Pactiv Corporation

Audited annual consolidated financial statements

For the year ended December 31, 2009, 2008, 2007.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Pactiv Corporation

We have audited the accompanying consolidated statement of financial position of Pactiv Corporation (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in equity, comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pactiv Corporation at December 31, 2009 and 2008, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2009 the Company changed its method of accounting for inventory and in 2008 the Company adopted the requirement to measure the funded status of its defined benefit pension and postretirement healthcare plans as of the date of the year-end statement of financial position.

/s/ ERNST & YOUNG LLP

Chicago, Illinois
February 26, 2010,
except for Notes 1, 18 and 19, as to which the date is July 11, 2011

Pactiv Corporation

Consolidated Statement of Income

	For Years Ended December 31		
	2009	2008(1)	2007(1)
	(In millions, except share and per share data)		
Sales			
Consumer Products	$ 1,285	$ 1,342	$ 1,221
Foodservice/Food Packaging	2,075	2,225	2,032
	3,360	3,567	3,253
Costs and expenses			
Cost of sales, excluding depreciation and amortization	2,241	2,638	2,325
Selling, general, and administrative	349	281	286
Depreciation and amortization	184	182	166
Other	7	6	7
Restructuring and other	—	16	—
	2,781	3,123	2,784
Operating income	579	444	469
Other income (expense)			
Interest income	1	2	5
Interest expense, net of interest capitalized	(94)	(106)	(96)
Income before income taxes	486	340	378
Income tax expense	177	119	133
Income from continuing operations	309	221	245
Discontinued operations, net of tax	15	(4)	1
Net income	324	217	246
Less: Net income attributable to the noncontrolling interest	1	1	2
Net income attributable to Pactiv	$ 323	$ 216	$ 244
Amounts attributable to Pactiv common shareholders			
Income from continuing operations, net of tax	$ 308	$ 220	$ 243
Discontinued operations, net of tax	15	(4)	1
Net income	$ 323	$ 216	$ 244
Earnings per share			
Weighted-average number of shares of common stock outstanding			
Basic	131,967,907	130,925,861	130,912,229
Diluted	133,471,047	132,473,458	132,869,555
Basic earnings per share of common stock attributable to Pactiv common shareholders			
Continuing operations	$ 2.33	$ 1.68	$ 1.85
Discontinued operations	0.12	(0.03)	0.01
Total	$ 2.45	$ 1.65	$ 1.86
Diluted earnings per share of common stock attributable to Pactiv common shareholders			
Continuing operations	$ 2.31	$ 1.66	$ 1.83
Discontinued operations	0.11	(0.03)	0.01
Total	$ 2.42	$ 1.63	$ 1.84

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The accompanying notes to the financial statements are an integral part of this statement.

Pactiv Corporation

Consolidated Statement of Financial Position

	At December 31 2009	At December 31 2008(1)
	(In millions, except share data)	
ASSETS		
Current assets		
Cash and temporary cash investments	$ 46	$ 80
Accounts and notes receivable		
Trade, less allowances of $6 and $7 at the respective dates	277	264
Other	51	47
Total accounts and notes receivable	328	311
Inventories		
Finished goods	240	209
Work in process	39	55
Raw materials	63	78
Other materials and supplies	48	49
Total inventories	390	391
Deferred income tax assets	53	—
Other	15	15
Total current assets	832	797
Property, plant, and equipment, net	1,172	1,209
Other assets		
Goodwill	1,135	1,128
Intangible assets, net	372	396
Noncurrent deferred income tax asset	—	161
Other	63	70
Total other assets	1,570	1,755
Total assets	$ 3,574	$ 3,761
LIABILITIES AND EQUITY		
Current liabilities		
Short-term debt, including current maturities of long-term debt	$ 5	$ —
Accounts payable	144	115
Taxes accrued	24	14
Interest accrued	20	20
Accrued promotions, rebates, and discounts	73	68
Accrued payroll and benefits	97	66
Other	54	55
Total current liabilities	417	338
Long-term debt	1,270	1,345
Deferred income taxes	61	—
Pension and postretirement benefits	694	1,266
Other	120	95
Noncurrent liabilities related to discontinued operations	11	30
Pactiv shareholders' equity		
Common stock — $0.01 par value, 350,000,000 shares authorized, 132,334,417 and 131,510,270 shares issued and outstanding, after deducting 39,448,760 and 40,272,907 shares held in treasury, at the respective dates	1	1
Premium on common stock and other capital surplus	729	710
Accumulated other comprehensive income (loss)		
Currency translation adjustment	(3)	(16)
Pension and postretirement plans	(1,729)	(1,689)
Gain (loss) on derivatives	6	7
Retained earnings	1,981	1,658
Total Pactiv shareholders' equity	985	671
Noncontrolling interest	16	16
Total equity	1,001	687
Total liabilities and equity	$ 3,574	$ 3,761

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The accompanying notes to the financial statements are an integral part of this statement.

Pactiv Corporation

Consolidated Statement of Cash Flows

	For the Twelve Months Ended December 31		
	2009	2008(1)	2007(1)
	(In millions)		
Operating activities			
Net income	$ 324	$ 217	$ 246
Discontinued operations	(15)	4	(1)
Income from continuing operations	309	221	245
Adjustments to reconcile income from continuing operations to cash provided (used) by operating activities:			
Depreciation and amortization	184	182	166
Deferred income taxes	208	112	37
Restructuring and other	(1)	12	—
Pension income	(36)	(49)	(50)
Noncash compensation expense	16	16	9
Pension contributions	(550)	—	—
Changes in components of working capital			
(Increase) decrease in receivables	(16)	(14)	103
(Increase) decrease in inventories	7	22	4
(Increase) decrease in prepayments and other current assets	1	(2)	—
Increase (decrease) in accounts payable	28	(45)	(26)
Increase (decrease) in taxes accrued	(30)	(66)	(16)
Increase (decrease) in interest accrued	—	(2)	15
Increase (decrease) in other current liabilities	36	(23)	(37)
Other	8	(6)	(5)
Cash provided (used) by operating activities — continuing operations	164	358	445
Cash provided (used) by operating activities — discontinued operations	(3)	(8)	(8)
Cash provided (used) by operating activities	$ 161	$ 350	$ 437
Investing activities			
Expenditures for property, plant, and equipment	$(111)	$(136)	$ (151)
Acquisitions of businesses and assets	(20)	—	(1,015)
Net proceeds from the sale of a business or assets	—	—	2
Other investing activities	2	(1)	—
Cash provided (used) by investing activities	$(129)	$(137)	$(1,164)
Financing activities			
Issuance of common stock	$ 6	$ 8	$ 19
Purchase of common stock	—	(2)	(108)
Issuance of long-term debt, net of discounts	—	—	498
Retirement of long-term debt	—	—	(99)
Revolving credit facility borrowings	—	—	432
Revolving credit facility payment	(70)	(230)	(132)
Dividends paid to noncontrolling interest	(1)	(1)	(1)
Other	(1)	(1)	29
Cash provided (used) by financing activities	$ (66)	$(226)	$ 638
Effect of foreign exchange rate changes on cash and temporary cash investments	—	(2)	3
Increase (decrease) in cash and temporary cash investments	(34)	(15)	(86)
Cash and temporary cash investments, January 1	80	95	181
Cash and temporary cash investments, December 31	$ 46	$ 80	$ 95
Supplemental disclosure of cash flow information			
Cash paid for interest	$ 93	$ 109	$ 81
Cash paid for income taxes — continuing operations	4	59	94
Cash paid for income taxes — discontinued operations	4	7	8

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The accompanying notes to the financial statements are an integral part of this statement.

Pactiv Corporation

Consolidated Statement of Changes in Equity

	Pactiv Shareholders					
	Common Stock	Premium on Common Stock and Other Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity
	(In millions, except share amounts)					
Balance, December 31, 2006(1)	$1	$ 757	$1,191	$(1,063)	$10	$ 896
Premium on common stock issued (1,138,286 shares)		19				19
Treasury stock repurchased (3,374,821 shares)		(108)				(108)
Translation of foreign currency statements				15	1	16
Stock-based compensation		15				15
Gain (loss) on derivatives				8		8
Pension and postretirement benefit liability adjustments, net of tax of $116				178		178
Dividends paid to noncontrolling interest					(1)	(1)
Purchase of equity from noncontrolling interest					3	3
Net income			244		2	246
Balance, December 31, 2007(1)	$1	$ 683	$1,435	$ (862)	$15	$1,272
Premium on common stock issued (1,028,245 shares)		25				25
Treasury stock repurchased (75,218 shares)		(2)				(2)
Translation of foreign currency statements				(40)	1	(39)
Stock-based compensation		4				4
Gain (loss) on derivatives				(1)		(1)
Impact of adopting ASC 715-20-65 measurement date change, net of tax of $4			7			7
Pension and postretirement benefit liability adjustments, net of tax of $(468)				(795)		(795)
Dividends paid to noncontrolling interest					(1)	(1)
Net income			216		1	217
Balance, December 31, 2008(1)	$1	$ 710	$1,658	$(1,698)	$16	$ 687
Premium on common stock issued (806,759 shares)		19				19
Translation of foreign currency statements				13		13
Stock-based compensation		—				—
Gain (loss) on derivatives				(1)		(1)
Pension and postretirement benefit liability adjustments, net of tax of $16				(40)		(40)
Dividends paid to noncontrolling interest					(1)	(1)
Net income			323		1	324
Balance, December 31, 2009	$1	$ 729	$1,981	$(1,726)	$16	$1,001

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The accompanying notes to the financial statements are an integral part of this statement.

Pactiv Corporation

Consolidated Statement of Comprehensive Income (Loss)

	Twelve Months Ended December 31,		
	2009	2008(1)	2007(1)
		(In millions)	
Net income	$324	$ 217	$246
Other comprehensive income (loss)			
Pension and postretirement plans	(40)	(795)	178
Net currency translation gain (loss)	13	(39)	16
Gain (loss) on derivatives	(1)	(1)	8
Total other comprehensive income (loss)	(28)	(835)	202
Consolidated comprehensive income (loss)	296	(618)	448
Comprehensive income (loss) attributable to the noncontrolling interest	1	2	3
Comprehensive income (loss) attributable to Pactiv	$295	$(620)	$445

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The accompanying notes to the financial statements are an integral part of this statement.

