

TUPPERWARE BRANDS CORP

Form 10-Q

August 06, 2013

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the 13 weeks ended June 29, 2013

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition period from _____ to _____
Commission file number 1-11657

TUPPERWARE BRANDS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

36-4062333

(I.R.S. Employer
Identification No.)

14901 South Orange Blossom Trail, Orlando, Florida

(Address of principal executive offices)

32837

(Zip Code)

Registrant's telephone number, including area code: (407) 826-5050

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of August 1, 2013, 51,711,224 shares of the common stock, \$0.01 par value, of the registrant were outstanding.

Table of Contents

TABLE OF CONTENTS

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
<u>Consolidated Statements of Income</u> 13 weeks ended June 29, 2013 and June 30, 2012 and 26 weeks ended June 29, 2013 and June 30, 2012	<u>3</u>
<u>Consolidated Statements of Comprehensive Income</u> 13 weeks ended June 29, 2013 and June 30, 2012 and 26 weeks ended June 29, 2013 and June 30, 2012	<u>4</u>
<u>Consolidated Balance Sheets June 29, 2013 and December 29, 2012</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows 26 weeks ended June 29, 2013 and June 30, 2012</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>39</u>
Item 4. <u>Controls and Procedures</u>	<u>43</u>
PART II. OTHER INFORMATION	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>44</u>
Item 6. <u>Exhibits</u>	<u>44</u>
<u>Signatures</u>	<u>45</u>

Table of Contents

Item 1. Financial Statements (Unaudited)

TUPPERWARE BRANDS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in millions, except per share amounts)	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales	\$688.4	\$638.9	\$1,351.3	\$1,278.4
Cost of products sold	226.0	206.7	448.8	419.8
Gross margin	462.4	432.2	902.5	858.6
Delivery, sales and administrative expense	349.3	328.5	697.8	668.1
Re-engineering and impairment charges	2.2	1.1	4.4	2.0
Impairment of goodwill and intangible assets	—	76.9	—	76.9
Gains on disposal of assets, including insurance recoveries	0.2	7.5	0.2	7.7
Operating income	111.1	33.2	200.5	119.3
Interest income	0.7	0.6	1.3	1.3
Interest expense	10.3	8.7	19.2	18.5
Other expense	0.7	0.4	3.6	0.1
Income before income taxes	100.8	24.7	179.0	102.0
Provision for income taxes	24.5	12.0	44.5	31.0
Net income	\$76.3	\$12.7	\$134.5	\$71.0
Earnings per share:				
Basic	\$1.46	\$0.23	\$2.54	\$1.28
Diluted	1.43	0.22	2.49	1.25
Weighted-average shares outstanding:				
Basic	52.4	55.5	53.0	55.7
Diluted	53.5	56.5	54.1	56.8
Dividends declared per common share	\$0.62	\$0.36	\$1.24	\$0.72

See accompanying Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

TUPPERWARE BRANDS CORPORATION
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

(Dollars in millions)	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	\$76.3	\$12.7	\$134.5	\$71.0
Other comprehensive loss:				
Foreign currency translation adjustments	(56.0)	(59.0)	(43.8)	(18.0)
Deferred gain on cash flow hedges, net of tax provision of \$1.0, \$0.8, \$0.7 and \$0.3 million, respectively	2.1	2.9	2.2	1.3
Pension and other post-retirement costs, net of tax provision of \$0.7, \$0.5, \$0.2 and \$0.2 million, respectively	1.1	1.8	(0.3)	2.1
Other comprehensive loss	(52.8)	(54.3)	(41.9)	(14.6)
Total comprehensive income (loss)	\$23.5	\$(41.6)	\$92.6	\$56.4

