34,887)
Purchases of
treasury
common stock
-- (15,239)
Purchases of
preferred
stock
(7,909)
(60,387)
Proceeds
from stock
option
exercises --
524 Net
payment of
short-term
borrowings
(76,812)
(3,511) ----
----- ------
--- Net cash
used in
financing
activities
(104,373)
(72,025) ---
------ -----
---- Effect
of exchange
rate changes
on cash and
cash
equivalents
4,798 5,993
--------- --
------- Cash
and cash
equivalents:
Increase
during the
period
53,446 5,094
Balance,
beginning of
period

11,229
13,672 -----
---- -------
-- Balance,
end of
period $
64,675 $
18,766
=========
=========

See accompanying notes to consolidated financial statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2001 and 2000 (Continued)
(In thousands of dollars)
(Unaudited)

2001 2000 -
--------- -

Supplemental
Cash Flow
Items:
Interest
payments,
net of
amounts
capitalized
$ 37,311 $
22,911
==========
===========
Income tax
payments $
55,183 $
89,016
==========
===========
Non-Cash
Items:
Issuance of
shares of
common
stock to
the profit-
sharing
plan $ -- $
13,877
==========
===========

See accompanying notes to consolidated financial statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the Three and Six Months Ended June 30, 2001 and 2000
(In thousands of dollars)
(Unaudited)

For the For
the Three
Months Ended
Six Months
Ended June
30, June 30,

	2001	2000	2001	2000
Net Earnings	$ 39,264	$ 53,831	$ 73,824	$ 108,814
Other comprehensive loss:				
Foreign currency translation adjustments	(2,142)	(6,186)	(13,814)	(3,581)
Comprehensive income	$ 37,122	$ 47,645	$ 60,010	$ 105,233

See accompanying notes to consolidated financial statements.

SEALED AIR CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
June 30, 2001 and 2000
(Amounts in thousands of dollars, except share and per share data)
(Unaudited)

(1) Basis of Consolidation

The consolidated financial statements include the accounts of Sealed Air Corporation and its subsidiaries (the "Company"). All significant intercompany transactions and balances have been eliminated in consolidation. In management's opinion, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the consolidated financial position as of June 30, 2001 and results of operations for the three and six months ended June 30, 2001 and 2000 have been made. The consolidated statements of earnings for the three and six months ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year.

Prior period net sales and cost of sales have been reclassified to conform to the current year's presentation with respect to Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs", which the Company adopted during the fourth quarter of 2000.

Certain other prior period amounts have been reclassified to conform to the current year's presentation.

(2) Series A Convertible Preferred Stock

The outstanding Series A preferred stock is convertible at any time into approximately 0.885 share of common stock for each share of preferred stock, votes with the common stock on an as-converted basis and pays a cash dividend, as declared by the Board of Directors, at an annual rate of $2.00 per share, payable quarterly in arrears. Subject to certain conditions (which have not been met as of June 30, 2001) set forth in the Company's Certificate of Incorporation, as amended, the Series A preferred stock is redeemable at the option of the Company. The Series A preferred stock is also subject to mandatory redemption on March 31, 2018 at $50 per share, plus any accrued and unpaid dividends to the extent such shares remain outstanding. Because it is subject to mandatory redemption, the Series A convertible preferred stock is classified outside of the shareholders' equity section of the consolidated balance sheet. At its date of issuance, the fair value of the Series A preferred stock exceeded its mandatory redemption amount primarily due to the common stock conversion feature of such preferred stock. Accordingly, the book value of the Series A preferred stock is reflected in the consolidated balance sheet at its mandatory redemption value. During the first six months of 2001, the Company repurchased approximately 238,900 shares of the Company's Series A convertible preferred stock at a cost of approximately $7,909, which represents a cost that is approximately $4,035 below its book value. This excess of book value over the repurchase price of the preferred stock was recorded as an increase to additional paid-in-capital.

(3) Earnings Per Common Share

The following table sets forth the reconciliation of the basic and diluted earnings per common share computations for the three and six months ended June 30, 2001 and 2000.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Basic EPS:				
NUMERATOR				
Net earnings	$39,264	$53,831	$73,824	$108,814
Add: Excess of book value over repurchase price of preferred stock	--	32	4,035	2,811
Less: Preferred stock dividends	13,804	17,002	27,558	34,099
Net earnings ascribed to common shareholders	$25,460	$36,861	$50,301	$ 77,526
DENOMINATOR				
Weighted average common shares outstanding - basic	83,660	83,674	83,654	83,651
Basic earnings per common share (1)	$ 0.30	$ 0.44	$ 0.60	$ 0.93
Diluted EPS:				
NUMERATOR				
Earnings ascribed to common shareholders	$25,460	$36,861	$50,301	$ 77,526
Less: Excess of book value over repurchase price of preferred stock	--	32	4,035	2,811
Add: Dividends associated with repurchased preferred stock	--	46	--	117
Net earnings ascribed to common shareholders - diluted	$25,460	$36,875	$46,266	$ 74,832
DENOMINATOR				
Weighted average common shares outstanding - basic	83,660	83,674	83,654	83,651
Effect of assumed exercise of options	--	123	--	123
Effect of conversion of repurchased preferred stock	--	34	41	360
Weighted average common shares outstanding - diluted	83,660	83,831	83,695	84,134
Diluted earnings per common share (2)	$ 0.30	$ 0.44	$ 0.55	$ 0.89

(1) The basic earnings per common share calculations for the six months ended June 30, 2001 and 2000 include $0.05 and $0.03 per share gains, respectively, attributable to the repurchase of preferred stock for an amount below its book value. Such gains are not included in the calculations of diluted earnings per common share for the three and six months ended June 30, 2001 and 2000. The gains attributable to the repurchase of preferred stock were not significant in the three months ended June 30, 2001 and 2000.

(2) For the purpose of calculating diluted earnings per common share, net earnings ascribed to common shareholders have been adjusted to exclude the gains attributable to the repurchase of preferred stock for an amount below its book value and to add back dividends attributable to such repurchased preferred stock in each period, and the weighted average common shares outstanding have been adjusted to assume conversion of the shares of preferred stock repurchased during each period in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force Topic D-53 guidance. The assumed conversion of the outstanding preferred stock is not considered in the calculation of diluted earnings per common share for all periods as the effect would be antidilutive.

(4) Inventories

At June 30, 2001 and December 31, 2000, the components of inventories by major classification were as follows:

June 30,
December

	31, 2001	2000
Raw materials	$ 72,897	$ 72,537
Work in process	64,511	63,798
Finished goods	191,980	193,169
Subtotal	329,388	329,504
Reduction of certain inventories to LIFO basis	(21,955)	(20,388)
Total inventories	$ 307,433	$ 309,116

(5) Income Taxes

The Company's effective income tax rates were 47.7% and 45.5% for the three months ended June 30, 2001 and 2000, respectively, and 46.8% and 45.5% for the first six months of 2001 and 2000, respectively. Such rates were higher than the statutory U.S. federal income tax rate primarily due to state income taxes and non-deductible goodwill amortization.