Pactiv Corporation

Notes to Financial Statements

Note 1. Basis of Presentation

Financial statements for all periods presented in this report were prepared on a consolidated basis in accordance with generally accepted accounting principles consistently applied, except for changes in accounting principles disclosed in Note 2. All per share information is presented on a diluted basis unless otherwise noted. Certain reclassifications have been made to prior years financial information to conform to current year presentation.

On January 5, 2009, we purchased the polypropylene cup business of WinCup for $20 million. This business operates one manufacturing facility in North Carolina. The results of this business have been included in the consolidated financial statements as of that date.

We have three reporting segments:

- *Consumer Products* manufactures disposable plastic, foam, molded fiber, pressed paperboard, and aluminum packaging products, and sells them to customers such as grocery stores, mass merchandisers, and discount chains. Products include waste bags, food storage bags, and disposable tableware and cookware. We sell many of our consumer products under well-known trademarks such as Hefty®.

- *Foodservice/Food Packaging* manufactures foam, clear plastic, aluminum, pressed paperboard, and molded fiber packaging products, and sells them to customers in the food distribution channel, who prepare and process food for consumption. Customers include foodservice distributors, restaurants, other institutional foodservice outlets, food processors, and grocery chains.

- *Other* includes corporate and administrative service operations and retiree benefit income and expense.

The accounting policies of the reporting segments are the same as those for Pactiv as a whole. Where discrete financial information is not available by segment, reasonable allocations of expenses and assets/liabilities are used.

In 2009, we changed our method of accounting for inventory from a combination of the last-in, first-out (LIFO) method and the first-in, first-out (FIFO) method to the FIFO method. In accordance with Accounting Standards Codification (ASC) 250-10 “Accounting Changes and Error Corrections,” all prior periods presented have been retrospectively adjusted to apply the new method of accounting. For more information on the change in inventory accounting method, see Note 2 to the financial statements.

Subsequent Events

In February 2010, the board of directors approved an Agreement and Plan of Merger with PWP Holdings, Inc. whereby Pactiv will acquire PWP Holdings and PWP Industries for $200 million. This transaction closed April 1, 2010. PWP Industries manufactures and sells amorphous polyethylene terephthalate (APET) products in the food service market.

In February 2010, the board of directors also approved the repurchase of an additional 10 million shares of our common stock. This amount is in addition to the remaining 522,361 shares authorized to be repurchased as of December 31, 2009.

On November 16, 2010 Reynolds Acquisition Corporation (Reynolds), a wholly owned indirect subsidiary of Reynolds Group Holdings Limited (RGHL) acquired 100% of the outstanding common stock of Pactiv for an aggregate purchase price of $4.5 billion. Reynolds merged with and into Pactiv with Pactiv surviving the merger as an indirect wholly owned subsidiary of RGHL.

Note 2. Summary of Accounting Policies

Consolidation

Our financial statements include all majority-owned subsidiaries. Investments in 20% to 50% owned companies in which we have the ability to exert significant influence over operating and financial policies are accounted for using the equity method of accounting. All inter-company transactions are eliminated.

Foreign Currency Translation

Financial statements of international operations are translated into U.S. dollars using end-of-period exchange rates for assets and liabilities and weighted-average exchange rates for sales, expenses, gains, and losses. Translation adjustments are recorded as a component of shareholders' equity.

Cash and Temporary Cash Investments

We define cash and temporary cash investments as checking accounts, money market accounts, certificates of deposit, and U.S. Treasury notes having an original maturity of 90 days or less.

Accounts and Notes Receivable

Trade accounts receivable are classified as current assets and are reported net of allowances for doubtful accounts. We record such allowances based on a number of factors, including historical trends and specific customer situations.

On a recurring basis, we sell an undivided interest in a pool of trade receivables meeting certain criteria to a third party as an alternative to debt financing. Such sales, which represent a form of off-balance-sheet financing, are recorded as a reduction of accounts and notes receivable in the statement of financial position. Related proceeds are included in cash provided by operating activities in the statement of cash flows. At December 31, 2009, receivables aggregating $110 million were sold, while receivables totaling $130 million were sold at December 31, 2008. Discounts and fees related to such sales were $1 million in 2009, and $4 million in both 2008 and 2007. These expenses are included in "other expense" in the statement of income. In the event that either Pactiv or the third-party purchaser of the trade receivables were to discontinue this program, our debt would increase, or our cash balance would decrease, by an amount corresponding to the level of sold receivables at such time.

Inventories

Our inventories are stated at the lower of cost or market using the FIFO method. We periodically review inventory balances to identify slow-moving and/or obsolete items. This determination is based on a number of factors, including new product introductions, changes in consumer demand patterns, and historical usage trends.

In 2009, we changed our method of accounting for inventory from a combination of the LIFO method and the FIFO method to the FIFO method. All of our businesses now use the FIFO method of accounting for inventory. We believe the new method of accounting for inventory is preferable because the FIFO method better reflects the current value of inventories on the Consolidated Statement of Financial Position, provides better matching of revenue and expenses under our business model, and provides uniformity across our operations with respect to the method of inventory accounting for financial reporting.

In accordance with ASC 250-10 "Accounting Changes and Error Corrections," all prior periods presented have been retrospectively adjusted to apply the new method of accounting.

The following table presents the line items on the statement of income that were impacted by the accounting change for the years ended December 31, 2008, and 2007.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
	(In millions, except per share data)			
Cost of Sales, excluding depreciation and amortization	$2,636	$2,638	$2,322	$2,325
Operating income	446	444	472	469
Income tax expense	120	119	135	133
Income from continuing operations	222	221	246	245
Net income attributable to Pactiv	217	216	245	244
Earnings (loss) per share of common stock:				
Basic	$ 1.66	$ 1.65	$ 1.87	$ 1.86
Diluted	$ 1.64	$ 1.63	$ 1.85	$ 1.84

The following table presents the line items on the statement of financial position that were impacted by the accounting change as of December 31, 2008.

	December 31, 2008	
	As Originally Reported	As Adjusted
	(In millions)	
Inventories	$ 344	$ 391
Deferred income tax assets	14	—
Goodwill	1,124	1,128
Other current liabilities	50	55
Retained earnings	1,626	1,658

The following table presents the line items on the statement of cash flows that were impacted by the accounting change for the years ended December 31, 2008, and 2007.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
	(In millions)			
Net income	$218	$217	$247	$246
Deferred income taxes	113	112	38	37
(Increase) decrease in inventories	20	22	1	4

The following table presents the segment information line items that were impacted by the accounting change for the years ended December 31, 2008, and 2007.

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
	(In millions)			
Operating income (loss)				
Consumer Products	$ 207	$ 207	$ 227	$ 226
Foodservice/Food Packaging	236	234	247	245
Other	3	3	(2)	(2)
Total operating income (loss)	$ 446	$ 444	$ 472	$ 469
Total assets				
Consumer Products	$1,307	$1,326	$1,345	$1,365
Foodservice/Food Packaging	2,070	2,102	2,125	2,159
Other	348	333	295	274
Total assets	$3,725	$3,761	$3,765	$3,798

For a summary of the effect of the retrospective adjustments resulting from the change in accounting principle for inventory costs for the interim quarters of 2009, see Note 16 to the financial statements.

Property, Plant, and Equipment, Net

Depreciation is recorded on a straight-line basis over the estimated useful lives of assets. Useful lives range from 10 to 40 years for buildings and improvements and from 3 to 25 years for machinery and equipment. Depreciation expense totaled $158 million in 2009, $155 million in 2008, and $143 million in 2007.

We capitalize certain costs related to the purchase and development of software used in our business. Such costs are amortized over the estimated useful lives of the assets, ranging from 3 to 12 years. Capitalized software development costs, net of amortization at December 31 were $16 million in 2009, and $20 million in 2008.

We periodically re-evaluate the carrying values and estimated useful lives of long-lived assets to determine if adjustments are warranted. We use estimates of undiscounted cash flows from long-lived assets to determine whether the book value of such assets is recoverable over the assets' remaining useful lives.

Goodwill and Intangibles, Net

We review the carrying value of our goodwill and indefinite-lived intangibles for possible impairment on an annual basis. Our annual review is conducted in the fourth quarter of the year, or earlier if warranted by events or changes in circumstances.

Possible impairment of goodwill is determined using a two-step process.

- The first step requires that the fair value of individual reporting units be compared with their respective carrying values. If the carrying value of a reporting unit exceeds its fair value, a second step is performed to measure the amount of impairment, if any.

- The second step requires that the fair value of a reporting unit be allocated to all of its assets and liabilities, including indefinite-lived intangibles. Any remaining fair value is the implied goodwill, which is then compared with the carrying value of goodwill.

We test goodwill for impairment at the reporting unit level. Our four reporting units are Institutional, Specialty (both part of the Foodservice reporting segment), Consumer, and Other (Corporate functions). Our operating segments are each deemed to be a reporting unit as none of the operating segments' components qualifies as a separate reporting unit or the operating segment is comprised of only one component.

Estimates of fair value used in testing goodwill and indefinite-lived intangible assets for possible impairment are determined using the discounted cash flow method. This approach uses estimates and assumptions regarding the amount and timing of projected cash flows, discount rates reflecting the risk inherent in future cash flows, perpetual growth rates, and appropriate market comparables. We believe this is the most appropriate method as it reflects how Pactiv, as well as other investors, typically value packaging industry companies. We also compare the result of the discounted cash flow method to the enterprise value (market capitalization plus debt) of Pactiv.

The many assumptions used in the cash flow analysis are subject to the accuracy of our projections of volume, selling price, raw materials costs and SG&A expenses. The percentage by which projected discounted cash flows would have to decrease to have a failure in step one of the impairment test is 61% for Consumer, 61% for Institutional, and 70% for Specialty. Our Other reporting unit has no goodwill or indefinite-lived intangible assets.

Intangible assets that are not deemed to have an indefinite life are amortized over their useful lives. We use undiscounted cash flows, excluding interest charges, to assess the recoverability of the carrying value of such assets, and record an impairment loss if the carrying value of assets exceeds their fair value. See Note 8 for additional information.