See accompanying Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

TUPPERWARE BRANDS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in millions, except share amounts)	June 29, 2013	December 29, 2012
ASSETS		
Cash and cash equivalents	\$ 112.4	\$ 119.8
Accounts receivable, less allowances of \$30.8 and \$30.4, respectively	192.0	173.4
Inventories	333.0	313.9
Deferred income tax benefits, net	106.6	94.9
Non-trade amounts receivable, net	50.3	39.0
Prepaid expenses and other current assets	28.7	25.5
Total current assets	823.0	766.5
Deferred income tax benefits, net	340.2	359.1
Property, plant and equipment, net	282.5	298.8
Long-term receivables, less allowances of \$20.8 and \$22.4, respectively	22.3	24.8
Trademarks and tradenames	130.9	138.4
Other intangible assets, net	3.9	5.0
Goodwill	182.8	192.9
Other assets, net	34.7	36.3
Total assets	\$ 1,820.3	\$ 1,821.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 112.8	\$ 154.8
Short-term borrowings and current portion of long-term debt and capital lease obligations	183.9	203.4
Accrued liabilities	362.0	336.3
Total current liabilities	658.7	694.5
Long-term debt and capital lease obligations	619.1	414.4
Other liabilities	206.6	233.8
Shareholders' equity:		
Preferred stock, \$0.01 par value, 200,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value, 600,000,000 shares authorized; 63,607,090 shares issued	0.6	0.6
Paid-in capital	164.9	151.2
Retained earnings	1,219.7	1,172.4
Treasury stock, 11,438,273 and 9,547,436 shares, respectively, at cost	(736.1	) (573.8
Accumulated other comprehensive loss	(313.2	) (271.3
Total shareholders' equity	335.9	479.1
Total liabilities and shareholders' equity	\$ 1,820.3	\$ 1,821.8

See accompanying Notes to Consolidated Financial Statements (Unaudited).

Table of Contents

TUPPERWARE BRANDS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	26 weeks ended	
	June 29, 2013	June 30, 2012
Operating Activities:		
Net income	\$134.5	\$71.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24.8	24.0
Unrealized foreign exchange loss	2.5	—
Equity compensation	7.7	7.2
Amortization of deferred debt costs	0.4	0.6
Premium on senior notes	6.3	—
Net gains on disposal of assets, including insurance recoveries	—	(7.6)
Provision for bad debts	5.9	5.7
Write-down of inventories	7.2	8.4
Non-cash impact of re-engineering and impairment costs	—	76.9
Net change in deferred income taxes	(19.1)	(2.6)
Excess tax benefits from share-based payment arrangements	(9.8)	(8.5)
Changes in assets and liabilities:		
Accounts and notes receivable	(31.5)	(25.5)
Inventories	(40.9)	(35.8)
Non-trade amounts receivable	(0.4)	(3.1)
Prepaid expenses	(6.8)	(11.2)
Other assets	3.0	(2.4)
Accounts payable and accrued liabilities	(19.2)	(24.9)
Income taxes payable	0.4	(21.9)
Other liabilities	1.7	(0.3)
Proceeds from insurance recoveries, net of costs	—	0.2
Net cash impact from hedging activity	4.5	0.8
Other	0.2	(0.3)
Net cash provided by operating activities	71.4	50.7
Investing Activities:		
Capital expenditures	(23.8)	(33.7)
Proceeds from disposal of property, plant and equipment	7.1	8.8
Net cash used in investing activities	(16.7)	(24.9)
Financing Activities:		
Dividend payments to shareholders	(52.7)	(37.5)
Net proceeds from issuance of senior notes	200.0	—
Proceeds from exercise of stock options	16.7	7.4
Repurchase of common stock	(203.7)	(79.0)
Repayment of capital lease obligations	(1.4)	(1.3)
Net change in short-term debt	(17.9)	40.4
Debt issuance costs	(0.7)	—
Excess tax benefits from share-based payment arrangements	9.8	8.5
Net cash used in financing activities	(49.9)	(61.5)
Effect of exchange rate changes on cash and cash equivalents	(12.2)	(4.5)
Net change in cash and cash equivalents	(7.4)	(40.2)

Edgar Filing: TUPPERWARE BRANDS CORP - Form 10-Q

Cash and cash equivalents at beginning of year	119.8	138.2
Cash and cash equivalents at end of period	\$112.4	\$98.0
See accompanying Notes to Consolidated Financial Statements (Unaudited).		

6

Table of Contents

TUPPERWARE BRANDS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation: The condensed consolidated financial statements include the accounts of Tupperware Brands Corporation and its subsidiaries, collectively “Tupperware” or the “Company”, with all intercompany transactions and balances having been eliminated. These condensed consolidated financial statements and related notes should be read in conjunction with the 2012 audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 29, 2012.

Certain prior year amounts have been reclassified to conform with current year presentation.

