

TUPPERWARE BRANDS CORP

Form 10-Q

August 09, 2011

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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 July 2, 2011

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 5, 2011, 60,609,729 shares of the common stock, \$0.01 par value, of the registrant were outstanding.

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Item 1. Financial Statements (Unaudited)

TUPPERWARE BRANDS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in millions, except per share amounts)	13 Weeks Ended July 2, 2011	13 Weeks Ended June 26, 2010
Net sales	\$ 669.9	\$ 565.1
Cost of products sold	219.6	181.6
Gross margin	450.3	383.5
Delivery, sales and administrative expense	344.2	301.4
Re-engineering and impairment charges	1.1	2.0
Gains on disposal of assets	0.7	—
Operating income	105.7	80.1
Interest income	0.8	0.7
Interest expense	25.6	7.1
Other income	0.2	—
Income before income taxes	81.1	73.7
Provision for income taxes	16.0	15.8
Net income	\$ 65.1	\$ 57.9
Earnings per share:		
Basic	\$ 1.05	\$ 0.92
Diluted	1.03	0.90
Weighted-average shares outstanding:		
Basic	61.7	62.6
Diluted	63.1	63.9
Dividends declared per common share	\$ 0.30	\$ 0.25

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	27 Weeks Ended July 2, 2011	26 Weeks Ended June 26, 2010
(Dollars in millions, except per share amounts)		
Net sales	\$ 1,306.3	\$ 1,122.2
Cost of products sold	434.5	365.8
Gross margin	871.8	756.4
Delivery, sales and administrative expense	683.6	602.1
Re-engineering and impairment charges	2.5	3.6
Gains on disposal of assets	0.7	—
Operating income	186.4	150.7
Interest income	1.7	1.1
Interest expense	33.1	14.5
Other (income) expense	(0.1) 0.6
Income before income taxes	155.1	136.7
Provision for income taxes	34.2	31.7
Net income	\$ 120.9	\$ 105.0
Earnings per share:		
Basic	\$ 1.95	\$ 1.67
Diluted	1.91	1.64
Weighted-average shares outstanding:		
Basic	62.0	62.5
Diluted	63.3	63.9
Dividends declared per common share	\$0.60	\$0.50

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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TUPPERWARE BRANDS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in millions, except share amounts)	July 2, 2011	December 25, 2010
ASSETS		
Cash and cash equivalents	\$ 116.1	\$ 248.7
Accounts receivable, less allowances of \$31.2 million in 2011 and \$32.4 million in 2010	203.1	181.9
Inventories	325.9	279.1
Deferred income tax benefits, net	76.4	78.5
Non-trade amounts receivable, net	38.5	39.4
Prepaid expenses and other current assets	31.7	21.6
Total current assets	791.7	849.2
Deferred income tax benefits, net	396.1	391.3
Property, plant and equipment, net	268.4	258.0
Long-term receivables, less allowances of \$23.5 million in 2011 and \$18.8 million in 2010	26.2	22.8
Trademarks and tradenames	177.0	170.2
Other intangible assets, net	9.2	10.2
Goodwill	294.4	284.1
Other assets, net	39.8	30.0
Total assets	\$ 2,002.8	\$ 2,015.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 130.8	\$ 153.1
Short-term borrowings and current portion of long-term debt and capital lease obligations	2.3	1.9
Accrued liabilities	366.5	345.4
Total current liabilities	499.6	500.4
Long-term debt and capital lease obligations	418.2	426.8
Other liabilities	266.2	298.8
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	118.3	108.0
Retained earnings	1,033.8	969.2
Treasury stock 2,316,427 and 900,754 shares in 2011 and 2010, respectively, at cost	(147.2)	(41.5)
Accumulated other comprehensive loss	(186.7)	(246.5)
Total shareholders' equity	818.8	789.8
Total liabilities and shareholders' equity	\$ 2,002.8	\$ 2,015.8