Environmental Liabilities

We are subject to a variety of environmental and pollution control laws and regulations. From time to time, we identify costs or liabilities arising from compliance with environmental laws and regulations. When related liabilities are probable and can be reasonably estimated, we establish appropriate reserves. Estimated liabilities may change as additional information becomes available. We appropriately adjust our reserves as new information on possible clean-up costs, expense and effectiveness of alternative clean-up methods, and other potential liabilities is received. We do not expect that any additional liabilities recorded as a result of the availability of new information will have a material adverse effect on our financial position. However, such costs could have a material effect on our results of operations or cash flows in a particular period.

Revenue Recognition

We recognize sales when the risks and rewards of ownership have transferred to customers, which generally occurs as products are shipped. In arriving at net sales, we estimate the amount of deductions from sales that are likely to be earned or taken by customers in conjunction with incentive programs. These include volume rebates, early payment discounts, and coupon offerings. Estimates are based on historical trends and are reviewed quarterly for possible revision. In addition, we pay slotting fees and participate in cooperative advertising programs. The cost for all such programs are accounted for as reductions to revenues.

Freight

We record amounts billed to customers for shipping and handling as sales, and record shipping and handling expenses as cost of sales.

General and Administrative Expenses

Total noncash pension income was as follows:

	For the Years Ended December 31		
	2009	2008	2007
	(In millions)		
Pension income (recorded as an offset to selling, general, and administrative costs)	$44	$54	$54
Pension service costs associated with production operations (recorded in cost of sales)	(8)	(5)	(4)
Total noncash pension income	$36	$49	$50

Research and Development

Research and development costs, which are expensed as incurred, totaled $33 million in 2009, $32 million in 2008, and $35 million in 2007.

Advertising

Advertising production costs are expensed as incurred, while advertising media costs are expensed in the period in which the related advertising first takes place. Advertising expenses were $28 million in 2009, $8 million in 2008, and $13 million in 2007.

Stock-Based Compensation

We account for stock-based compensation under ASC 718-10 "Compensation — Stock Compensation," which requires that the fair value of all share-based payments to employees, including stock options, be recognized in financial statements. ASC 718-10 superseded prior authoritative guidance which required that the intrinsic-value method be used in determining compensation expense for share-based payments to employees. Employee compensation expense is based on the grant date fair value of awards, and is recognized in the Statement of Income over the period that recipients of awards are required to provide related service (normally the vesting period).

Income Taxes

We use the asset and liability method of accounting for income taxes. This method requires that deferred tax assets and liabilities be recorded to reflect the future tax consequences of temporary differences between the tax and financial statement basis of assets and liabilities. If we determine that it is more likely than not that a portion of deferred tax assets will not be realized in a future period, we reduce deferred tax assets by recording a valuation allowance. Estimates used to recognize deferred tax assets are subject to revision in subsequent periods based on new facts or circumstances.

We do not accrue for U.S. federal income taxes on unremitted earnings of foreign subsidiaries because we intend to reinvest those earnings in foreign operations. Unremitted earnings of foreign subsidiaries totaled $50 million at December 31, 2009, and $47 million at December 31, 2008. The unrecognized deferred tax liability associated with unremitted earnings totaled approximately $10 million at December 31, 2009, and $7 million at December 31, 2008.

Earnings Per Share

Basic earnings per share is computed by dividing income attributable to Pactiv common shareholders by the weighted-average number of shares outstanding. Diluted earnings per share is calculated in the same manner; however, adjustments are made to reflect the potential issuance of dilutive shares.

Risk Management

From time to time, we use derivative financial instruments to hedge our exposure to changes in foreign currency exchange rates, principally using foreign currency purchase and sale contracts with terms of less than 1 year. We do so to mitigate our exposure to exchange rate changes related to third-party trade receivables and accounts payable. Net gains or losses on such contracts are recognized in the statement of income as offsets to foreign currency exchange gains or losses on the underlying transactions. In the statement of cash flows, cash receipts and payments related to hedging contracts are classified in the same way as cash flows from the transactions being hedged. We had no open foreign currency contracts as of December 31, 2009.

Interest rate risk management is accomplished through the use of swaps. Interest rate swaps are booked at their fair value at each reporting date, with an equal offset recorded either in earnings or accumulated other comprehensive income depending on the designation (or lack thereof) of each swap as a hedging instrument.

From time to time, we employ commodity forward or other derivative contracts to hedge our exposure to adverse changes in the price of certain commodities used in our production processes. We do not use derivative financial instruments for speculative purposes. See Note 7 for additional information.

Changes in Accounting Principles

The Financial Accounting Standards Board (FASB) issued ASC 105-10, “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles,” which was effective for fiscal years, and interim periods within such fiscal years, ending after September 15, 2009. ASC 105-10 establishes an authoritative United States GAAP superseding all pre-existing accounting standards and literature. ASC 105-10 did not have a material effect on our financial statements upon adoption or as of December 31, 2009. We have updated all references to specific authoritative guidance within our annual financial reporting to reflect the new Accounting Standards Codification structure.

The FASB issued ASC 820-10, “Fair Value Measurements and Disclosures” which was effective as of January 1, 2008. ASC 820-10 establishes a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. ASC 820-10, which does not require the use of any new fair value measurements, clarifies the application of other accounting pronouncements that require or permit fair value measurements. ASC 820-10 did not have a material effect on our financial statements upon adoption and as of December 31, 2009.

The FASB issued ASC 715-20, “Compensation — Retirement Benefits,” of which we adopted the recognition and disclosure provisions on December 31, 2006. We recorded a charge to accumulated other comprehensive income of $41 million upon adoption. We adopted the measurement provisions of ASC 715-20-65 on January 1, 2008, using the transition method based on the data as of our September 30, 2007, measurement date. As a result, we increased “retained earnings” by $7 million after tax in 2008.

The FASB issued ASC 825-10, “Financial Instruments” which was effective January 1, 2008. ASC 825-10 permits entities to choose to measure many financial instruments and certain other items at fair value as of specified election dates. ASC 825-10 expands the use of fair value measurement, but does not eliminate disclosure requirements of other accounting standards, including ASC 820-10. ASC 825-10 did not impact our financial statements upon adoption and as of December 31, 2009. We did not choose to measure any financial instruments at fair value as permitted under the statement.

The FASB issued ASC 805-10, "Business Combinations," which replaces prior authoritative guidance on business combinations, and was effective on a prospective basis for all business combinations that occur in fiscal years beginning after December 15, 2008, with the exception of accounting for valuation allowances on deferred taxes and acquired tax contingencies. ASC 805-10 retains the underlying concepts of the prior authoritative guidance in that all business combinations are still required to be accounted for at fair value using the acquisition method of accounting, but it changes the application of the acquisition method in a number of significant ways. In this regard, the pronouncement requires that (1) acquisition-related costs generally be expensed as incurred, (2) noncontrolling interests be recorded at fair value, (3) in-process research and development costs be recorded at fair value as an indefinite lived intangible asset, (4) restructuring costs associated with a business combination generally be expensed subsequent to the date of such a combination, and (5) changes in valuation allowances on deferred tax assets and income tax uncertainties after the acquisition date generally be recorded as income tax expense. ASC 805-10 amends ASC 740-10, "Income Taxes" such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of ASC 805-10 would also be subject to the provisions of ASC 805-10. ASC 805-10 was effective on January 1, 2009, and did not have a material impact on our financial statements upon adoption and as of December 31, 2009.

The FASB issued ASC 810-10-45, "Consolidation" which was effective for fiscal years, and interim periods within such fiscal years, beginning on or after December 15, 2008. ASC 810-10-45 requires that noncontrolling (minority) interests be recognized as equity (but separate from the parent's equity) in consolidated financial statements, and that net earnings related to noncontrolling interests be included in consolidated net income, but identified separately on the face of the income statement. ASC 810-10-45 also amends prior authoritative guidance, and expands disclosure requirements regarding the interests of parents and noncontrolling interests. ASC 810-10-45 was effective on January 1, 2009, and did not have a material impact on our financial statements upon adoption and as of December 31, 2009.

The FASB issued the disclosure requirements within ASC 815-10-65, "Derivatives and Hedging" which was effective for fiscal years, and interim periods within such fiscal years, beginning on or after November 15, 2008. ASC 815-10 requires (1) enhanced disclosures about an entity's derivative and hedging activities, specifically how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under ASC 815-10 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. ASC 815-10 was effective on January 1, 2009, and did not have a material impact on our financial statements upon adoption and as of December 31, 2009.

The FASB issued the disclosure requirements within ASC 825-10-65, "Financial Instruments" which was effective for interim reporting periods ending after June 15, 2009. ASC 825-10-65 amends prior authoritative guidance to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. ASC 825-10-65 also amends ASC 270-10, "Interim Reporting," to require those disclosures in summarized financial information at interim reporting periods. ASC 825-10-65 was effective for our June 30, 2009 interim reporting, and did not have a material effect on our financial statements upon adoption and as of December 31, 2009.

The FASB issued ASC 855-10, "Subsequent Events" which was effective for fiscal years, and interim periods within such fiscal years, ending after June 15, 2009. ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. ASC 855-10 was effective for our June 30, 2009 interim reporting, and did not have a material effect on our financial statements upon adoption and as of December 31, 2009.

The FASB issued the disclosure requirements within ASC 715-20-65 "Compensation — Retirement Benefits" which was effective for fiscal years ending after December 15, 2009. ASC 715-20-65 requires enhanced disclosures about plan assets in an employer's defined benefit pension or other postretirement plan, including (1) information on investment policies and strategies, (2) the fair value of each major category of plan assets, (3) the inputs and valuation techniques used to measure the fair value of plan assets, (4) the effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period, and (5) significant concentrations of risk within plan assets. ASC 715-20-65 was effective for our December 31, 2009, reporting, and did not have a material impact on our financial statements upon adoption.

The FASB issued Statement of Financial Accounting Standards (SFAS) No. 166, "Accounting for Transfers of Financial Assets," which is effective for interim and annual periods beginning after November 15, 2009.

SFAS No. 166, which is not yet included in the Codification, requires additional information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. SFAS No. 166 eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. We are currently reviewing SFAS No. 166, and evaluating the impact of its adoption on our financial statements.

Estimates

Financial statement presentation requires management to make estimates and assumptions that affect reported amounts for assets, liabilities, sales, and expenses. Actual results may differ from such estimates.