These condensed consolidated financial statements are unaudited and have been prepared following the rules and regulations of the United States Securities and Exchange Commission and, in the Company's opinion, reflect all adjustments, including normal recurring items that are necessary for a fair statement of the results for the interim periods. Certain information and note disclosures normally included in the statement of financial position, results of operations, comprehensive income and cash flows prepared in conformity with accounting principles generally accepted in the United States of America have been condensed or omitted as permitted by such rules and regulations. Operating results of any interim period presented herein are not necessarily indicative of the results that may be expected for a full fiscal year.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

Note 2: Shipping and Handling Costs

The cost of products sold line item includes costs related to the purchase and manufacture of goods sold by the Company. Among these costs are inbound freight charges, purchasing and receiving costs, inspection costs, depreciation expense, internal transfer costs and warehousing costs of raw material, work in process and packing materials. The warehousing and distribution costs of finished goods are included in delivery, sales and administrative expense (“DS&A”). Distribution costs are comprised of outbound freight and associated labor costs. Fees billed to customers associated with the distribution of products are classified as revenue. The distribution costs included in DS&A expense for the second quarters of 2013 and 2012 were \$40.4 million and \$37.3 million, respectively, and were \$78.4 million and \$74.7 million for the year-to-date periods ended June 29, 2013 and June 30, 2012, respectively.

Note 3: Promotional Costs

The Company frequently makes promotional offers to members of its independent sales force to encourage them to fulfill specific goals or targets for sales levels, party attendance, recruiting of new sales force members or other business-critical functions. The awards offered are in the form of cash, product awards, special prizes or trips. The Company accrues for the costs of these awards during the period over which the sales force qualifies for the award and reports these costs primarily as a component of DS&A expense. These accruals require estimates as to the cost of the awards, based upon estimates of achievement and actual cost to be incurred. During the qualification period, actual results are monitored, and changes to the original estimates are made when known. Promotional and other sales force compensation expenses included in DS&A expense totaled \$114.7 million and \$107.0 million for the second quarters of 2013 and 2012, respectively, and \$230.0 million and \$219.5 million for the year-to-date periods ended June 29, 2013 and June 30, 2012, respectively.

Table of ContentsTUPPERWARE BRANDS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Note 4: Inventories

(in millions)	June 29, 2013	December 29, 2012
Finished goods	\$256.8	\$251.2
Work in process	29.0	22.9
Raw materials and supplies	47.2	39.8
Total inventories	\$333.0	\$313.9

Note 5: Net Income Per Common Share

Basic per share information is calculated by dividing net income by the weighted average number of shares outstanding. Diluted per share information is calculated by also considering the impact of potential common stock on both net income and the weighted average number of shares outstanding.

The elements of the earnings per share computations were as follows (in millions, except per share amounts):

	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net income	\$76.3	\$12.7	\$134.5	\$71.0
Weighted-average shares of common stock outstanding	52.4	55.5	53.0	55.7
Common equivalent shares:				
Assumed exercise of dilutive options, restricted shares, restricted stock units and performance share units	1.1	1.0	1.1	1.1
Weighted-average common and common equivalent shares outstanding	53.5	56.5	54.1	56.8
Basic earnings per share	\$1.46	\$0.23	\$2.54	\$1.28
Diluted earnings per share	\$1.43	\$0.22	\$2.49	\$1.25
Shares excluded from the determination of potential common stock because inclusion would have been anti-dilutive	—	0.2	—	0.2

Note 6: Accumulated Other Comprehensive Loss

(in millions, net of tax)	Foreign Currency Items	Cash Flow Hedges	Pension and Other Post-retirement Items	Total
Beginning of the year balance	\$(218.2	) \$(0.2	) \$(52.9	) \$(271.3
Other comprehensive (loss) income before reclassifications	(43.8	) 2.6	(2.1	) (43.3
Amounts reclassified from accumulated other comprehensive loss	—	(0.4	) 1.8	1.4
Net current-period other comprehensive (loss) income	(43.8	) 2.2	(0.3	) (41.9
End of period balance	\$(262.0	) \$2.0	\$ (53.2	) \$(313.2

Pretax amounts reclassified from accumulated other comprehensive loss that relate to cash flow hedges consisted of \$0.6 million of net gains. The tax provision associated with these items was \$0.2 million. See Note 10 for further discussion on derivatives.