(6) Debt

A summary of long-term debt at June 30, 2001 and December 31, 2000 follows:

	June 30, 2001	December 31, 2000
Credit Agreement due March 2003	$ 161,914	$ 456,263
5.625% Euro Notes due July 2006, less discount of $902 and $1,056 in 2001 and 2000, respectively	171,499	185,145
8.75% Senior Notes due July 2008 less discount of $4,221 in 2001	295,779	--
6.95% Senior Notes due May 2009, less discount of $1,823 and $1,909 in 2001 and 2000, respectively	298,177	298,091
Other	7,422	6,372
Total	934,791	945,871
Less current portion	(1,072)	(1,418)
Long-term debt, less current portion	$ 933,719	$ 944,453

On June 26, 2001, the Company issued $300,000 aggregate principal amount of 7-year 8.75% senior notes ("8.75% Senior Notes") under Rule 144A and Regulation S of the Securities Act of 1933, as amended. Accrued interest on the 8.75% Senior Notes is payable semi-annually in cash on January 1 and July 1 of each year, commencing on January 1, 2002. The proceeds of $295,773 from the issuance of the 8.75% Senior Notes were used to refinance outstanding borrowings under the 5-year revolving credit facility described below.

At December 31, 2000 the Company's two principal credit agreements were a 5-year $525,000 revolving credit facility that expires on March 30, 2003 (included in long-term debt) and a 364-day $375,000 revolving credit facility that the Company cancelled on March 23, 2001 (included in short-term borrowings). On March 23, 2001, the Company replaced this 364-day revolving credit facility with a new $194,375 364-day revolving credit facility on substantially similar terms, except for higher borrowing margins and facility fees, to the cancelled facility. Outstanding borrowings under the cancelled 364-day revolving credit facility were $127,885 at December 31, 2000. No borrowings were outstanding under this facility at the time of its cancellation. At June 30, 2001, there were no outstanding borrowings under the new 364-day revolving credit facility.

Such revolving credit facilities provide that the Company and certain of its subsidiaries may borrow for various purposes, including the refinancing of existing debt, the provision of working capital and other general corporate needs, including acquisitions, repurchase of the Company's outstanding common and preferred stock and capital expenditures. Amounts repaid under such credit facilities may be reborrowed from time to time. As of June 30, 2001, facility fees were payable on the total amounts available under such credit facilities at the rates of 0.125% and 0.300% per annum under the 5-year revolving credit facility and the new 364-day revolving credit facility, respectively.

The Company's obligations under the revolving credit facilities referred to in the two preceding paragraphs bear interest at floating rates. The weighted average interest rate under such credit facilities was approximately 5.5% at June 30, 2001 and approximately 7.0% at December 31, 2000.

These revolving credit facilities provide for changes in borrowing margins based on the Company's senior unsecured debt ratings and, in addition with respect to the 5-year revolving credit facility, certain financial criteria. These revolving credit facilities, the Euro Notes, the 8.75% Senior Notes and the 6.95% Senior Notes impose certain limitations on the operations of the Company and certain of its subsidiaries. The Company was in compliance with these requirements as of June 30, 2001.

At June 30, 2001 and December 31, 2000, the Company was not party to any material derivative instruments.

(7) Restructuring and Other Charges

2001 Restructuring and other charges

During 2001, based on weakening economies, especially in the U.S., the Company began to conduct a review of its business to reduce costs and expenses, simplify business processes and organizational structure, and to refine further the Company's manufacturing operations and product offerings. The review is taking into consideration the current business and economic trends around the world and the impact of such trends on assets and resources deployed in the Company's business. As a result of such review, during the second quarter, the Company announced and began implementing a restructuring program. Charges to operations arising out of this program amounted to $6,057 and included $3,914 of employee termination costs, $586 of facility exit costs and $1,557 of asset impairments related to long-lived assets either held for use or held for disposition. The portion of this restructuring charge related to the Company's food packaging segment amounted to $3,831 and the portion applicable to the protective and specialty packaging segment amounted to $2,226. The asset impairment charge relates to production machinery and equipment which is being impaired as a result of the rationalization of a small product line. The annual reduction of depreciation expense as a result of such asset impairments is $179. The Company expects to incur approximately $4,500 of cash outlays to carry out the restructuring program as it relates to charges incurred through June 30, 2001. These cash outlays include primarily severance and other personnel-related costs and the costs of terminating a lease. In connection with the restructuring charge as reflected at June 30, 2001, the Company is eliminating approximately 80 positions. These 80 positions are primarily involved in the Company's manufacturing and sales and marketing functions in its North American and European operations. Through June 30, 2001, 43 positions had been eliminated, and the remaining restructuring actions accrued for during the second quarter of 2001, including the disposition of impaired assets, are expected to be completed during the remainder of 2001 and during 2002, although certain cash outlays are expected to continue into future years. The Company expects that this deliberate business review will continue throughout the remainder of 2001 and is expected to result in additional actions and charges during the last six months of 2001.

The components of the 2001 Restructuring program as they relate to the June 30, 2001 restructuring charge are as follows:

Employee

Termination
Plant/Office
Costs Exit
Cost Total
Cost - -----

Restructuring
liability
recorded in
2001 $ 3,914
$ 586 $
4,500 Cash
payments
during 2001
(1,631) --
(1,631) - --

-
Restructuring
liability at
June 30,
2001 $ 2,283
$ 586 $
2,869 - ----

1998 Restructuring program

The Company's restructuring liability, which arose primarily out of a restructuring undertaken by the Company during the third quarter of 1998, amounted to $335 at June 30, 2001 and $537 at December 31, 2000. Spending activity through June 30, 2001 and the remaining reserve balance at June 30, 2001 were as follows:

Employee
Termination
Costs - ----

Restructuring
liability at
December 31,
2000 $ 537
Payments
during 2001
(202) - ----

Restructuring
liability at
June 30,
2001 $ 335 -

The 2001 cash outlays include primarily severance and other personnel-related costs. All restructuring actions were completed prior to June 30, 2001, and the remaining liability of $335 is related principally to outstanding employee severance costs that are expected to be paid during 2001.

(8) Business Segment Information

The Company operates in two reportable business segments: (i) Food Packaging and (ii) Protective and Specialty Packaging. The Food Packaging segment comprises primarily the Company's Cryovac(R) food packaging products. The Protective and Specialty Packaging segment includes the aggregation of the Company's protective packaging products, engineered products and specialty products, all of which products are used principally for non-food packaging applications.

The Food Packaging segment includes flexible materials and related systems (shrink film and bag products, laminated films and packaging systems marketed primarily under the Cryovac(R) trademark for packaging a broad range of perishable foods). This segment also includes rigid packaging and absorbent pads (foam and solid plastic trays and containers for the packaging of a wide variety of food products and absorbent pads used for the packaging of meat, fish and poultry).