Note 3. Restructuring and Other

In 2008, we implemented a cost reduction program that included the consolidation of two small facilities, asset rationalizations, and headcount reductions. The program is essentially complete with the exception of a small idle plant held for sale. The accrued restructuring balance of $1 million as of December 31, 2009, and $2 million as of December 31, 2008, is for remaining severance payments. Cash payments related to restructuring and other were $1 million pretax for the year ended December 31, 2009. In 2008, we recorded a charge of approximately $10 million after tax, or $0.08 per share. Cash payments related to restructuring and other charges were $2 million for the year ended December 31, 2008.

	Severance	Asset Write-Offs	Other(1)	Total
		(In millions)		
Restructuring costs for the year ended December 31, 2008				
Consumer Products	$2	$ 7	$ (4)	$ 5
Foodservice/Food Packaging	6	2	2	10
Other	1	—	—	1
Total	$9	$ 9	$ (2)	$16

(1) Consists principally of a gain on the sale of one of our facilities and asset removal and transfer costs.

Note 4. Business Combinations

On January 5, 2009, we purchased the polypropylene cup business of WinCup for $20 million. This business operates one manufacturing facility in North Carolina. The results of this business have been included in the consolidated financial statements as of that date.

The total cost of the acquisition was allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill and other intangible assets recorded in connection with the acquisition totaled $1 million and $3 million, respectively, and all of the goodwill is expected to be deductible for tax purposes. Recorded intangible assets pertain to customer relationships and are being amortized over a 15-year period.

Appraisals of the fair-market value and physical counts of the assets acquired during the third quarter of 2009 resulted in goodwill being decreased by $1 million, and property, plant, and equipment being increased by the same amount.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the acquisition date.

	(In millions)
Current assets	$ 4
Property, plant, and equipment	13
Intangible assets	3
Goodwill	1
Total assets acquired	21
Current liabilities	1
Total liabilities assumed	1
Net assets acquired	$20

We acquired 100% of the stock of Prairie Packaging, Inc. (Prairie) on June 5, 2007. The results of Prairie's operations have been included in the consolidated financial statements as of that date.

Note 5. Discontinued Operations

On October 12, 2005, we sold substantially all of our protective and flexible packaging businesses. The results of the sold businesses, as well as costs and charges associated with the transaction, are classified as discontinued operations.

In 2009, we recorded $15 million of income from discontinued operations primarily related to the expiration of the statute of limitations on the 2005 tax year for tax liabilities which had been recorded in conjunction with divested businesses. In 2008, we recorded expense from discontinued operations of $4 million, which was attributed to taxes associated with the disposition of a business. Liabilities related to discontinued operations, which included obligations related to income taxes, certain royalty payments, and the costs of closing a facility in Europe, were as follows:

	At December 31	
	2009	2008
	(In millions)	
Current liabilities	$—	$—
Noncurrent liabilities	11	30
Total liabilities related to discontinued operations	$11	$30

Note 6. Long-Term Debt, Short-Term Debt, and Financing Arrangements

Long-Term Debt

	At December 31	
	2009	2008
	(In millions)	
Notes due 2010, effective interest rate of 0.4%	$ —	$ 5
Borrowings under a 5-year, $750 million revolving credit facility	—	70
Notes due 2012, effective interest rate of 5.7%	250	250
Notes due 2017, effective interest rate of 8.1%	300	300
Notes due 2018, effective interest rate of 6.3%, net of $1 million of unamortized discount	249	249
Notes due 2025, effective interest rate of 7.9%, net of $1 million of unamortized discount	275	275
Notes due 2027, effective interest rate of 8.4%, net of $4 million of unamortized discount	196	196
Total long-term debt	$1,270	$1,345

Short-Term Debt

	At December 31	
	2009	2008
	(In millions)	
Current maturities of long-term debt	$5	$—

At December 31, 2009, the aggregate maturities of debt outstanding were $5 million due in 2010, $250 million due in 2012, and $1.026 billion thereafter.

We were in full compliance with financial and other covenants in our various credit agreements at December 31, 2009.

There have been no stated events of default which would permit the lenders to accelerate the debt if not cured within applicable grace periods, or any cross default provisions in our debt agreements. We had no short-term borrowings as of December 31, 2009.

In 1999, our former parent, Tenneco realigned certain of its debt in preparation for the spin-off of Pactiv. In conjunction with this realignment, we entered into an interest rate swap to hedge our exposure to interest rate movement. We settled this swap in November 1999 at a loss of $43 million. The loss on the swap is being recognized as additional interest expense over the life of the underlying notes. At December 31, 2009, the unamortized balance was $35 million.

Note 7. Financial Instruments

Asset and Liability Instruments

At December 31, 2009, and 2008, the fair value of cash and temporary cash investments, short- and long-term receivables, accounts payable, and short-term debt were the same as, or not materially different from, the amount recorded for these assets and liabilities. The fair value of long-term debt was approximately $1.5 billion at December 31, 2009, and approximately $1.4 billion at December 31, 2008. The recorded amount was $1.3 billion at December 31, 2009, and at December 31, 2008. The fair value of long-term debt was based on quoted market prices for our debt instruments.

Instruments with Off-Balance Sheet Risk (Including Derivatives)

We use derivative instruments, principally swaps, forward contracts, and options, to manage our exposure to movements in foreign currency values, interest rates, and commodity prices.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the hedge instruments are reclassified from OCI to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable.

Foreign Currency

From time to time, we use derivative financial instruments to hedge our exposure to changes in foreign currency exchange rates, principally using foreign currency purchase and sale contracts with terms of less than one year. We do so to mitigate our exposure to exchange rate changes related to third-party trade receivables and accounts payable. Net gains or losses on such contracts are recognized in the statement of income as offsets to foreign currency exchange gains or losses on the underlying transactions. In the statement of cash flows, cash receipts and payments related to hedging contracts are classified in the same way as cash flows from the transactions being hedged. We had no open foreign currency contracts as of December 31, 2009.

Interest Rates

We entered into interest rate swap agreements in connection with the acquisition of Prairie. The agreements were terminated on June 20, 2007, resulting in a gain of $9 million. This gain is being recorded as a reduction of interest expense over the average life of the underlying debt. Amounts recognized in earnings related to our hedging transactions were $1 million for the year ended December 31, 2009, and December 31, 2008.

Commodity

During the fourth quarter of 2009, we entered into natural gas purchase agreements with third parties, hedging a portion of the first half of 2010 purchases of natural gas used in the production processes at certain of our plants. These purchase agreements are marked to market, with the resulting gains or losses recognized in earnings when hedged transactions are recorded. The mark-to-market adjustments at December 31, 2009, were immaterial.

To minimize volatility in our margins due to large fluctuations in the price of commodities, in the second quarter of 2009 we entered into swap contracts to manage risks associated with market fluctuations in resin prices. These contracts were designated as cash flow hedges of forecasted commodity purchases. All monthly swap contracts entered into in the third quarter of 2009 have expired. There were no contracts outstanding as of December 31, 2009, and no gains are expected to be reclassified to earnings in the first quarter of 2010.

Fair Value Measurements

Financial assets and liabilities that are recorded at fair value consist of derivative contracts that are used to hedge exposures to interest rate, commodity, and currency risks. ASC 820-10-35 sets out a fair value hierarchy that groups fair value measurement inputs into three classifications: Level 1, Level 2, or Level 3. Level 1 inputs are quoted prices in an active market for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. All of our fair value measurements for derivative contracts use Level 2 inputs.

There were no outstanding derivative instruments recorded in the consolidated balance sheet as of December 31, 2009, and as of December 31, 2008.

The following table indicates the amounts recognized in OCI for those derivatives designated as cash flow hedges for the years ended December 31, 2009, and 2008.

	Gain or (Loss) Recognized in OCI (Effective Portion)		Location of Gain or (Loss) Reclassified from OCI into Income (Effective Portion)	(Gain) or Loss Reclassified from OCI into Income (Effective Portion)	
	2009	2008		2009	2008
			(In millions)		
Commodity Contracts	$—	$—	Cost of Sales	$(2)	$—
Interest Rate Contracts	$—	$—	Interest Expense	$(1)	$ (1)

There were no transactions that ceased to qualify as a cash flow hedge in the years ended December 31, 2009, or 2008.

Note 8. Goodwill and Intangible Assets

Changes in the carrying value of goodwill during 2009 and 2008 by reporting segment are shown in the following table.

	Consumer Products	Foodservice/ Food Packaging	Total
		(In millions)	
Balance, December 31, 2007(1)	$288	$839	$1,127
Goodwill adjustment	3	13	16
Foreign currency translation adjustment	—	(15)	(15)
Balance, December 31, 2008(1)	$291	$837	$1,128
Goodwill additions	—	1	1
Goodwill adjustment	—	(1)	(1)
Foreign currency translation adjustment	—	7	7
Balance, December 31, 2009	$291	$844	$1,135

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

Goodwill and other intangible assets recorded in connection with the WinCup acquisition totaled $1 million and $3 million, respectively. Recorded intangible assets pertain to customer relationships and are being amortized over a 15-year period.

Details of intangible assets are shown in the following table.

	December 31, 2009		December 31, 2008	
	Carrying Value	Accumulated Amortization	Carrying Value	Accumulated Amortization
	(In millions)			
Intangible assets subject to amortization				
Patents	$ 87	$ 74	$ 87	$ 69
Customer relationships	209	36	206	21
Other	145	88	145	81
	441	198	438	171
Intangible assets not subject to amortization (primarily trademarks)	129	—	129	—
	$570	$198	$567	$171

The weighted-average amortization period used for patents and other intangible assets subject to amortization is 15 years and 18 years, respectively. Amortization of intangible assets was $26 million for the year ended December 31, 2009. Amortization expense is estimated to total $25 million in 2010, $24 million in 2011, $23 million in 2012, $19 million in 2013, and $19 million in 2014.

Note 9. Property, Plant, and Equipment, Net

	December 31, 2009	December 31, 2008
	(In millions)	
Original cost		
Land, buildings, and improvements	$ 667	$ 654
Machinery and equipment	1,929	1,808
Other, including construction in progress	96	125
	$ 2,692	$ 2,587
Less accumulated depreciation and amortization	(1,520)	(1,378)
Net property, plant, and equipment	$ 1,172	$ 1,209

Capitalized interest was $1 million in 2009, and $2 million in both 2008 and 2007.