Table of ContentsTUPPERWARE BRANDS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

Pretax amounts reclassified from accumulated other comprehensive loss related to pension and other post-retirement items consisted of \$0.2 million of prior service benefit, \$0.4 million of pension settlement costs and \$2.4 million of actuarial losses. The tax benefit associated with these items was \$0.8 million. See Note 12 for further discussion of pension and other post-retirement benefit costs.

Note 7: Re-engineering and Other Exit Costs

The Company recorded \$2.2 million and \$1.1 million in re-engineering and impairment charges during the second quarters of 2013 and 2012, respectively, and \$4.4 million and \$2.0 million for the respective year-to-date periods. In both years, these charges were primarily related to severance costs incurred for headcount reductions in several of the Company's operations in connection with changes in its management and organizational structures.

The balances included in accrued liabilities related to re-engineering and impairment charges as of June 29, 2013 and December 29, 2012 were as follows (in millions):

	June 29, 2013	December 29, 2012
Beginning of the year balance	\$ 1.5	\$ 3.0
Provision	4.4	22.4
Cash expenditures:		
Severance	(3.1	) (6.0
Other	(1.1	) (1.7
Non-cash asset impairments	(0.1	) (16.2
End of period balance	\$ 1.6	\$ 1.5

The accrual balance as of June 29, 2013, related primarily to severance payments to be made by the end of 2013.

Note 8: Segment Information

The Company manufactures and distributes a broad portfolio of products, primarily through independent direct sales consultants. Certain operating segments have been aggregated based upon consistency of economic substance, geography, products, production process, class of customers and distribution method.

The Company's reportable segments include the following:

Europe	Primarily design-centric preparation, storage and serving solutions for the kitchen and home through the Tupperware® brand. Europe also includes Avroy Shlain® and
Asia Pacific	Nutrimetics® units that sell beauty and personal care products. Asia Pacific also sells
Tupperware North America	beauty and personal care products in some of its units under the NaturCare®, Nutrimetics® and Fuller® brands.
Beauty North America	Premium cosmetics, skin care and personal care products marketed under the Armand Dupree® and BeautiControl® brands in the United States, Canada and Puerto Rico and the Armand Dupree® and Fuller Cosmetics® brands in Mexico and Central America.
South America	Both housewares and beauty products under the Fuller®, Nuvo® and Tupperware® brands.

Worldwide sales of beauty and personal care products totaled \$142.7 million and \$148.1 million in the second quarters of 2013 and 2012, respectively, and \$287.4 million and \$296.9 million in the year-to-date periods ended June 29, 2013 and June 30, 2012, respectively.

Table of ContentsTUPPERWARE BRANDS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Unaudited)

(In millions)	13 weeks ended		26 weeks ended	
	June 29, 2013	June 30, 2012	June 29, 2013	June 30, 2012
Net sales:				
Europe	\$199.8	\$194.2	\$417.4	\$412.4
Asia Pacific	209.7	186.2	409.4	364.0
Tupperware North America	99.7	89.8	182.5	174.4
Beauty North America	81.8	85.8	167.3	173.2
South America	97.4	82.9	174.7	154.4
Total net sales	\$688.4	\$638.9	\$1,351.3	\$1,278.4
Segment profit:				
Europe	\$34.4	\$32.1	\$71.6	\$68.2
Asia Pacific	46.3	40.8	89.1	74.7
Tupperware North America	17.0	17.9	29.3	31.2
Beauty North America	7.1	10.1	13.5	17.0
South America	22.0	16.6	27.7	26.6
Total segment profit	\$126.8	\$117.5	\$231.2	\$217.7
Unallocated expenses	(14.4	) (14.2	) (30.1	) (27.3
Re-engineering and impairment charges (a)	(2.2	) (1.1	) (4.4	) (2.0
Impairment of goodwill and intangible assets	—	(76.9	) —	(76.9
Gains on disposal of assets, including insurance recoveries	0.2	7.5	0.2	7.7
Interest expense, net	(9.6	) (8.1	) (17.9	) (17.2
Income before taxes	\$100.8	\$24.7	\$179.0	\$102.0
Identifiable assets:			June 29, 2013	December 29, 2012
Europe			\$374.2	\$385.4
Asia Pacific			330.6	331.3
Tupperware North America			137.8	140.0
Beauty North America			278.6	320.3
South America			133.1	114.9
Corporate			566.0	529.9
Total identifiable assets			\$1,820.3	\$1,821.8

(a) See Note 7 to the Consolidated Financial Statements for a discussion of re-engineering and impairment charges.