The Protective and Specialty Packaging segment includes cushioning and surface protection products (including air cellular cushioning materials, films for non-food applications, polyurethane foam packaging systems sold under the Instapak(R) trademark, polyethylene foam sheets and planks, a comprehensive line of protective and durable mailers and bags, certain paper-based protective packaging materials, suspension and retention packaging, inflatable packaging and packaging systems) and other products.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2001	2000	2001	2000
Net sales				
Food Packaging	$ 464,439	$ 450,799	$ 917,251	$ 890,583
Protective and Specialty Packaging	297,160	306,042	602,620	607,722
Total	$ 761,599	$ 756,841	$ 1,519,871	$ 1,498,305
Operating profit				
Food Packaging	$ 70,368	$ 71,176	$ 129,270	$ 140,561
Protective and Specialty Packaging	50,920	58,991	105,133	122,073
Total segments	121,288	130,167	234,403	262,634
Restructuring and other charges (1)	(6,057)	--	(6,057)	--
Corporate operating expenses(2)	(19,920)	(17,801)	(39,212)	(34,347)
Total	$ 95,311	$ 112,366	$ 189,134	$ 228,287
Depreciation and amortization				
Food Packaging	$ 27,237	$ 26,884	$ 55,180	$ 54,501
Protective and Specialty Packaging	14,646	14,736	29,387	29,677
Total segments	41,883	41,620	84,567	84,178
Corporate (including goodwill and other amortization)	14,324	12,578	28,807	25,111
Total	$ 56,207	$ 54,198	$ 113,374	$ 109,289

(1) Restructuring and other charges were $3,831 for Food Packaging and $2,226 for Protective and Specialty Packaging.

(2) Includes goodwill amortization of $14,104 and $12,381 for the three months ended June 30, 2001 and 2000, respectively, and $28,364 and $24,691 for the six months ended June 30, 2001 and 2000, respectively.

(9) Commitments and Contingencies

On March 31, 1998, the Company completed a multi-step transaction (the "Cryovac Transaction"), which brought the Cryovac packaging business ("Cryovac") and the former Sealed Air Corporation ("old Sealed Air") under the common ownership of the Company. These businesses operate as subsidiaries of the Company, and the Company acts as a holding company. As part of that transaction, the Cryovac packaging business, held by various direct and indirect subsidiaries of the

Company, was separated from the remaining businesses of the Company. Such remaining businesses were then contributed to a company now known as W. R. Grace & Co. ("New Grace"), whose shares were distributed to the Company's stockholders. As a result, New Grace became a separate publicly owned company. The Company recapitalized its outstanding shares of common stock into a new common stock and a new convertible preferred stock. A subsidiary of the Company then merged into old Sealed Air, which changed its name to Sealed Air Corporation (US). The agreements pursuant to which the Cryovac Transaction was carried out are referred to below as the "Transaction Agreements."

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

Since the beginning of 2000, the Company has been served with a number of lawsuits (the "New Grace-Related Claims") alleging that, as a result of the Cryovac Transaction, the Company is responsible for alleged asbestos liabilities of New Grace and its subsidiaries, certain of which are also named as co-defendants in many of these actions. These actions include several purported class action lawsuits and a number of personal injury lawsuits. Some plaintiffs seek damages for personal injury or wrongful death while others seek medical monitoring, environmental remediation or remedies related to an attic insulation product. Neither old Sealed Air nor Cryovac has ever produced or sold any asbestos-containing material. These cases are all in the pre-trial stage, and none has been resolved through judgment, settlement or otherwise. All such cases pending on May 3, 2001 have been stayed in connection with New Grace's Chapter 11 bankruptcy proceeding discussed below. Two committees appointed in New Grace's bankruptcy case to represent asbestos plaintiffs have recently filed a motion seeking the bankruptcy court's permission to pursue fraudulent transfer claims against the Company and certain other entities. A hearing on this request is currently set for early September 2001.

While the allegations in these actions directed to the Company vary, these actions all appear to allege that the transfer of the Cryovac business as part of the Cryovac Transaction was a fraudulent transfer or gave rise to successor liability. Under a theory of successor liability, plaintiffs with claims against New Grace and its subsidiaries may attempt to hold the Company derivatively liable for liabilities which arose with respect to activities conducted prior to the Cryovac Transaction by New Grace's primary U.S. operating subsidiary or other subsidiaries. A transfer would be a fraudulent transfer if the transferor received less than reasonably equivalent value and the transferor was insolvent or was rendered insolvent by the transfer, was engaged or was about to engage in a business for which its assets constitute unreasonably small capital, or intended to incur or believed that it would incur debts beyond its ability to pay as they mature. A transfer may also be fraudulent if it was made with actual intent to hinder, delay or defraud creditors. If any transfers in connection with the Cryovac Transaction were found by a court to be fraudulent transfers, the Company could be required to return the property or its value to the transferor or could be required to fund certain liabilities of New Grace or its subsidiaries for the benefit of their creditors, including asbestos claimants.

In the Joint Proxy Statement furnished to their respective stockholders in connection with the Cryovac Transaction, both Sealed Air and Grace stated that it was their belief that New Grace and its subsidiaries were adequately capitalized and would be adequately capitalized after the Cryovac Transaction and that none of the transfers contemplated to occur in the Cryovac Transaction would be a fraudulent transfer. They also stated their belief that the Cryovac Transaction complied with other relevant laws. However, if a court applying the relevant legal standards reached conclusions adverse to the Company, such determination could have a materially adverse effect on the Company's consolidated results of operations and financial position.

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

In connection with its Chapter 11 filing, New Grace filed an application with the Bankruptcy Court seeking to stay, among other things, all actions related to the New Grace-Related Claims asserted against the Company. The court issued an order dated May 3, 2001 staying all such filed or pending actions against the Company. On June 1, 2001, New Grace requested that the court modify its order to stay cases filed against the Company since May 3, 2001 as well as all future cases that may be filed against the Company. As of August 7, 2001, the court had not yet ruled on such request. The Company believes that New Grace's filing for reorganization may provide a single forum in which all claims related to New Grace's liabilities, including the New Grace-Related Claims, might be resolved. The New Grace bankruptcy proceeding is in the very early stages and could take a few years to complete.

The Company believes that it has strong defenses to the New Grace-Related Claims, and the Company intends to defend its interests vigorously. It is not possible to determine at this stage of the proceeding the ultimate amount of asbestos-related and other claims which may be made against the Company. In connection with New Grace's bankruptcy proceeding, the Company could incur additional costs in the resolution of claims against the Company that could become material to its consolidated results of operations and financial position.

During the first three months of 2001, the Company recorded a charge, unrelated to the asbestos claims described above, in other expense and recorded other current liabilities amounting to approximately $8,000, which is primarily a result of the Company's guarantee, entered into at the time of the Cryovac Transaction, of certain debt payable by a subsidiary of New Grace, which subsidiary filed for reorganization along with New Grace as described above. As a result of the bankruptcy filing, the Company has provided in full for its guarantee of such indebtedness.

(10) Acquisitions

During the first six months of 2001, the Company made acquisitions for cash in the aggregate amount of approximately $12,000. These acquisitions were accounted for as purchases and were not material to the Company's consolidated financial statements.

(11) New Accounting Pronouncements

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. This statement requires the recognition of derivative financial instruments on the balance sheet as assets or liabilities, at fair value. Gains or losses resulting from changes in the value of derivatives are accounted for depending on the intended use of the derivative and whether it qualifies for hedge accounting. The implementation of this standard did not have a material effect on the Company's consolidated financial statements.

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Company adopted the provisions of SFAS No. 141 immediately and will adopt SFAS No. 142 effective January 1, 2002. Any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized through the end of 2001.