Note 10. Income Taxes

Details of income (loss) from continuing operations before income taxes are shown in the following table.

	2009	2008(1)	2007(1)
		(In millions)	
Income (loss) from continuing operations before income taxes			
U.S. operations	$458	$321	$357
Foreign operations	28	19	21
Total	$486	$340	$378

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

Shown below are details of income tax expense for continuing operations.

	2009	2008(1)	2007(1)
		(In millions)	
Current			
Federal	$(35)	$ 10	$ 71
State and local	(2)	(4)	14
Foreign	7	1	12
	(30)	7	97
Deferred			
Federal	186	101	31
State and local	19	7	3
Foreign	2	4	2
	207	112	36
Total income tax expense	$177	$119	$133

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

A reconciliation of the difference between the U.S. statutory federal income tax rate and our effective income tax rate is shown in the following table.

	2009	2008(1)	2007(1)
U.S. statutory federal income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in income tax rate			
Foreign income taxed at various rates	(0.2)	(0.5)	0.5
State and local taxes on income, net of federal income tax benefit	2.3	(0.3)	3.0
Domestic production deduction	0.0	(0.1)	(1.3)
Research and experimentation credit	(0.2)	(0.1)	(0.3)
Income tax reserve increase	0.5	2.8	1.4
Income tax reserve decrease	(0.9)	(1.8)	(2.2)
Other	(0.1)	0.1	(0.8)
Effective income tax rate	36.4%	35.1%	35.5%

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The components of our net deferred tax assets and liabilities are summarized in the following table.

	December 31	
	2009	2008(1)
	(In millions)	
Deferred tax assets		
Tax loss carryforwards		
Federal	$ 42	$ 15
State and local	3	—
Foreign	12	18
Tax Credits	15	5
Pensions(2)	240	412
Postretirement benefits	37	38
Benefits of ASC 740-10	11	11
Other items	29	14
Valuation allowance(3)	(35)	(33)
Total deferred tax assets	$354	$ 480
Deferred tax liabilities		
Property and equipment	362	324
Total deferred tax liabilities	362	324
Net deferred tax (assets) liabilities	$ 8	$(156)

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

(2) Decrease mainly due to realized tax benefits from pension contributions.

(3) Related to federal and foreign tax loss and tax credit carryforwards.

We had federal net operating loss carryforwards of $77 million as of December 31, 2009, which will expire in 2030 and federal capital loss carryforwards of $44 million as of December 31, 2009, which will expire in 2011. State net operating loss carryforwards of $3 million at December 31, 2009, will expire at various dates from 2015 to 2030. Foreign net operating loss carryforwards at December 31, 2009, totaled $47 million, and have an unlimited life.

We had federal tax credit carryforwards of $5 million, as of December 31, 2009, which will expire at various dates from 2017 to 2030. State tax credit carryforwards at December 31, 2009, totaled $13 million ($8 million, net of the federal benefit of state tax), of which $10 million will expire at various dates from 2011 to 2024, with the balance having an unlimited life. Foreign tax credit carryforwards of $2 million at December 31, 2009, will expire in 2019 and 2020.

The FASB issued certain provisions within ASC 740-10 “Income Taxes” which clarifies the application of prior authoritative guidance and was effective as of January 1, 2007. ASC 740-10 establishes a threshold condition that a tax position must meet for any part of the benefit of such a position to be recognized in the financial statements. In addition, ASC 740-10 provides guidance regarding measurement, derecognition, classification, and disclosure of tax positions.

Changes in the balance of unrecognized income tax benefits are detailed below.

	2009	2008
	(In millions)	
Balance at January 31	$ 57	$ 53
Increases related to prior year tax positions	20	12
Decreases related to prior year tax positions	(4)	(1)
Increases pertaining to current year tax positions	1	5
Settlements	(2)	(11)
Expiration of statute of limitations	(14)	(1)
Balance at December 31	$ 58	$ 57

The total amount of unrecognized income tax benefits that, if recognized, would favorably impact our effective tax rate for continuing operations in future periods was $50 million as of December 31, 2009. As of December 31, 2009, it is reasonably possible that the balance of unrecognized income tax benefits may increase or decrease during the following twelve months. However, it is not expected that any such changes would significantly affect, individually or in total, our operating results or financial condition.

It is our continuing practice to record accruals for interest and penalties related to income tax matters in income tax expense. Such accruals totaled $11 million as of December 31, 2009, and $10 million as of December 31, 2008. Expense recorded through December 31, 2009, for interest and penalties related to continuing operations was $3 million.

U.S. federal income tax returns filed for the years 2006 through 2008 are open for examination by the Internal Revenue Service. Various state, local, and foreign tax returns filed for the years 2002 through 2008 are open for examination by tax authorities in those jurisdictions.

Included in unrecognized income tax benefits at December 31, 2009, was $1 million related to discontinued operations, all of which, if recognized, would impact income from discontinued operations in future periods. In 2009, an income tax benefit of $15 million was recorded, which included the reversal of $2 million of interest and penalties as a result of the expiration of the 2005 tax year statute of limitations.

In connection with the adoption of ASC 718-10 "Compensation — Stock Compensation," we elected to use the simplified method in calculating our additional paid-in capital pool upon adoption of ASC 718-10, as described in prior authoritative guidance. ASC 718-10 requires that tax deductions for compensation costs in excess of amounts recognized for accounting purposes be reported as cash flow from financing activities, rather than as cash flow from operating activities. Such "excess" amounts were $1 million in 2009, immaterial in 2008, and $23 million in 2007.

Note 11. Common Stock

We have 350 million shares of common stock ($0.01 par value) authorized, of which 132,334,417 shares were issued and outstanding as of December 31, 2009.

Reserves

Reserved shares at December 31, 2009, were as follows:

	(In thousands)
Thrift plans	860
2002 incentive compensation plan	15,151
Total	16,011

Stock Plans

2002 Incentive Compensation Plan — In November 1999, we initiated a stock ownership plan that permits the granting of a variety of incentives, including common stock, restricted stock, performance shares, stock appreciation rights, and stock options, to directors, officers, and employees. In May 2002, the 1999 plan was succeeded by the 2002 plan, and all balances under the 1999 plan were transferred to the new plan, which remains in effect until amended or terminated. Under the 2002 plan, up to 27 million shares of common stock can be issued (including shares issued under the prior plan), of which 17 million were issued or granted as of December 31, 2009.

Restricted stock, performance share, and stock option awards generally require that, among other things, grantees remain with the company for certain periods of time. Performance shares granted under the plan vest upon the attainment of specified performance goals in the 3 years following the date of grant.

Changes in performance share balances were as follows:

	Performance Shares
Outstanding, December 31, 2007	2,058,968
Granted	655,850
Canceled	(128,089)
Paid	(867,663)
Outstanding, December 31, 2008	1,719,066
Granted	606,325
Canceled	(152,692)
Paid	(604,410)
Outstanding, December 31, 2009	1,568,289

Additional information related to performance shares is as follows:

	Weighted-Average Grant Date Fair Value per Share	Pretax Compensation Expense	Associated Tax Benefit	Impact on Net Income
	(In millions, except per share data)			
2009	$20.10	$16	$6	$10
2008	28.31	16	6	10
2007	32.64	13	5	8

There was $20 million after tax of unamortized performance share expense at December 31, 2009, of which $8 million will be charged against net income in 2010 and $12 million in 2011.

Summarized below are changes in stock option balances.

	Shares Under Option	Weighted-Average Exercise Price
Outstanding, January 1, 2008	5,407,096	$22.69
Exercised	(559,703)	14.52
Canceled	(117,096)	32.81
Outstanding, December 31,2008	4,730,297	23.41
Exercisable, December 31,2008	4,730,297	23.41
Outstanding, January 1, 2009	4,730,297	23.41
Exercised	(429,190)	13.87
Canceled	(683,824)	37.88
Outstanding, December 31,2009	3,617,283	21.80
Exercisable, December 31,2009	3,617,283	21.80

Summarized below is information regarding stock options outstanding and exercisable at December 31, 2009.

	Outstanding Options		
Range of Exercise Price	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price
$7 to $12	153,691	0.8	$11.72
$13 to $21	2,040,042	2.9	18.51
$22 to $29	983,839	4.7	23.98
$30 to $37	263,671	8.0	32.86
$38 to $45	176,040	6.3	40.00
	3,617,283		

See Note 2 for additional information regarding stock-based compensation accounting.

Employee 401(k) Plans — We have qualified 401(k) plans for employees, under which eligible participants may make contributions equal to a percentage of their annual salary. We matched a portion of such contributions with Pactiv common stock until February 2006. Effective March 2006, all matching contributions are in cash. The company or plan participants may contribute additional amounts in accordance with the plans' terms. We incurred 401(k) plan expense of $10 million in 2009, 2008, and 2007.

Rabbi Trust — In November 1999, we established a rabbi trust and reserved 3,200,000 shares of Pactiv common stock for the trust. These shares were issued to the trust in January 2000. This trust is designed to assure the payment of deferred compensation and supplemental pension benefits. These shares are not considered outstanding for purposes of financial reporting.

Earnings Per Share

Earnings from continuing operations per share of common stock outstanding were computed as follows:

	2009	2008(1)	2007(1)
	(In millions, except share and per share data)		
Basic earnings per share			
Income from continuing operations attributable to Pactiv	$ 308	$ 220	$ 243
Weighted-average number of shares of common stock outstanding	131,967,907	130,925,861	130,912,229
Basic earnings from continuing operations per share attributable to Pactiv	$ 2.33	$ 1.68	$ 1.85
Diluted earnings per share			
Income from continuing operations attributable to Pactiv	$ 308	$ 220	$ 243
Weighted-average number of shares of common stock outstanding	131,967,907	130,925,861	130,912,229
Effect of dilutive securities			
Stock options	328,072	648,682	1,149,964
Performance shares	1,175,068	897,216	805,085
Restricted shares	—	1,699	2,277
Weighted-average number of shares of common stock outstanding, including dilutive securities	133,471,047	132,473,458	132,869,555
Diluted earnings from continuing operations per share attributable to Pactiv	$ 2.31	$ 1.66	$ 1.83

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The following table summarizes annual repurchases of our common stock for 2007 through 2009.