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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TUPPERWARE BRANDS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	27 Weeks Ended July 2, 2011	26 Weeks Ended June 26, 2010	
Operating Activities:			
Net income	\$ 120.9	\$ 105.0	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	25.8	24.8	
Equity compensation	6.8	5.2	
Amortization and write-off of deferred debt costs	1.2	0.4	
Interest rate swap impairment	18.9	—	
Net gains on disposal of assets	(0.2)	(0.1))
Provision for bad debts	5.9	6.3	
Write-down of inventories	7.4	9.8	
Net change in deferred income taxes	(17.0)	(11.1))
Excess tax benefits from share-based payment arrangements	(7.6)	(4.1))
Changes in assets and liabilities:			
Accounts and notes receivable	(17.3)	(11.2))
Inventories	(41.3)	(40.1))
Non-trade amounts receivable	1.8	(5.0))
Prepaid expenses	(8.8)	(3.4))
Other assets	(4.1)	(0.3))
Accounts payable and accrued liabilities	(34.5)	2.3	
Income taxes payable	(8.2)	4.3	
Other liabilities	(3.1)	2.4	
Net cash impact from hedging activity	3.2	(0.3))
Other	(0.2)	(0.2))
Net cash provided by operating activities	49.6	84.7	
Investing Activities:			
Capital expenditures	(25.7)	(20.3))
Proceeds from disposal of property, plant and equipment	2.6	1.6	
Net cash used in investing activities	(23.1)	(18.7))
Financing Activities:			
Dividend payments to shareholders	(37.6)	(31.5))
Net proceeds from issuance of senior notes ⁽¹⁾	393.3	—	
Proceeds from exercise of stock options	13.9	9.0	
Repurchase of common stock	(130.8)	(26.5))
Repayment of long-term debt and capital lease obligations	(406.4)	(0.9))
Net change in short-term debt	0.1	—	
Debt issuance costs	(2.9)	—	
Excess tax benefits from share-based payment arrangements	7.6	4.1	
Net cash used in financing activities	(162.8)	(45.8))
Effect of exchange rate changes on cash and cash equivalents	3.7	(11.3))
Net change in cash and cash equivalents	(132.6)	8.9	

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Cash and cash equivalents at beginning of year	248.7	112.4
Cash and cash equivalents at end of period	\$ 116.1	\$ 121.3

⁽¹⁾ Net proceeds from issuance of senior notes are net of \$2.6 million in non-cash debt issuance costs.

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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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 2010 audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 25, 2010.

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 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. The Company's fiscal year ends on the last Saturday of December and, as a result, the 2011 fiscal year will contain 53 weeks as compared with 52 weeks for fiscal 2010. In addition, the year-to-date period ending July 2, 2011 contained 27 weeks as compared with 26 weeks for the year-to-date period ending June 26, 2010.

Out-of-Period Amounts: In the second quarter of 2010, the Company identified certain accounting errors in its Consolidated Financial Statements for the first quarter of 2010 and periods prior to 2010. These errors were corrected in the second quarter of 2010. To correct these errors, the Company recorded in the Consolidated Statement of Income for the 13 weeks ended June 26, 2010 a \$4.0 million reduction of net sales and increases of \$0.5 million of cost of products sold and \$5.9 million of delivery, sales and administrative expense (DS&A). The after tax impact of recording these amounts was an \$8.8 million reduction of net income or 14 cents per diluted share, of which \$2.8 million related to the first quarter of 2010 and the remaining \$6.0 million related to periods prior to 2010. The amounts related to errors identified in the financial reporting at the Company's Russian subsidiary, which resulted in overstatements of sales, including promotional credits that had not been recorded timely, prepaid expenses that should have been reflected in expenses in earlier time periods, inappropriate levels of accruals for certain promotional events and other operating liabilities and insufficient bad debt reserves. The Company determined that the errors were not material to the financial statements in the periods in which they originated or the period in which they were corrected, and, accordingly, a restatement of prior financial statements was not necessary.

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 DS&A expense. 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 2011 and 2010 were \$39.9 million and \$33.8 million, respectively, and were \$77.5 million and \$66.8 million for the year-to-date periods ended July 2, 2011 and June 26, 2010, respectively.

Note 3: Promotional Accruals

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.

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TUPPERWARE BRANDS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

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. Total promotional and other sales force compensation expenses included in DS&A expense totaled \$114.5 million and \$98.5 million for the second quarters of 2011 and 2010, respectively, and \$224.9 million and \$199.9 million for the year-to-date periods ended July 2, 2011 and June 26, 2010, respectively.

Note 4: Inventories

	July 2, 2011 (in millions)	December 25, 2010
Finished goods	\$209.2	\$ 184.7