In connection with the transitional impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill and other intangible assets are impaired as of January 1, 2002. The assessment process will be completed by June 30, 2002 and the recording of any impairment loss will be completed as soon as possible but no later than the end of 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of June 30, 2001, the Company has unamortized goodwill in the amount of $1,927,239 and unamortized identifiable intangible assets in the amount of approximately $26,000, all of which will be subject to the transition provisions of SFAS No. 141 and 142. Amortization expense related to goodwill was $51,776 and $28,364 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle; however, beginning January 1, 2002, the Company will no longer record amortization expense related to goodwill.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Net sales for the second quarter of 2001 increased 1% to $761,599,000 compared with $756,841,000 for the second quarter of 2000. For the first six months of 2001, the Company's net sales increased 1% to $1,519,871,000 compared with net sales of $1,498,305,000 in the 2000 period. The increases in net sales in both periods were primarily due to the added net sales of several acquired businesses and to a lesser extent, higher average selling prices for certain of the Company's products, partially offset by lower sales volume for certain of the Company's products and the negative effect of foreign currency translation.

The Company's net sales were affected in the second quarter and first six months of 2001 by the continued weakness of foreign currencies in Europe and the Asia Pacific region compared with the U.S. dollar, the further slowing of industrial economies, primarily in the U.S., as well as the continued, yet diminishing, disruption of meat supply and beef consumption in Europe. Excluding the negative effect of foreign currency translation, net sales would have increased 3% for the second quarter and 4% for the first six months of 2001 compared to the respective 2000 periods.

Net sales from domestic operations remained relatively flat for the second quarter and increased approximately 1% for the first six months of 2001 compared with the respective 2000 periods, primarily due to the added net sales of several acquired businesses and, to a lesser extent, higher average selling prices for certain of the Company's products, partially offset by lower sales volume for certain of the Company's products. Net sales from foreign operations increased approximately 2% for the second quarter and first six months of 2001 compared with the respective 2000 periods, primarily due to the added net sales of several acquired businesses and, to a lesser extent, increased sales volume for certain of the Company's products, partially offset by the negative effect of foreign currency translation. As a percentage of total net sales, net sales from foreign operations represented approximately 45% and 44% in the second quarter of 2001 and 2000, respectively, and 45% in the first six months of 2001 and 2000.

Net sales of the Company's food packaging segment, which consists primarily of the Company's Cryovac(R) food packaging products and Dri-Loc(R) absorbent pads, increased approximately 3% for the second quarter and first six months of 2001 compared with the respective 2000 periods. These increases were due primarily to the added net sales of several acquired businesses and, to a lesser extent, higher average selling prices for certain of the Company's products, partially offset by the negative effect of foreign currency translation. Unit volume was essentially flat compared to the second quarter and first six months of 2000 for the food packaging segment. This was partially due to the disruption of meat supply and reduced beef consumption caused by the outbreak of foot-and-mouth disease and concerns over bovine spongiform encephalopathy (BSE or "mad-cow" disease), principally in Europe, which effect has diminished during the second quarter of 2001. Excluding the negative effect of foreign currency translation, net sales of this

segment would have increased by 6% for the second quarter and for the first six months of 2001 compared with the respective 2000 periods.

Net sales of the Company's protective and specialty packaging segment, which consists primarily of the Company's Instapak(R) chemicals and equipment, Cryovac(R) performance shrink films, Bubble Wrap(R) cushioning, polyethylene foam surface protection materials, and Jiffy(R) protective and durable mailers and bags, decreased 3% for the second quarter and 1% for the first six months of 2001 compared to the respective 2000 periods. The decrease in both periods was due primarily to lower sales volume of certain products and the negative effect of foreign currency translation, partially offset by the added net sales of several acquired businesses. The further softening of economic conditions in the second quarter of 2001, primarily in the U.S., resulted in the lower sales volumes in 2001. Excluding the negative effect of foreign currency translation, net sales of this segment would have decreased 1% for the second quarter and increased 2% for the first six months of 2001 compared to the respective 2000 periods.

Gross profit as a percentage of net sales was 31.8% for the second quarter and 31.7% for the first six months of 2001 compared to 33.6% and 34.2% for the respective 2000 periods. These decreases were due primarily to the lower sales volume of certain food and protective packaging products and changes in product mix compared to the 2000 periods and were partially offset by modestly lower costs for certain raw materials, which the Company began to realize in the second quarter of 2001.

Marketing, administrative and development expenses and goodwill amortization declined to 18.5% of net sales for the second quarter of 2001 compared to 18.7% for the 2000 period and were 18.9% of net sales for the first six months of 2001 and 2000.

Other expense, net, increased in the second quarter and first six months of 2001 compared to the 2000 periods primarily due to increased interest expense resulting from the higher levels of debt outstanding compared to the corresponding periods in 2000. The increase in the first six months of 2001 was also due to charges, unrelated to the asbestos claims described below, amounting to approximately $8,000,000 which were primarily a result of the Company's guarantee, entered into at the time of the Cryovac Transaction, of certain debt payable by a subsidiary of W.R. Grace & Co. ("New Grace"), which subsidiary filed for reorganization along with New Grace under Chapter 11 of the U.S. Bankruptcy Code on April 2, 2001. As a result of that filing, the Company has provided in full for its guarantee of such indebtedness.

The Company's effective income tax rates were 47.7% and 45.5% in the second quarters of 2001 and 2000, respectively, and 46.8% and 45.5% for the first six months of 2001 and 2000, respectively. These rates are higher than the statutory U.S. federal income tax rate primarily due to state income taxes and non-deductible goodwill amortization. The effective rates were higher in the second quarter and first six months of 2001 compared to the 2000 periods primarily due to lower earnings before income taxes. The Company expects that its effective tax rate will remain higher than statutory rates for 2001.

As a cumulative result of the above, the Company's net earnings were $39,264,000 for the second quarter of 2001 and $73,824,000 for the first six months of 2001 compared to net earnings of $53,831,000 and $108,814,000 for the respective 2000 periods.

Basic and diluted earnings per common share were $0.30 for the second quarter of 2001 and $0.44 for the second quarter of 2000. Basic earnings per common share were $0.60 and diluted earnings per common share were $0.55 for the first six months of 2001 and basic earnings per common share were $0.93 and diluted earnings per common share were $0.89 for the first six months of 2000. The basic earnings per common share calculations for the first six months of 2001 and 2000 include $0.05 and $0.03 per share gains, respectively, attributable to the repurchase of preferred stock for an amount below its $50 per share book value. Such gains are not included in the calculations of diluted earnings per common share for any of the periods presented. The gains attributable to the repurchase of preferred stock were not significant in the second quarters of 2001 and 2000. The diluted earnings per common share for the second quarter and first six months of 2001 and 2000 are calculated assuming the conversion of the shares of preferred stock repurchased during each period in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force Topic D-53 guidance. The effect of the conversion of the Company's outstanding convertible preferred stock is not considered in the calculations of diluted earnings per common share in the second quarter and first six months of 2001 and 2000 because the effect would be antidilutive.

2001 RESTRUCTURING AND OTHER CHARGES

During 2001, based on weakening economies, especially in the U.S., the Company began to conduct a review of its business to reduce costs and expenses, simplify business processes and organizational structure, and to refine further the Company's manufacturing operations and product offerings. The review is taking into consideration the current business and economic trends around the world and the impact of such trends on assets and resources deployed in the Company's business. As a result of such review, during the second quarter, the Company announced and began implementing a restructuring program. It is expected that this deliberate business review will continue throughout the remainder of 2001 and is expected to result in additional actions and charges during the last six months of 2001.