	Number of Shares	Average Price Paid per Share	Total Outlay
		(In millions)	
2009	—	$ —	$ —
2008	75,218	$26.38	$ 2
2007	3,374,821	$32.14	$108

Note 12. Preferred Stock

Pactiv has 50 million shares of preferred stock ($0.01 par value) authorized, none of which was issued at December 31, 2009.

Note 13. Pension Plans and Other Postretirement Benefits

We have pension plans that cover the majority of our employees. Benefits are based on years of service and, for most salaried employees, final average compensation. Assets of our U.S. qualified plan consist principally of equity and fixed income securities.

We have postretirement health care and life insurance plans that cover certain of our salaried and hourly employees who retire in accordance with the various provisions of such plans. Benefits may be subject to deductibles, co-payments, and other limitations. These postretirement plans are not funded, and we reserve the right to change them.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 was enacted. Starting in 2006, this act expanded Medicare coverage, primarily by adding a prescription drug benefit for Medicare-eligible participants. The act provides employers currently sponsoring prescription drug programs for Medicare-eligible participants with a range of options to coordinate with the new government sponsored program to potentially reduce employers' costs. These options include supplementing the government program on a secondary payor basis, or accepting a direct subsidy from the government to support a portion of the costs of employers' programs.

Our plans currently provide prescription drug benefits that are coordinated with the related Medicare benefits. As a result, subsidies from Medicare for prescription drug benefits will average approximately $1.1 million per year.

Effective December 31, 2006, we adopted the recognition and disclosure provisions of ASC 715-10. See Note 2.

During 2009 we contributed $550 million pretax to the plan and plan assets earned a return of approximately 26%. As of December 31, 2009, our U.S. pension plan was 94% funded on an Employee Retirement Income Security Act (ERISA) basis, which determines the minimum funding requirements for the plan. As long as our funded ratio is above 60%, there is no meaningful impact on us or to the plan. We do not expect to make additional sizeable contributions to the plan for the foreseeable future.

Financial data pertaining to our pension and postretirement benefit plans is shown on the following tables.

	Pension Plans		Postretirement Plans	
	2009	2008	2009	2008
	(In millions)			
Changes in projected benefit obligations(1)				
Benefit obligations at beginning of year	$ 3,707	$ 3,907	$ 73	$ 85
Currency rate conversion	1	(5)	—	—
Service cost of benefits earned	15	20	1	1
Interest cost of benefit obligations	240	300	4	7
Actuarial (gains) losses	403	(166)	(5)	(13)
Benefits paid	(282)	(350)	(11)	(15)
Participant contributions	—	—	5	7
Plan amendments	—	1	—	—
Medicare Part D reimbursement	—	—	1	1
Projected benefit obligations at December 31	$ 4,084	$ 3,707	$ 68	$ 73
Changes in fair value of plan assets(1)				
Fair value at beginning of year	$ 2,506	$ 3,920	$ —	$ —
Currency rate conversion	2	(6)	—	—
Actual return on plan assets	665	(1,069)	—	—
Employer contributions	556	11	6	8
Participant contributions	—	—	5	7
Benefits paid	(282)	(350)	(11)	(15)
Fair value of plan assets at December 31	$ 3,447	$ 2,506	$ —	$ —
Development of amounts recognized in the statement of financial position				
Funded status at December 31	$ (637)	$(1,201)	$(68)	$(73)
Amounts recognized in the statement of financial position				
Noncurrent assets	$ 2	$ 5	$ —	$ —
Current liabilities	(8)	(8)	(6)	(7)
Noncurrent liabilities	(631)	(1,198)	(62)	(66)
Net asset (liability) at December 31	$ (637)	$(1,201)	$(68)	$(73)
Pretax amounts recognized in accumulated other comprehensive income (loss) at December 31				
Net actuarial gains (losses)	$(2,751)	$(2,722)	$ 2	$ (2)
Prior service credit costs	2	2	(1)	(1)
	$(2,749)	$(2,720)	$ 1	$ (3)
Other changes in plan assets and projected benefit obligations recognized in other comprehensive income (loss) during year				
Net actuarial gains (losses)	$ (79)		$ 5	
Amortization of net actuarial gains	51		—	
Prior service costs	—		—	
Amortization of prior service costs	—		(1)	
Total other comprehensive income (loss)	$ (28)		$ 4	

	Pension Plans	Postretirement Plans
Effect of amortization of net actuarial losses and prior service credits on 2010 net periodic benefit income (expense)		
Net actuarial gains (losses)	$75	$—
Prior service costs	—	—
	$75	$—

(1) For 2008, the change in benefit obligation and plan assets are for the period beginning October 1, 2007 and ending December 31, 2008, including amounts recorded in the statement of income and in "other comprehensive income" in 2008.

Benefit payments expected to be made under the pension and postretirement benefit plans over the next 10 years are summarized in the following table.

	Pension Plans	Postretirement Plans, Net of Expected Medicare Subsidy
	(In millions)	
2010	$ 297	$ 5
2011	296	5
2012	300	5
2013	304	4
2014	318	4
2015-2019	1,522	23

We expect to contribute $15 million to our pension and post retirement plans in 2010.

The impact of pension plans on pretax income from continuing operations was as follows:

	2009	2008	2007
		(In millions)	
Components of net periodic benefit income (expense)			
Service cost of benefits earned	$ (15)	$ (16)	$ (18)
Interest cost of benefit obligations	(240)	(240)	(228)
Expected return on plan assets	342	349	344
Amortization of:			
Unrecognized net actuarial losses	(50)	(44)	(47)
Unrecognized prior service costs	—	—	—
Additional cost due to ASC 715-20(1)	(1)	—	(1)
Total net periodic benefit income (expense)	$ 36	$ 49	$ 50

(1) ASC 715-20, "Compensation — Retirement Benefits, Defined Benefit Plans."

In 2009, our nonqualified and foreign plans had net periodic benefit expense of $12 million.

Pension plan actuarial assumptions used to determine projected benefit obligations are as follows:

	December 31, 2009	December 31, 2008	September 30, 2007
Actuarial assumptions			
Discount rate	5.75%	6.74%	6.39%
Compensation increases	4.00	4.00	4.00
Return on assets	9.00	9.00	9.00

The net periodic benefit income for 2009 was determined using the assumptions listed for 2008.

For all of our worldwide pension plans, accumulated benefit obligations totaled $4.045 billion in 2009 and $3.677 billion in 2008.

Pension plans with accumulated benefit obligations in excess of plan assets were as follows:

	December 31, 2009	December 31, 2008
	(In millions)	
Projected benefit obligations	$4,067	$3,695
Accumulated benefit obligations	4,029	3,665
Fair value of plan assets	3,428	2,490

The discount rate assumption for our U.S. qualified plan is based on the composite yield of a portfolio of high quality corporate bonds constructed with durations to match the plan's future benefit obligations. A one-percentage-point change in the discount rate impacts the projected benefit obligation by approximately $360 million.

Plan Assets

In developing the assumption for the return on pension plan assets, we receive independent input on asset allocation strategies, projections regarding long-term rates of return on various asset classes, risk free rates of return, and long-term inflation rates. Since 1976, our U.S. qualified pension plan's annual rate of return on assets has averaged 10%. At December 31, 2009, the percentage of pension plan assets invested in equity and fixed income securities was approximately 72% and 28%, respectively. The investment policy of the pension plan is to achieve a rate of return sufficient to meet the immediate and long-term benefit obligations of the plan. The investment strategy seeks to maximize long-term return within an acceptable level of risk by balancing investments in assets with higher expected rates of return such as equity securities and assets with lower expected volatility such as fixed-income securities. Risk tolerances are based on careful consideration of plan liabilities, plan funded status, and the company's financial condition. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. The plan generally maintains an asset allocation of approximately 70% in equities and 30% in fixed income securities. Equity investments include U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalization stocks. Other equity like asset classes, such as private equity investments, are used to enhance long-term returns, while increasing portfolio diversification. Fixed-income investments include corporate bonds, government bonds, asset backed securities (including mortgages), and cash. After considering all of these factors, we concluded that a 9% rate of return on assets assumption for our U.S. plan was appropriate for 2009 and 2008.

The majority of the pension plan assets are invested in equities of which a substantial portion is invested in U.S. equities. A broad-based decline in equity values around the world or a general decline in U.S. equity values would have a significant adverse effect on the pension plan. The plan also has a large holding of bonds that pay a fixed rate of interest. A material increase in interest rates would reduce the value these bonds.

The fair values of pension plan assets at December 31, 2009, by asset category are as follows:

Asset Category	Total	Fair Value Measurements at December 31, 2009		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In millions)			
Cash and cash equivalents	$ 92	$ —	$ 92	$—
Equity securities:				
Common collective funds(a)	664	—	664	—
International companies	31	31	—	—
US large cap companies	1,251	1,251	—	—
US mid cap companies	360	360	—	—
US small cap companies	122	122	—	—
Fixed income securities:				
Common collective funds	4	—	4	—
Corporate bonds	61	—	61	—
Corporate bonds (S&P rating of A or higher)	325	—	325	—
Corporate bonds (S&P rating of lower than A)	328	—	328	—
Government securities	151	—	151	—
Mortgage backed securities	7	—	7	—
Other fixed income(b)	20	—	20	—
Other investments				
Common collective funds	1	—	1	—
Private equity funds(c)	30	—	—	30
Total	$3,447	$1,764	$1,653	$30

(a) This asset category includes funds that invest in international companies including companies from countries classified as Emerging Markets by MSCI.

(b) This asset category includes municipal bonds.

(c) This asset category includes venture capital funds.

The change in the fair value of pension plan assets using Level 3 or significant unobservable inputs during the year ended December 31, 2009, is detailed in the table below.