Note 9: Debt

On June 2, 2011, the Company completed the sale of \$400 million in aggregate principal amount of 4.750% senior notes due June 1, 2021 at an issue price of 98.989% under an indenture, dated as of June 2, 2011 (the "Indenture"), entered into by the Company and its wholly-owned subsidiary, Dart Industries Inc. (the "Guarantor").

Table of Contents

TUPPERWARE BRANDS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

On March 11, 2013, the Company issued and sold an additional \$200 million in aggregate principal amount of these notes (both issuances together the "Notes") at an issue price of 103.781% in a registered public offering pursuant to an underwriting agreement, dated March 6, 2013, among the Company, the Guarantor and the representatives of the underwriters. The Notes form a single series under the Indenture. The proceeds were used to repay a 90-day \$75 million promissory note entered into on February 1, 2013, as well as a portion of outstanding borrowings under the Company's multicurrency credit agreement (the "Credit Agreement"). The remaining net proceeds were used to fund share repurchases in 2013 under the Company's common stock repurchase authorization. As a result of the issuance, the Company recorded a bond premium of \$7.6 million to be amortized over the life of the bond. The Company also incurred \$1.5 million in deferred financing costs, of which \$1.3 million was netted with the bond premium.

In June 2011, the Company and its wholly owned subsidiary Tupperware International Holdings B.V. (the "Subsidiary Borrower"), entered into a multicurrency Credit Agreement with a consortium of lenders. The Credit Agreement makes available to the Company and the Subsidiary Borrower a committed five-year credit facility in an aggregate amount of \$450 million (the "Facility Amount"). The Credit Agreement provides (i) a revolving credit facility, available up to the full amount of the Facility Amount, (ii) a letter of credit facility, available up to \$50 million of the Facility Amount, and (iii) a swingline facility, available up to \$50 million of the Facility Amount. Each of such facilities is fully available to the Company and is available to the Subsidiary Borrower up to an aggregate amount not to exceed \$225 million. With the agreement of its lenders, the Company is permitted to increase, on up to three occasions, the Facility Amount by a total of up to \$200 million (for a maximum aggregate Facility Amount of \$650 million), subject to certain conditions. As of June 29, 2013, the Company had total borrowings of \$181.5 million outstanding under its Credit Agreement, with \$128.3 million denominated in euro.

The Company routinely increases its revolver borrowings under the Credit Agreement during each quarter to fund operating, investing and financing activities and uses cash available at the end of each quarter to reduce borrowing levels. As a result, the Company has higher foreign exchange exposure on the value of its cash during each quarter than at the end of each quarter.

Loans taken under the Credit Agreement bear interest under a formula that includes, at the Company's option, one of three different base rates, plus an applicable spread. The Company generally selects the London interbank offered rate ("LIBOR"). As of June 29, 2013, the Credit Agreement dictated a spread of 175 basis points, which gave the Company a weighted average interest rate on LIBOR based borrowings of 1.9 percent on borrowings under the Credit Agreement.

The Credit Agreement contains customary covenants, including financial covenants requiring a minimum level of interest coverage and allowing a maximum amount of leverage. As of June 29, 2013, and currently, the Company had considerable cushion under its financial covenants.

The Guarantor unconditionally guarantees all obligations and liabilities of the Company and the Subsidiary Borrower relating to this Credit Agreement, as well as the Notes, through a security interest in certain "Tupperware" trademarks and service marks.

At June 29, 2013, the Company had \$359.3 million of unused lines of credit, including \$265.6 million under the committed, secured \$450 million Credit Agreement, and \$93.7 million available under various uncommitted lines around the world.

Note 10: Derivative Instruments and Hedging Activities

The Company is exposed to fluctuations in foreign currency exchange rates on the earnings, cash flows and financial position of its international operations. Although this currency risk is partially mitigated by the natural hedge arising from the Company's local manufacturing in many markets, a strengthening U.S. dollar generally has a negative impact on the Company. In response to this fact, the Company uses financial instruments to hedge certain of its exposures and to manage the foreign exchange impact to its financial statements. At its inception, a derivative financial instrument used for hedging is designated as a fair value, cash flow or net equity hedge.