At June 30, 2001 the Company recognized charges arising out of this program of $6,057,000 which included $3,914,000 of employee termination costs, $586,000 of facility exit costs and $1,557,000 of asset impairments related to long-lived assets either held for use or held for disposition. The portion of this restructuring charge related to the Company's food packaging segment amounted to $3,831,000 and the portion applicable to the protective and specialty packaging segment amounted to $2,226,000. In addition to the charges recognized at June 30, 2001, the Company has identified additional actions to be undertaken which it has not yet begun. The additional charges, which are expected to be reported when they become recognizable for accounting purposes, are estimated to be

approximately $10,000,000 and are primarily related to employee severance and related personnel costs. In addition to the charges recorded at June 30, 2001 and the estimated costs of projects identified but not yet begun, as the business review continues through 2001, additional costs may be incurred as further actions are identified and developed.

In connection with the restructuring charge incurred during the second quarter 2001, the Company is eliminating approximately 80 positions. These 80 positions are primarily involved in the Company's manufacturing and sales and marketing functions in its North American and European operations. It is anticipated that actions that have been identified but are not yet underway will eliminate approximately 150 further positions. Such positions are across all functional areas of the Company. These position eliminations are the result of rationalizing certain product lines, combining or eliminating certain functions and simplifying certain supervisory structures.

In connection with the restructuring charge incurred during the second quarter 2001, the Company expects to incur approximately $4,500,000 of cash outlays, primarily for severance and other personnel-related costs as well as the costs of terminating a lease. Through June 30, 2001, 43 positions, of the 80 positions noted above, had been eliminated. All restructuring actions, including the disposition of impaired assets, are expected to be completed during the remainder of 2001 and during 2002 although certain cash outlays will continue into future years.

The Company anticipates annual cost savings related to the charges incurred during the second quarter of 2001 of approximately $5,500,000. The cost savings are estimated to be realized at their full year run rate by the end of 2002, once all restructuring actions have been completed.

The asset impairment charge recognized at June 30, 2001, relates to production machinery and equipment which is being impaired as a result of the rationalization of a small product line. Included in the annual cost savings stated above is the annual reduction of depreciation expense of $179,000 as a result of such asset impairments.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of liquidity are cash flows from operations and amounts available under the Company's existing lines of credit, including primarily the Company's principal revolving credit agreements mentioned below.

Net cash provided by operating activities amounted to $244,329,000 and $154,620,000 in the first six months of 2001 and 2000, respectively. The increase in operating cash flows for the first six months of 2001 compared to the 2000 period was primarily due to changes in operating assets and liabilities in the ordinary course of business, including primarily changes in notes and accounts receivable, income taxes payable and inventory which were partially offset by a decrease in net earnings.

Net cash used in investing activities amounted to $91,308,000 in the first six months of 2001 compared to $83,494,000 in the 2000 period. The increase in net cash used in these

activities in the first six months of 2001 was primarily due to a higher level of capital expenditures partially offset by lower levels of cash used for acquisitions in 2001. Capital expenditures were $80,951,000 in the 2001 period and $55,814,000 in the 2000 period. The Company currently anticipates that capital expenditures for the full year of 2001 will be in the range of $150,000,000.

Net cash used in financing activities amounted to $104,373,000 in the first six months of 2001 and $72,025,000 in the first six months of 2000. The increase in net cash used in these activities in the first six months of 2001 was primarily due to an increase in net payments of debt during the 2001 period, partially offset by a decrease in the purchase of the Company's common and preferred stock.

During the first six months of 2001, the Company repurchased 238,900 shares of its preferred stock at a cost of approximately $7,909,000 pursuant to a share repurchase program adopted by the Company's Board of Directors. During the first six months of 2000, the Company repurchased 1,263,964 shares of its preferred stock and 314,818 shares of its common stock at a cost of approximately $60,387,000 and $15,239,000, respectively, pursuant to this program. As of June 30, 2001, the total number of shares authorized to be repurchased under this program amounted to approximately 16,977,000 shares of common stock on an as-converted basis, of which approximately 8,676,000 had been repurchased, leaving approximately 8,301,000 shares of common stock on an as-converted basis available for repurchase under this program.

At June 30, 2001, the Company had working capital of $267,058,000, or 7% of total assets, compared to working capital of $202,512,000, or 5% of total assets, at December 31, 2000. Total current assets increased primarily due to an increase in cash and cash equivalents partially offset by a decrease in notes and accounts receivable. Total current liabilities decreased primarily due to a decrease in short-term borrowings partially offset by an increase in income taxes payable.

The Company's ratio of current assets to current liabilities (current ratio) was 1.4 at June 30, 2001 and 1.3 at December 31, 2000. The Company's ratio of current assets less inventory to current liabilities (quick ratio) was 0.9 at June 30, 2001 and 0.8 at December 31, 2000.

At both June 30, 2001 and December 31, 2000, the Company's outstanding debt consisted of borrowings made under the revolving credit agreements, its 5.625% Euro Notes due July 2006, its 6.95% Senior Notes due May 2009, and certain other loans incurred by the Company's subsidiaries. In addition, as of June 30, 2001, outstanding debt also included its 8.75% Senior Notes due July 2008 described below.

On June 26, 2001, the Company issued $300,000,000 aggregate principal amount of 7-year 8.75% senior notes ("8.75% Senior Notes") under Rule 144A and Regulation S of the Securities Act of 1933, as amended. Accrued interest on the 8.75% Senior Notes is payable semi-annually in cash on January 1 and July 1 of each year, commencing on January 1, 2002. The proceeds of $295,773,000 from the issuance of the 8.75% Senior Notes were used to refinance outstanding borrowings under the 5-year revolving credit facility described

below. At June 30, 2001, the outstanding borrowings under the 8.75% Senior Notes were $295,779,000 net of unamortized bond discount of $4,221,000.

At December 31, 2000 the Company's two principal credit agreements were a 5-year $525,000,000 revolving credit facility that expires on March 30, 2003 (included in long-term debt) and a 364-day $375,000,000 revolving credit facility the Company cancelled on March 23, 2001 (included in short-term borrowings). On March 23, 2001, the Company replaced this 364-day revolving credit facility with a new $194,375,000 364-day revolving credit facility on substantially similar terms, except for higher borrowing margins and facility fees, to the cancelled facility. As of June 30, 2001 and December 31, 2000, outstanding borrowings were $161,914,000 and $456,263,000, respectively, under the 5-year revolving credit facility. Outstanding borrowings under the cancelled 364-day revolving credit facility were $127,885,000 at December 31, 2000. No borrowings were outstanding under this facility at the time of its cancellation. At June 30, 2001, there were no outstanding borrowings under the new 364-day revolving credit facility.

Such revolving credit facilities provide that the Company and certain of its subsidiaries may borrow for various purposes, including the refinancing of existing debt, the provision of working capital and other general corporate needs, including acquisitions, repurchase of the Company's outstanding common and preferred stock and capital expenditures. Amounts repaid under such credit facilities may be reborrowed from time to time. As of June 30, 2001, facility fees were payable on the total amounts available under such credit facilities at the rates of 0.125% and 0.300% per annum under the 5-year revolving credit facility and the new 364-day revolving credit facility, respectively.