	Fair Value Measurements Using Significant Unobservable Inputs	
	Private Equity Funds	Total
	(In millions)	
Beginning balance at December 31, 2008	$36	$36
Actual return on plan assets:		
Relating to assets still held at the reporting date	(9)	(9)
Relating to assets sold during the period	(1)	(1)
Purchases, sales, and settlements	4	4
Transfers in and/or out of Level 3	—	—
Ending balance at December 31, 2009	$30	$30

We use a market-related method for calculating the value of plan assets. This method recognizes the difference between actual and expected returns on plan assets over time. The market-related value of plan assets (MRVA) as of January 1, 2010, is $4.191 billion. Each year, the expected gain on plan assets (MRVA multiplied by the expected rate of return) is compared with the change in fair market value of assets (adjusted for pension benefit payments and expenses) during the year to determine the asset gain or loss for the year just ended.

The asset gain or loss for the year just ended is amortized over five years to the pool of amortizable actuarial gains or losses accumulated from prior years. Also added to the amortizable pool are all other actuarial gains or losses, which have occurred during the year just ended. The pool is amortized using the "corridor approach" in ASC 715-20. The corridor amount is 10% of the greater of the MRVA or the pension benefit obligation. The amount of actuarial gains or losses to be amortized as a component of pension income is the amount of the pool in excess of the corridor amount. The accumulated pool of amortizable losses as of January 1, 2010, was $1.543 billion. The amortization period is determined by the weighted-average of the life expectancy of inactive plan participants and the remaining service expectancy of active plan participants. As of January 1, 2010, this weighted average is 21.2 years.

The impact of postretirement benefit plans, other than pensions, on pretax income from continuing operations was as follows:

	2009	2008	2007
		(In millions)	
Service cost of benefits earned	$ 1	$ 1	$ 1
Interest cost of benefit obligations	4	5	5
Prior service costs	(1)	(1)	(1)
Losses	—	1	2
Total postretirement benefit plan costs	$ 4	$ 6	$ 7

Actuarial assumptions used to determine postretirement benefit obligations were as follows:

	December 31, 2009	December 31, 2008	September 30, 2007
Actuarial assumptions			
Health care cost inflation(1)			
Prior to age 65	8.5%	8.5%	8.6%
After age 65	8.0	8.0	9.8
Discount rate	5.75	6.74	6.39

(1) Assumed to decline to 5% in 2017.

A one percentage-point change in assumed health-care cost inflation would have the following effects:

	1% Increase	1% Decrease
	(In millions)	
Effect on total service and interest costs	$—	$—
Effect on postretirement benefit obligations	2	(2)

We contributed $6 million and $8 million in 2009 and 2008, respectively, to fund postretirement medical plan obligations. We expect to contribute $6 million to fund our postretirement medical plan obligations in 2010.

Note 14. Segment and Geographic Area Information

Our three reporting segments are Consumer Products, Foodservice/Food Packaging, and Other. See Note 1 for additional details.

Products are transferred between segments and among geographic areas, as nearly as possible, using market value. Wal-Mart Stores, Inc., accounted for approximately 21% of our consolidated sales in 2009 and 2008. These sales were reflected primarily in the results of the Consumer Products segment and, to a lesser extent, in the results of the Foodservice/Food Packaging segment. Our backlog of orders is not material.

The following table sets forth certain segment information.

	Consumer Products	Foodservice/ Food Packaging	Other	Total
		(In millions)		
For the year ended December 31, 2009				
Sales to external customers	$1,285	$2,075	$ —	$3,360
Depreciation and amortization	63	114	7	184
Operating income (loss)	297	300	(18)(b)	579
Total assets	1,270	2,122	182	3,574
Capital expenditures related to continuing operations	13	92	6	111
Noncash items other than depreciation and amortization	—	—	(20)(c)	(20)
For the year ended December 31, 2008				
Sales to external customers	$1,342	$2,225	$ —	$3,567
Depreciation and amortization	63	112	7	182
Operating income (loss)(d)	207	234	3(b)	444(a)
Total assets(d)	1,326	2,102	333	3,761
Capital expenditures related to continuing operations	25	105	6	136
Noncash items other than depreciation and amortization	—	—	(33)(c)	(33)
For the year ended December 31, 2007				
Sales to external customers	$1,221	$2,032	$ —	$3,253
Depreciation and amortization	62	97	7	166
Operating income (loss)(d)	226	245	(2)(b)	469
Total assets(d)	1,365	2,159	274	3,798
Capital expenditures related to continuing operations	16	129	6	151
Noncash items other than depreciation and amortization	—	—	(41)(c)	(41)

(a) Included restructuring and other charges of $16 million in 2008 ($5 million for Consumer Products, $10 million for Foodservice/Food Packaging, and $1 million for Other).

(b) Included pension plan income and unallocated corporate expense.

(c) Included pension plan income and stock-based compensation expense.

(d) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

The following table sets forth certain geographic area information.

	Geographic Area		
	United States	Foreign(1)	Total
		(In millions)	
At December 31, 2009, and for the year then ended			
Sales to external customers(2)	$3,054	$307	$3,360
Long-lived assets(3)	1,131	103	1,234
Total assets	3,266	307	3,574
At December 31, 2008, and for the year then ended			
Sales to external customers(2)	$3,240	$327	$3,567
Long-lived assets(3)	1,172	107	1,279
Total assets(4)	3,470	292	3,761
At December 31, 2007, and for the year then ended			
Sales to external customers(2)	$2,946	$307	$3,253
Long-lived assets(3)	1,301	121	1,422
Total assets(4)	3,461	337	3,798

(1) Sales to external customers and long-lived assets for individual countries (primarily Germany, Canada, and Mexico) were not material.

(2) Geographic assignment is based on location of selling business.

(3) Long-lived assets include all long-term assets other than net assets of discontinued operations, goodwill, intangibles, and deferred taxes.

(4) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.

Note 15. Commitments and Contingencies

Capital Commitments

Commitments for authorized capital expenditures totaled approximately $61 million at December 31, 2009. It is anticipated that the majority of these expenditures will be funded over the next 12 months from existing cash and short-term investments and internally generated cash.

Lease Commitments

Certain of our facilities, equipment, and other assets are leased under long-term arrangements. Minimum lease payments under noncancelable operating leases with lease terms in excess of 1 year are expected to total $30 million in 2010, $24 million in 2011, $19 million in 2012, $13 million in 2013, $10 million in 2014, and $40 million in subsequent years.

Commitments under capital leases are not significant. Total rental costs for continuing operations totaled $37 million in 2009, $35 million in 2008, and $31 million in 2007, and included minimum rentals under noncancelable operating leases of $37 million, $35 million, and $31 million for the respective periods.

Litigation

We are party to other legal proceedings arising from our operations. We establish reserves for claims and proceedings when it is probable that liabilities exist and where reasonable estimates of such liabilities can be made. While it is not possible to predict the outcome of any of these matters, based on our assessment of the facts and circumstances now known, we do not believe that any of these matters, individually or in the aggregate, will have a material adverse effect on our financial position. However, actual outcomes may be different from those expected and could have a material effect on our results of operations or cash flows in a particular period.

Environmental Matters

We are subject to a variety of environmental and pollution control laws and regulations. From time to time, we identify costs or liabilities arising from compliance with environmental laws and regulations. When related liabilities are probable and can be reasonably estimated, we establish appropriate reserves. Estimated liabilities may change as additional information becomes available. We appropriately adjust our reserves as new information on possible clean-up costs, expense and effectiveness of alternative clean-up methods and other potential liabilities is received. We do not expect that any additional liabilities recorded as a result of the availability of new information will have a material adverse effect on our financial position. However, such costs could have a material effect on our results of operations or cash flows in a particular period.

Note 16. Quarterly Financial Data (Unaudited)

				Amounts Attributable to Pactiv		
	Sales	Cost of Sales(1)	Restructuring and Other	Income From Continuing Operations(1)	Income (Loss) From Discontinued Operations	Net Income(1)
			(In millions)			
2009						
First quarter	$ 766	$ 495	$—	$ 77	$—	$ 77
Second quarter	901	601	—	81	(1)	80
Third quarter	839	562	—	79	15	94
Fourth quarter	854	583	—	71	1	72
	$3,360	$2,241	$—	$308	$15	$323
2008						
First quarter	$ 808	$ 585	$14	$ 43	$ (1)	$ 42
Second quarter	951	706	2	63	(3)	60
Third quarter	925	700	(2)	59	—	59
Fourth quarter	883	647	2	55	—	55
	$3,567	$2,638	$16	$220	$ (4)	$216

(1) First quarter 2009 through third quarter 2009 and all four quarters of 2008 have been adjusted for the change in inventory accounting method.

	Attributable to Pactiv Common Shareholders(1)							
	Basic Earnings per Share of Common Stock			Diluted Earnings per Share of Common Stock			Stock Price/Share	
	Continuing Operations	Discontinued Operations	Net Income	Continuing Operations	Discontinued Operations	Net Income	High	Low
2009								
First quarter	$0.58	$ —	$0.58	$0.58	$ —	$0.58	$25.31	$10.62
Second quarter	0.61	(0.01)	0.60	0.61	(0.01)	0.60	23.52	14.01
Third quarter	0.60	0.12	0.72	0.59	0.11	0.70	26.81	20.04
Fourth quarter	0.54	0.01	0.55	0.53	0.01	0.54	27.71	22.27
Total year	2.33	0.12	2.45	2.31	0.11	2.42	27.71	10.62
2008								
First quarter	$0.32	$ —	$0.32	$0.32	$ —	$0.32	$29.52	$23.00
Second quarter	0.49	(0.03)	0.46	0.48	(0.03)	0.45	27.34	20.82
Third quarter	0.45	—	0.45	0.45	—	0.45	28.49	18.98
Fourth quarter	0.42	—	0.42	0.41	—	0.41	26.95	20.44
Total year	1.68	(0.03)	1.65	1.66	(0.03)	1.63	29.52	18.98

(1) The sum of amounts shown for individual quarters may not equal the total for the year because of changes in the weighted-average number of shares outstanding throughout the year. First quarter 2009 through third quarter 2009 and the full year 2008 have been adjusted for the change in inventory accounting method.

The following tables present the changes to the interim quarters of 2009 for the change in inventory accounting method, as described in Note 2 to the financial statements.