Table of Contents

TUPPERWARE BRANDS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Fair value hedges are entered into with financial instruments such as forward contracts, with the objective of limiting exposure to certain foreign exchange risks primarily associated with accounts payable and non-permanent intercompany transactions. For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings. In assessing hedge effectiveness, the Company excludes forward points, which are considered to be a component of interest expense. The forward points on fair value hedges resulted in pretax gains of \$2.2 million and \$2.7 million in the second quarters of 2013 and 2012, respectively, and pretax gains of \$4.2 million and \$5.6 million for the respective year-to-date periods.

The Company also uses derivative financial instruments to hedge foreign currency exposures resulting from certain forecasted purchases and classifies these as cash flow hedges. The Company's cash flow hedge contracts are for periods ranging from one to twelve months. The effective portion of the gain or loss on the hedging instrument is recorded in other comprehensive loss and is reclassified into earnings as the transactions being hedged are recorded. As such, the balance at the end of the reporting period in other comprehensive loss will be reclassified into earnings within the next twelve months. The associated asset or liability on the open hedges is recorded in other current assets or accrued liabilities, as applicable. In assessing hedge effectiveness, the Company excludes forward points, which are included as a component of interest expense. Forward points on cash flow hedges resulted in pretax expenses of \$0.8 million and \$0.4 million in the second quarters of 2013 and 2012, respectively, and in pretax expenses of \$1.3 million for each of the respective year-to-date periods.

The Company also uses financial instruments, such as forward contracts, to hedge a portion of its net equity investment in international operations and classifies these as net equity hedges. Changes in the value of these derivative instruments, excluding any ineffective portion of the hedges, are included in foreign currency translation adjustments within accumulated other comprehensive loss. The Company recorded a net gain associated with these hedges, in other comprehensive income, net of tax, of \$16.4 million and \$18.9 million in the second quarters of 2013 and 2012, respectively and a net gain of \$11.1 million and \$4.6 million for the respective year-to-date periods. Due to the permanent nature of the investments, the Company does not anticipate reclassifying any portion of these amounts to the income statement in the next 12 months. In assessing hedge effectiveness, the Company excludes forward points, which are included as a component of interest expense. For the second quarters of 2013 and 2012, forward points on net equity hedges resulted in pretax expenses of \$2.7 million and \$3.4 million, respectively, and pretax expenses of \$5.6 million and \$7.2 million for the respective year-to-date periods.

While the Company's net equity and fair value hedges of non-permanent intercompany balances mitigate its exposure to foreign exchange gains or losses, they result in an impact to operating cash flows as they are settled, whereas the hedged items may not generate offsetting cash flows. The net cash flow impact of these currency hedges was an inflow of \$4.5 million and \$0.8 million for the year-to-date periods ended June 29, 2013 and June 30, 2012, respectively.

Table of Contents

TUPPERWARE BRANDS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

Following is a listing of the Company's outstanding derivative financial instruments at fair value as of June 29, 2013 and December 29, 2012. Related to the forward contracts, the “buy” amounts represent the U.S. dollar equivalent of commitments to purchase foreign currencies, and the “sell” amounts represent the U.S. dollar equivalent of commitments to sell foreign currencies, all translated at the period-end market exchange rates for the U.S. dollar. All forward contracts are hedging net investments in certain foreign subsidiaries, cross-currency intercompany loans that are not permanent in nature, cross-currency external payables and receivables or forecasted purchases. Some amounts are between two foreign currencies:

Forward Contracts (in millions)	June 29, 2013		December 29, 2012	
	Buy	Sell	Buy	Sell
Euro	\$42.1		\$66.6	
U.S. dollar	36.0		69.9	
Philippine peso	12.8		9.9	
South Korean won	7.6		3.0	
Indonesian rupiah	3.2		11.3	
Malaysian ringgit	3.1		17.2	
South African rand	2.9			\$6.8
Uruguayan peso	2.7		0.9	
Turkish lira	2.6			12.3
New Zealand dollar	2.0		1.4	
Japanese yen		\$32.6		32.8
Mexican peso		15.6		22.0
Swiss franc		12.7		53.8
Canadian dollar		7.0		3.5
Russian ruble		6.2		5.7
Thai baht		3.9		3.3
Polish zloty		3.6		3.3
Indian rupee		3.2		3.7
Brazilian real		3.1		1.7
Australian dollar		3.0		15.5
Czech koruna		2.7		3.3
Danish krone		2.6	0.4	
Argentine peso		2.5		—
Croatian kuna		2.5		2.5
Hungarian forint		2.3		3.3
Norwegian krone		1.4		1.9
Swedish krona		1.2		1.7
British pound		1.0		4.8
Other currencies (net)		2.9		2.6
	\$115.0	\$110.0	\$180.6	\$184.5

In agreements to sell foreign currencies in exchange for U.S. dollars, for example, an appreciating dollar versus the opposing currency would generate a cash inflow for the Company at settlement, with the opposite result in agreements to buy foreign currencies for U.S. dollars. The above noted notional amounts change based upon changes in the Company's outstanding currency exposures.

Table of Contents

TUPPERWARE BRANDS CORPORATION
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
 (Unaudited)

The following table summarizes the Company's derivative positions and the impact they have on the Company's financial position as of June 29, 2013 and December 29, 2012:

Derivatives designated as hedging instruments (in millions)	Asset derivatives			Liability derivatives		
	Balance sheet location	Fair Value		Balance sheet location	Fair Value	
		Jun 29, 2013	Dec 29, 2012		Jun 29, 2013	Dec 29, 2012
Foreign exchange contracts	Non-trade amounts receivable	\$22.7	\$13.1	Accrued liabilities	\$22.4	\$15.7

The following table summarizes the impact of the Company's derivative positions on the results of operations for the second quarters of 2013 and 2012:

Derivatives designated as fair value hedges (in millions)	Location of gain or (loss) recognized in income on derivatives	Amount of gain or (loss) recognized in income on derivatives		Location of gain or (loss) recognized in income on related hedged items	Amount of gain or (loss) recognized in income on related hedged items	
		2013	2012		2013	2012
		Foreign exchange contracts	Other expense		\$ (23.9)	\$ (30.1 )	Other expense	$ 23.8	$ 29.9

The following table summarizes the impact of Company's derivative positions on comprehensive income for the second quarters of 2013 and 2012:

Derivatives designated as cash flow and net equity hedges (in millions)	Amount of gain or (loss) recognized in OCI on derivatives (effective portion)		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion)		Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Amount of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	
	2013	2012		2013	2012		2013	2012
	Cash flow hedging relationships							
Foreign exchange contracts	\$ 3.6	\$ 4.3	Cost of products sold	\$ 0.6	\$ (0.6)	Interest expense	\$ (0.8)	\$ (0.4)
Net equity hedging relationships								
Foreign exchange contracts	25.6	29.7	Other expense	—	—	Interest expense	(2.7)	(3.4)

The following table summarizes the impact of the Company's derivative positions on the results of operations for the year-to-date periods ended June 29, 2013 and June 30, 2012:

Derivatives designated as fair value hedges (in millions)	Location of gain or (loss) recognized in income on derivatives	Amount of gain or (loss) recognized in income on derivatives		Location of gain or (loss) recognized in income on related hedged items	Amount of gain or (loss) recognized in income on related hedged items	
		2013	2012		2013	2012

Edgar Filing: TUPPERWARE BRANDS CORP - Form 10-Q

	2013	2012		2013	2012
Foreign exchange contracts			Other expense	\$ 12.1	\$ 10.1
Other expense	\$(12.1)	\$(10.1)			

Table of Contents

TUPPERWARE BRANDS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

The following table summarizes the impact of Company's derivative positions on comprehensive income for the year-to-date periods ended June 29, 2013 and June 30, 2012:

Derivatives designated as cash flow and net equity hedges (in millions)	Amount of gain or (loss) recognized in OCI on derivatives (effective portion)		Location of gain or (loss) reclassified from accumulated OCI into income (effective portion)	Amount of gain or (loss) reclassified from accumulated OCI into income (effective portion)		Location of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Amount of gain or (loss) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	
	2013	2012		2013	2012		2013	2012
Cash flow hedging relationships								
Foreign exchange contracts	\$ 3.4	\$ 1.4	Cost of products sold	\$ 0.6	\$ 0.3	Interest expense	\$(1.3)	\$(1.3)
Net equity hedging relationships								
Foreign exchange contracts	17.3	7.4	Other expense	—	—	Interest expense	(5.6)	(7.2)