The Company's obligations under the revolving credit facilities referred to in the two preceding paragraphs bear interest at floating rates. The weighted average interest rate under such credit facilities was approximately 5.5% at June 30, 2001 and approximately 7.0% at December 31, 2000.

These revolving credit facilities provide for changes in borrowing margins based on the Company's senior unsecured debt ratings and, in addition with respect to the 5-year revolving credit facility, certain financial criteria. These revolving credit facilities, the Euro Notes, the 8.75% Senior Notes and the 6.95% Senior Notes impose certain limitations on the operations of the Company and certain of its subsidiaries. The Company was in compliance with these requirements as of June 30, 2001.

At June 30, 2001 and December 31, 2000, the Company was not party to any material derivative instruments.

At June 30, 2001, the Company had available committed and uncommitted lines of credit, including those available under the revolving credit facilities as discussed above, of approximately $1,056,000,000 of which approximately $686,000,000 were unused.

The Company's shareholders' equity was $796,476,000 at June 30, 2001 compared to $753,129,000 at December 31, 2000. Shareholders' equity increased in 2001 due to the Company's net earnings of $73,824,000, which were partially offset by the payment of

preferred stock dividends of $27,558,000 and by an additional foreign currency translation adjustment of $13,814,000.

During the first six months of 2001, the Company made acquisitions for cash in the aggregate amount of approximately $12,000,000. These acquisitions were accounted for as purchases and were not material to the Company's consolidated financial statements.

OTHER MATTERS

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For a discussion of market risks at December 31, 2000, refer to "Management's Discussion and Analysis of Results of Operations and Financial Condition - Quantitative and Qualitative Disclosures about Market Risk" in the Company's Annual Report to Stockholders for the year ended December 31, 2000.

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates, which may adversely affect its results of operations and financial condition. The Company seeks to minimize these risks through regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. The Company does not purchase, hold or sell derivative financial instruments for trading purposes.

INTEREST RATES

The Company uses interest rate swaps to manage its exposure to fluctuations in interest rates. The Company also uses interest rate collars to reduce its exposure to fluctuations in the rate of interest by limiting interest rates to a given range. At December 31, 2000, the Company had an immaterial interest rate collar agreement related to a foreign subsidiary's floating rate indebtedness which matured in June 2001.

At June 30, 2001, the carrying value of the Company's total long-term debt and short-term borrowings was $1,142,775,000 of which approximately $770,539,000 was fixed rate debt. At December 31, 2000, the carrying value of the Company's total long-term debt and short-term borrowings was $1,236,299,000 of which $489,607,000 was fixed rate debt.

FOREIGN EXCHANGE CONTRACTS

The Company uses interest rate and currency swaps to limit foreign exchange exposure and limit or adjust interest rate exposure by swapping certain borrowings in U.S. dollars for borrowings denominated in foreign currencies. The Company had no interest rate and currency swap agreements outstanding at June 30, 2001 or December 31, 2000.

The Company uses foreign currency forwards to fix the amount payable on certain transactions denominated in foreign currencies. The terms of such instruments are generally twelve months or less. At June 30, 2001 and December 31, 2000, the Company's outstanding

foreign currency forward contracts were not material to the Company's consolidated financial position or results of operations.

CRYOVAC TRANSACTION

On March 31, 1998, the Company completed a multi-step transaction (the "Cryovac Transaction"), which brought the Cryovac packaging business ("Cryovac") and the former Sealed Air Corporation ("old Sealed Air") under the common ownership of the Company. These businesses operate as subsidiaries of the Company, and the Company acts as a holding company. As part of that transaction, the Cryovac packaging business, held by various direct and indirect subsidiaries of the Company, was separated from the remaining businesses of the Company. Such remaining businesses were then contributed to a company now known as W. R. Grace & Co. ("New Grace"), whose shares were distributed to the Company's stockholders. As a result, New Grace became a separate publicly owned company. The Company recapitalized its outstanding shares of common stock into a new common stock and a new convertible preferred stock. A subsidiary of the Company then merged into old Sealed Air, which changed its name to Sealed Air Corporation (US). The agreements pursuant to which the Cryovac Transaction was carried out are referred to below as the "Transaction Agreements."

CONTINGENCIES RELATED TO THE CRYOVAC TRANSACTION

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

Since the beginning of 2000, the Company has been served with a number of lawsuits (the "New Grace-Related Claims") alleging that, as a result of the Cryovac Transaction, the Company is responsible for alleged asbestos liabilities of New Grace and its subsidiaries, certain of which are also named as co-defendants in many of these actions. These actions include several purported class action lawsuits and a number of personal injury lawsuits. Some plaintiffs seek damages for personal injury or wrongful death while others seek medical monitoring, environmental remediation or remedies related to an attic insulation product. Neither old Sealed Air nor Cryovac has ever produced or sold any

asbestos-containing material. These cases are all in the pre-trial stage, and none has been resolved through judgment, settlement or otherwise. All such cases pending on May 3, 2001 have been stayed in connection with New Grace's Chapter 11 bankruptcy proceeding discussed below. Two committees appointed in New Grace's bankruptcy case to represent asbestos plaintiffs have recently filed a motion seeking the bankruptcy court's permission to pursue fraudulent transfer claims against the Company and certain other entities. A hearing on this request is currently set for early September 2001.

While the allegations in these actions directed to the Company vary, these actions all appear to allege that the transfer of the Cryovac business as part of the Cryovac Transaction was a fraudulent transfer or gave rise to successor liability. Under a theory of successor liability, plaintiffs with claims against New Grace and its subsidiaries may attempt to hold the Company derivatively liable for liabilities which arose with respect to activities conducted prior to the Cryovac Transaction by New Grace's primary U.S. operating subsidiary or other subsidiaries. A transfer would be a fraudulent transfer if the transferor received less than reasonably equivalent value and the transferor was insolvent or was rendered insolvent by the transfer, was engaged or was about to engage in a business for which its assets constitute unreasonably small capital, or intended to incur or believed that it would incur debts beyond its ability to pay as they mature. A transfer may also be fraudulent if it was made with actual intent to hinder, delay or defraud creditors. If any transfers in connection with the Cryovac Transaction were found by a court to be fraudulent transfers, the Company could be required to return the property or its value to the transferor or could be required to fund certain liabilities of New Grace or its subsidiaries for the benefit of their creditors, including asbestos claimants.

In the Joint Proxy Statement furnished to their respective stockholders in connection with the Cryovac Transaction, both Sealed Air and Grace stated that it was their belief that New Grace and its subsidiaries were adequately capitalized and would be adequately capitalized after the Cryovac Transaction and that none of the transfers contemplated to occur in the Cryovac Transaction would be a fraudulent transfer. They also stated their belief that the Cryovac Transaction complied with other relevant laws. However, if a court applying the relevant legal standards reached conclusions adverse to the Company, such determination could have a materially adverse effect on the Company's consolidated results of operations and financial position.