	Three Months Ended September 30, 2009		Three Months Ended June 30, 2009		Three Months Ended March 31, 2009	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
	(In millions)					
Cost of Sales, excluding depreciation and amortization	$ 573	$ 562	$ 575	$ 601	$ 473	$ 495
Operating income	137	148	179	153	167	145
Income tax expense	41	45	59	49	53	45
Income from continuing operations	73	80	97	81	91	77
Net income attributable to Pactiv	87	94	96	80	91	77
Earnings (loss) per share of common stock:						
Basic	$0.67	$0.72	$0.72	$0.60	$0.69	$0.58
Diluted	$0.65	$0.70	$0.72	$0.60	$0.69	$0.58

	Nine Months Ended September 30, 2009		Six Months Ended June 30, 2009		Three Months Ended March 31, 2009	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
	(In millions)					
Net income	$275	$252	$187	$157	$91	$77
Deferred income taxes	114	100	52	34	20	11
Net working capital(1)	92	129	91	139	67	90

(1) Impacts the (increase) decrease in inventories

	Three Months Ended September 30, 2009		Three Months Ended June 30, 2009		Three Months Ended March 31, 2009	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
			(In millions)			
Operating income (loss)						
Consumer Products	$ 72	$ 80	$ 94	$ 80	$ 74	$ 63
Foodservice/Food Packaging	70	73	89	77	95	84
Other	(5)	(5)	(4)	(4)	(2)	(2)
Total operating income (loss)	$137	$148	$179	$153	$167	$145

	Nine Months Ended September 30, 2009		Six Months Ended June 30, 2009		Three Months Ended March 31, 2009	
	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted	As Originally Reported	As Adjusted
			(In millions)			
Total assets						
Consumer Products	$1,248	$1,250	$1,280	$1,275	$1,240	$1,249
Foodservice/Food Packaging	2,099	2,111	2,122	2,130	2,115	2,135
Other	216	211	397	396	365	354
Total assets	$3,563	$3,572	$3,799	$3,801	$3,720	$3,738

Note 17. Noncontrolling Interests

The FASB issued ASC 810-10-45, "Consolidation" which was effective for fiscal years, and interim periods within such fiscal years, beginning on or after December 15, 2008. ASC 810-10-45 requires that noncontrolling (minority) interests be recognized as equity (but separate from the parent's equity) in consolidated financial statements, and that net earnings related to noncontrolling interests be included in consolidated net income, but identified separately on the face of the income statement. ASC 810-10-45 also amends prior authoritative guidance, and expands disclosure requirements regarding the interests of parents and noncontrolling interests. In order to meet the ASC 810-10-45 disclosure requirements upon adoption, we have added a statement of shareholders' equity and a statement of comprehensive income (loss) to our interim reporting.

ASC 810-10-45 also requires disclosure of the effects of any changes in a parent's ownership interest in a subsidiary on the equity attributable to the parent. In January 2007, we purchased an additional 1% interest in a folding carton operation in Dongguan, China. This brought our interest to 51%, requiring us to include the joint venture in our consolidated financial statements. There were no changes in ownership interest in our subsidiaries in 2009 or 2008, and the effect in 2007 of the additional 1% interest in Dongguan, China had an immaterial impact on the equity attributable to Pactiv.

The preceding notes are an integral part of the foregoing financial statements.

Note 18. Guarantor.

Certain subsidiaries of Pactiv have entered into guarantee and security arrangements in connection with indebtedness entered into by RGHL and its subsidiaries and affiliates in connection with the acquisition of Pactiv by RGHL as described in Note 1. In accordance with SEC regulation S-X Rule 3-10 disclosure requirements, the following condensed consolidating financial information presents:

(1) The condensed consolidating statements of financial position as of December 31, 2009 and the related statements of income and cash flow for the year ended December 31, 2009 of (a) Pactiv Corporation (the "Parent"), (b) the other guarantor subsidiaries, (c) the non-guarantor subsidiaries and (d) Pactiv Corporation on a consolidated basis.

(2) The eliminating entries necessary to consolidate the Parent with the other guarantor subsidiaries and the non-guarantor subsidiaries.

Each guarantor subsidiary is 100% owned by Pactiv Corporation. The indebtedness issued by RGHL is fully and unconditionally guaranteed to the extent permitted by law on a joint and several basis by each guarantor subsidiary. Provided below are condensed statements of income, financial position, and cash flows of Pactiv Corporation and the condensed statements of income, financial position and cash flows of the guarantor and non-guarantor subsidiaries. They have been prepared under the accounting policies of Pactiv Corporation. The guarantor subsidiaries and non-guarantor subsidiaries are each presented on a combined basis. The principle eliminating entries eliminate investments in subsidiaries and intercompany balances and transactions.

Pactiv Corporation

Notes to the Financial Statements
For the year ended December 31, 2009

Condensed Consolidating Statement of Income

	Parent	Guarantor Entities	Non-Guarantor Entities	Eliminations	Consolidated
			(In millions)		
Sales	$ —	$ 3,306	$ 54	$ —	$ 3,360
Cost of sales	—	(2,199)	(42)	—	(2,241)
Selling, general, and administrative	(46)	(298)	(5)	—	(349)
Depreciation and amortization	(7)	(175)	(2)	—	(184)
Other	(2)	(5)	—	—	(7)
Operating income (loss)	**(55)**	**629**	**5**	**—**	**579**
Interest (expense) income	(96)	3	—	—	(93)
Share of equity earnings of subsidiaries, net of tax	404	—	—	(404)	—
Income (loss) before income taxes	**253**	**632**	**5**	**(404)**	**486**
Income tax expense	55	(230)	(2)	—	(177)
Income (loss) from continuing operations	**308**	**402**	**3**	**(404)**	**309**
Discontinued operations, net of tax	15	—	—	—	15
Net income	**323**	**402**	**3**	**(404)**	**324**
Less : Net income attributable to the noncontrolling interest	**—**	**—**	**(1)**	**—**	**(1)**
Net income attributable to Pactiv	**$323**	**$ 402**	**$ 2**	**$(404)**	**$ 323**

Pactiv Corporation

Notes to the Financial Statements
December 31, 2009

Condensed Consolidating Statement of Financial Position

	Parent	Guarantor Entities	Non-Guarantor Entities	Eliminations	Consolidated
			(In millions)		
Assets					
Cash and temporary cash investments	$ 5	$ 26	$15	$ —	$ 46
Accounts and notes receivable	29	285	14	—	328
Inventories	—	383	7	—	390
Intercompany accounts	22	70	1	(93)	—
Deferred income tax assets	53	—	—	—	53
Other	6	9	—	—	15
Total current	115	773	37	(93)	832
Property, plant, and equipment, net	53	1,107	12	—	1,172
Goodwill	—	1,135	—	—	1,135
Intangible assets, net	—	371	1	—	372
Investments in affiliates & intercompany accounts	2,272	(1)	2	(2,271)	2
Other	41	20	—	—	61
Total other assets	2,313	1,525	3	(2,271)	1,570
Total assets	**$2,481**	**$3,405**	**$52**	**$(2,364)**	**$3,574**
Liabilities and Equity					
Short-term debt, including current maturities of long-term debt	$ —	$ 5	$—	$ —	$ 5
Accounts payable	3	137	4	—	144
Short-term borrowings-affiliates	11	(9)	9	(11)	—
Intercompany accounts	—	70	3	(73)	—
Other liabilities	87	180	1	—	268
Total current liabilities	101	383	17	(84)	417
Long-term debt	1,270	—	—	—	1,270
Deferred income taxes	—	62	(1)	—	61
Intercompany accounts	—	25	—	(25)	—
Pension and postretirement benefits	—	694	—	—	694
Other	116	4	—	—	120
Noncurrent liabilities related to discontinued operations	9	—	2	—	11
Total Pactiv shareholders' equity	985	2,237	18	(2,255)	985
Noncontrolling interest	—	—	16	—	16
Total equity	985	2,237	34	(2,255)	1,001
Total liabilities and equity	**$2,481**	**$3,405**	**$52**	**$(2,364)**	**$3,574**

Pactiv Corporation

Notes to the Financial Statements
For the year ended December 31, 2009

Condensed Consolidating Statement of Cash Flows

	Parent	Guarantor Entities	Non-Guarantor Entities	Eliminations	Consolidated
			(In millions)		
Cash provided (used) by operating activities	**$ —**	**$ 176**	**$ (4)**	**$(11)**	**$ 161**
Cash provided (used) by investing activities	**(25)**	**(91)**	**—**	**(13)**	**(129)**
Included in investing activities:					
Expenditures for property, plant, and equipment	(5)	(106)	—	—	(111)
Acquisitions of business and assets	(20)	—	—	—	(20)
Other investing activities	—	15	—	(13)	2
Cash provided (used) by financing activities	**28**	**(117)**	**(1)**	**24**	**(66)**
Included in financing activities:					
Issuance of common stock	6	—	—	—	6
Revolving credit facility payment	(70)	—	—	—	(70)
Intercompany borrowings/loans	95	(95)	—	—	—
Dividends paid to noncontrolling interest	(3)	(22)	—	24	(1)
Other	—	—	(1)	—	(1)
Increase (decrease) in cash and temporary cash investments	**3**	**(32)**	**(5)**	**—**	**(34)**
Cash and temporary cash investments, January 1, 2009	**2**	**58**	**20**	**—**	**80**
Cash and temporary investments, December 31, 2009	$ 5	$ 26	$15	$ —	$ 46

Note 19. Reserve Roll Forward

Activity in certain key reserves is as follows.

Valuation and Qualifying Accounts (In millions)

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at beginning of year	Charged to (reversed from) costs and expenses	Charged to (reversed from) other accounts	Deductions	Balance at end of Year
Allowance for doubtful accounts					
Year ended December 31, 2009	$ 7	$ 1	$ (2)	$—	$ 6
Year ended December 31, 2008	6	6	(5)	—	7
Year ended December 31, 2007	9	(1)	(2)	—	6
Inventory valuation					
Year ended December 31, 2009	$ 5	$ 3	$—	$—	$ 8
Year ended December 31, 2008(1)	4	1	—	—	5
Year ended December 31, 2007(1)	6	(2)	—	—	4
Deferred tax asset valuation					
Year ended December 31, 2009	$33	$ 2	$—	$—	$35
Year ended December 31, 2008	40	(4)	(3)	—	33
Year ended December 31, 2007	42	(5)	3	—	40

(1) Adjusted for the change in inventory accounting method, as described in Note 2 to the financial statements.