Note 11: Fair Value Measurements

The following table presents those assets and liabilities recorded at fair value on a recurring basis:

Description of Assets (in millions)	June 29, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)
Money market funds	\$2.2	\$2.2		\$—
Foreign currency derivative contracts	22.7	—		22.7
Total	\$24.9	\$2.2		\$22.7
Description of Liabilities (in millions)				
Foreign currency derivative contracts	\$22.4	\$—		\$22.4
Total	\$22.4	\$—		\$22.4

Description of Assets (in millions)	December 29, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)

Money market funds

\$2.1

McLeodUSA is also involved in numerous regulatory proceedings before various public utility commissions and the FCC, particularly in connection with actions by the RBOCs. McLeodUSA anticipates the RBOCs will continue to pursue litigation, regulations and legislation in states within McLeodUSA's 25-state footprint and before the FCC to reduce regulatory oversight and regulation over their rates and operations. The RBOCs are also actively pursuing major changes in the Telecommunications Act of 1996, by regulatory litigation and legislation, which McLeodUSA believes would adversely affect competitive telecommunications service providers including McLeodUSA. If adopted, these initiatives could make it more difficult for McLeodUSA to challenge the RBOCs' actions, or to compete with the RBOCs, in the future. There are no assurances that McLeodUSA will prevail in its disputes with the RBOCs. On May 9, 2003, legislation was enacted in Illinois that changes the methodology to be applied by the Illinois Commerce Commission in setting rates to be charged by incumbent local exchange carriers for unbundled local loops. On July 2, 2003, the United States District Court for the Northern District of Illinois entered a permanent injunction against enforcement of this legislation. The 7th Circuit Court of Appeals affirmed the District Court ruling on November 10,

2003. McLeodUSA can make no assurances as to the final outcome of this litigation or ultimate status of the legislation.

The FCC released its Triennial Review Order in August 2003 modifying its rules governing availability of RBOC unbundled network elements to competitive carriers. The Triennial Review Order established new rules governing the availability and pricing for the network elements the RBOCs must provide to competitive carriers, and delegated authority to the states to apply certain of the new rules in individual markets. The outcome of these individual state proceedings, or their ultimate impact on McLeodUSA and its access to particular network elements, cannot be predicted.

On September 10, 2003 the FCC issued a Notice of Proposed Rulemaking on TELRIC. This is a proceeding to review the Total Element Long Run Incremental Cost (TELRIC) methodology used to determine the prices charged to competitive carriers for unbundled network elements. A change in pricing methodology that materially increased unbundled network element prices would increase our costs and could adversely affect our ability to compete. A decision is anticipated during 2004.

McLeodUSA is not aware of any other material litigation against it. McLeodUSA does, however, have various other legal proceedings pending against it or its subsidiaries or on its behalf or that of its subsidiaries.

**Item 6. Exhibits and
Reports on Form 8-K**

(a) Exhibits

Exhibit Number	Exhibit Description
4.1	First Amendment dated as of October 3, 2003 to the Credit Agreement dated as of April 16, 2002.
4.2	Fourth Amendment dated as of October 3, 2003 to the Credit Agreement dated as of May 31, 2000.
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of

the
Sarbanes-Oxley
Act of 2002.

(b) Reports on Form
8-K

On July 23, 2003, we
announced our financial
results for the fiscal
quarter ended June 30,
2003, and certain other
information, in a press
release.

SIGNATURES

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

**McLEODUSA
INCORPORATED**
(registrant)

Date: By: /s/ Chris A.
April 30, Davis
2004

Chris A.
Davis
*Chairman
and Chief
Executive
Officer*

Date: By: /s/ G.
April 30, Kenneth
2004 Burckhardt

G. Kenneth
Burckhardt
*Chief
Financial
Officer*

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description
4.1	First Amendment dated as of October 3, 2003 to the Credit Agreement dated as of April 16, 2002.
4.2	Fourth Amendment dated as of October 3, 2003 to the Credit Agreement dated as of May 31, 2000.
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