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

In connection with its Chapter 11 filing, New Grace filed an application with the Bankruptcy Court seeking to stay, among other things, all actions related to the New Grace-Related Claims asserted against the Company. The court issued an order dated May 3, 2001 staying all such filed or pending actions against the Company. On June 1, 2001, New Grace requested that the court modify its order to stay cases filed against the Company

since May 3, 2001 as well as all future cases that may be filed against the Company. As of August 7, 2001, the court had not yet ruled on such request. The Company believes that New Grace's filing for reorganization may provide a single forum in which all claims related to New Grace's liabilities, including the New Grace-Related Claims, might be resolved. The New Grace bankruptcy proceeding is in the very early stages and could take a few years to complete.

The Company believes that it has strong defenses to the New Grace-Related Claims, and the Company intends to defend its interests vigorously. It is not possible to determine at this stage of the proceeding the ultimate amount of asbestos-related and other claims which may be made against the Company. In connection with New Grace's bankruptcy proceeding, the Company could incur additional costs in the resolution of claims against the Company that could become material to its consolidated results of operations and financial position.

ENVIRONMENTAL MATTERS

The Company is subject to loss contingencies resulting from environmental laws and regulations, and it accrues for anticipated costs associated with investigatory and remediation efforts when an assessment has indicated that a loss is probable and can be reasonably estimated. These accruals do not take into account any discounting for the time value of money and are not reduced by potential insurance recoveries, if any. Environmental liabilities are reassessed whenever circumstances become better defined and/or remediation efforts and their costs can be better estimated. These liabilities are evaluated periodically based on available information, including the progress of remedial investigations at each site, the current status of discussions with regulatory authorities regarding the methods and extent of remediation and the apportionment of costs among potentially responsible parties. As some of these issues are decided (the outcomes of which are subject to uncertainties) and/or new sites are assessed and costs can be reasonably estimated, the Company adjusts the recorded accruals, as necessary. The Company believes that it has adequately reserved for all probable and estimable environmental exposures.

EURO CONVERSION

On January 1, 1999, eleven of the fifteen members of the European Union (the "participating countries") established fixed conversion rates between their existing currencies (the "legacy currencies") and introduced the euro, a single common non-cash currency. On January 1, 2001, the number of participating countries increased to twelve with the addition of Greece.

At the beginning of 2002, new euro-denominated bills and coins will be issued to replace the legacy currencies, and the legacy currencies will be withdrawn from circulation. By

2002, all companies operating in the participating countries are required to restate their statutory accounting data into euros as their base currency.

In 1998, the Company established plans to address the systems and business issues raised by the euro currency conversion. These issues include, among others, (a) the need to adapt computer, accounting and other business systems and equipment to accommodate euro-denominated transactions, (b) the need to modify banking and cash management systems in order to be able to handle payments between customers and suppliers in legacy currencies and euros between 1999 and 2002, (c) the requirement to change the base statutory and reporting currency of each subsidiary in the participating countries into euros during the transition period, (d) the foreign currency exposure changes resulting from the alignment of the legacy currencies into the euro, and (e) the identification of material contracts and sales agreements whose contractual stated currency will need to be converted into euros.

The Company believes that it will be euro compliant by January 1, 2002. The Company has implemented plans to accommodate euro-denominated transactions and to handle euro payments with third party customers and suppliers in the participating countries. The Company plans to meet the requirement to convert statutory and reporting currencies to the euro in part by acquiring and installing new financial software systems and in part by modifying existing systems. If there are delays in such installation, the Company plans to pursue alternate means to convert statutory and reporting currencies to the euro by 2002. The Company expects that its foreign currency exposures will be reduced as a result of the alignment of legacy currencies, and the Company believes that all material contracts and sales agreements requiring conversion will be converted to euros prior to January 1, 2002.

Although additional costs are expected to result from the implementation of the Company's plans, the Company also expects to achieve benefits in its treasury and procurement areas as a result of the elimination of the legacy currencies. Since the Company has operations in each of its business segments in the participating countries, each of its business segments will be affected by the conversion process. However, the Company expects that the total impact of all strategic and operational issues related to the euro conversion and the cost of implementing its plans for the euro conversion will not have a material adverse impact on its consolidated financial condition, results of operations or reportable segments.

RECENTLY ISSUED STATEMENTS OF FINANCIAL ACCOUNTING STANDARDS

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS")No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer

be amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of".

The Company adopted the provisions of SFAS No. 141 immediately and SFAS No. 142 effective January 1, 2002. Any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after June 30, 2001 will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized through the end of 2001.

In connection with the transitional impairment evaluation, SFAS No. 142 will require the Company to perform an assessment of whether there is an indication that goodwill and other intangible assets are impaired as of January 1, 2002. The assessment process will be completed by June 30, 2002 and the recording of any impairment loss will be completed as soon as possible but no later than the end of 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of earnings.

As of June 30, 2001, the Company has unamortized goodwill in the amount of $1,927,239,000 and unamortized identifiable intangible assets in the amount of approximately $26,000,000, all of which will be subject to the transition provisions of SFAS No. 141 and 142. Amortization expense related to goodwill was $51,776,000 and $28,364,000 for the year ended December 31, 2000 and the six months ended June 30, 2001, respectively. Because of the extensive effort needed to comply with adopting SFAS Nos. 141 and 142, it is not practicable to reasonably estimate the impact of adopting these Statements on the Company's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle; however, beginning January 1, 2002, the Company will no longer record amortization expense related to goodwill.

FORWARD-LOOKING STATEMENTS

Certain statements made by the Company in this report and in future oral and written statements by management of the Company may be forward-looking. These statements include comments as to the Company's beliefs and expectations as to future events and trends affecting the Company's business, its results of operations and its financial condition. These forward-looking statements are based upon management's current expectations concerning future events and discuss, among other things, anticipated future performance and future business plans. Forward-looking statements are identified by such words and

phrases as "expects," "intends," "believes," "will continue," "plans to," "could be," "estimates" and similar expressions. Forward-looking statements are necessarily subject to risks and uncertainties, many of which are outside the control of the Company, that could cause actual results to differ materially from such statements.

The Company recognizes that it is subject to a number of risks and uncertainties that may affect the future performance of the Company, such as: economic, political, business and market conditions in the geographic areas in which it conducts business; changes in the value of foreign currencies against the U.S. dollar; difficulties related to the euro conversion; interest rate changes and credit availability; the success of certain information systems projects; factors affecting the customers, industries and markets that use the Company's packaging materials and systems; competitive factors; the development and success of new products; the Company's success in entering new markets and acquiring and integrating new businesses; the magnitude and timing of capital expenditures; production capacity; inventory management; raw material availability and pricing; changes in energy-related expenses; changes in the Company's relationships with customers and suppliers; legal proceedings and claims (including environmental and asbestos matters) involving the Company; the effect on the Company of the bankruptcy filing by New Grace and its subsidiaries and other New Grace-related matters; the effects of foot-and-mouth and BSE ("mad-cow") disease on the Company's customers; changes in domestic or foreign laws or regulations, or governmental or agency actions.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On March 31, 1998, the Company completed a multi-step transaction (the "Cryovac Transaction"), which brought the Cryovac packaging business ("Cryovac") and the former Sealed Air Corporation ("old Sealed Air") under the common ownership of the Company. These businesses operate as subsidiaries of the Company, and the Company acts as a holding company. As part of that transaction, the Cryovac packaging business, held by various direct and indirect subsidiaries of the Company, was separated from the remaining businesses of the Company. Such remaining businesses were then contributed to a company now known as W. R. Grace

& Co. ("New Grace"), whose shares were distributed to the Company's stockholders. As a result, New Grace became a separate publicly owned company. The Company recapitalized its outstanding shares of common stock into a new common stock and a new convertible preferred stock. A subsidiary of the Company then merged into old Sealed Air, which changed its name to Sealed Air Corporation (US). The agreements pursuant to which the Cryovac Transaction was carried out are referred to below as the "Transaction Agreements."

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

Since the beginning of 2000, the Company has been served with a number of lawsuits (the "New Grace-Related Claims") alleging that, as a result of the Cryovac Transaction, the Company is responsible for alleged asbestos liabilities of New Grace and its subsidiaries, certain of which are also named as co-defendants in many of these actions. These actions include several purported class action lawsuits and a number of personal injury lawsuits. Some plaintiffs seek damages for personal injury or wrongful death while others seek medical monitoring, environmental remediation or remedies related to an attic insulation product. Neither old Sealed Air nor Cryovac has ever produced or sold any asbestos-containing material. These cases are all in the pre-trial stage, and none has been resolved through judgment, settlement or otherwise. All such cases pending on May 3, 2001

have been stayed in connection with New Grace's Chapter 11 bankruptcy proceeding discussed below. Two committees appointed in New Grace's bankruptcy case to represent asbestos plaintiffs have recently filed a motion seeking the bankruptcy court's permission to pursue fraudulent transfer claims against the Company and certain other entities. A hearing on this request is currently set for early September 2001.

While the allegations in these actions directed to the Company vary, these actions all appear to allege that the transfer of the Cryovac business as part of the Cryovac Transaction was a fraudulent transfer or gave rise to successor liability. Under a theory of successor liability, plaintiffs with claims against New Grace and its subsidiaries may attempt to hold the Company derivatively liable for liabilities which arose with respect to activities conducted prior to the Cryovac Transaction by New Grace's primary U.S. operating subsidiary or other subsidiaries. A transfer would be a fraudulent transfer if the transferor received less than reasonably equivalent value and the transferor was insolvent or was rendered insolvent by the transfer, was engaged or was about to engage in a business for which its assets constitute unreasonably small capital, or intended to incur or believed that it would incur debts beyond its ability to pay as they mature. A transfer may also be fraudulent if it was made with actual intent to hinder, delay or defraud creditors. If any transfers in connection with the Cryovac Transaction were found by a court to be fraudulent transfers, the Company could be required to return the property or its value to the transferor or could be required to fund certain liabilities of New Grace or its subsidiaries for the benefit of their creditors, including asbestos claimants.

In the Joint Proxy Statement furnished to their respective stockholders in connection with the Cryovac Transaction, both Sealed Air and Grace stated that it was their belief that New Grace and its subsidiaries were adequately capitalized and would be adequately capitalized after the Cryovac Transaction and that none of the transfers contemplated to occur in the Cryovac Transaction would be a fraudulent transfer. They also stated their belief that the Cryovac Transaction complied with other relevant laws. However, if a court applying the relevant legal standards reached conclusions adverse to the Company, such determination could have a materially adverse effect on the Company's consolidated results of operations and financial position.

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

In connection with its Chapter 11 filing, New Grace filed an application with the Bankruptcy Court seeking to stay, among other things, all actions related to the New Grace-Related Claims asserted against the Company. The court issued an order dated May 3, 2001 staying all such filed or pending actions against the Company. On June 1, 2001, New Grace requested that the court modify its order to stay cases filed against the Company since May 3, 2001 as well as all future cases that may be filed against the Company. As of August 7, 2001, the court had not yet ruled on such request. The Company believes that New

Grace's filing for reorganization may provide a single forum in which all claims related to New Grace's liabilities, including the New Grace-Related Claims, might be resolved. The New Grace bankruptcy proceeding is in the very early stages and could take a few years to complete.

The Company believes that it has strong defenses to the New Grace-Related Claims, and the Company intends to defend its interests vigorously. It is not possible to determine at this stage of the proceeding the ultimate amount of asbestos-related and other claims which may be made against the Company. In connection with New Grace's bankruptcy proceeding, the Company could incur additional costs in the resolution of claims against the Company that could become material to its consolidated results of operations and financial position.

Information related to the aforementioned matters also appeared in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and in Part II, Item 1 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On June 26, 2001, the Company issued $300 million aggregate principal amount of 7-year 8.75% senior notes ("8.75% Senior Notes") under Rule 144A and Regulation S of the Securities Act of 1933, as amended (the "Securities Act"). The net proceeds from the issuance of the 8.75% Senior Notes were used to refinance outstanding borrowings under the 5-year revolving credit facility described under Liquidity and Capital Resources in the Management's Discussion and Analysis of Results of Operations and Financial Condition in Part I of this Form 10-Q. The 8.75% Senior Notes impose certain limitations on the operations of the Company and certain of its subsidiaries. The limitations include restrictions on the creation of liens, entrance into sale-leaseback transactions, merger or consolidation of the Company and disposition of substantially all of the Company's assets. The Company was in compliance with these requirements as of June 30, 2001.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On May 18, 2001, the Company held its annual meeting of stockholders (the "Annual Meeting"). At the Annual Meeting the stockholders voted: (i) to elect the entire Board of Directors of the Company and (ii) to ratify the selection of KPMG LLP as the Company's independent accountants for the fiscal year ending December 31, 2001.

A total of 76,601,329 shares of common stock and 23,771,249 shares of Series A convertible preferred stock ("preferred stock") were present in person or by proxy at the Annual Meeting, representing approximately 97,638,884 votes, or approximately 90% of the voting power of the Company entitled to vote at the Annual Meeting. Each share of common stock was entitled to one vote on each matter before the meeting, and each share of preferred stock was entitled to 0.885 of a vote on each matter before the meeting.

The votes cast on the matters before the Annual Meeting were as set forth below:

I. Nominees for Election Number of Votes to Board of Directors:
In Favor
Withheld
Hank Brown
96,825,350

813,534
John K.
Castle
96,844,835
794,049
Lawrence R.
Codey
96,856,663
782,220 T.
J. Dermot
Dunphy
96,794,438
844,446
Charles F.
Farrell,
Jr.
96,829,852
809,031
William V.
Hickey
96,884,076
754,807
Shirley Ann
Jackson
96,844,562
794,321
Alan H.
Miller
96,833,362
805,521 II.
Ratification
of KPMG For
97,062,623
LLP as
Independent
Against
100,862
Accountants:
Abstentions
475,397

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of the Company as currently in effect. [Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 1-12139, is incorporated herein by reference.]
3.2	Amended and Restated By-Laws of the Company as currently in effect. [Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000, File No. 1-12139, is incorporated herein by reference.]

(b) Reports on Form 8-K

The Company did not file any Reports on Form 8-K during the second quarter of 2001.

Signatures

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

SEALED AIR CORPORATION

Date: August 10, 2001

By /s/ Jeffrey S. Warren

Jeffrey S. Warren
Controller
(Authorized Executive Officer
and Chief Accounting Officer)