TUPPERWARE BRANDS CORP
Form 10-Q
August 05, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the 13 weeks ended June 28, 2008

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	**36-4062333**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
14901 South Orange Blossom Trail, Orlando, Florida	**32837**
(Address of principal executive offices)	**(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 x 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 x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if 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 x.

As of August 1, 2008, 62,128,902 shares of the Common Stock, $0.01 par value, of the Registrant were outstanding.

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TUPPERWARE BRANDS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in millions, except per share amounts)	**13 Weeks Ended June 28, 2008**	**13 Weeks Ended June 30, 2007**
Net sales	$ 583.6	$ 492.9
Cost of products sold	199.3	167.6
Gross margin	384.3	325.3
Delivery, sales and administrative expense	316.8	272.2
Re-engineering and impairment charges, net	3.5	0.8
Impairment of intangible assets	9.0	
Gains on disposal of assets	0.6	2.1
Operating income	55.6	54.4
Interest income	1.4	0.9
Interest expense	10.1	10.9
Other expense	0.7	0.6
Income before income taxes	46.2	43.8
Provision for income taxes	10.2	8.3
Net income	$ 36.0	$ 35.5
Earnings per share:		
Basic	$ 0.59	$ 0.58
Diluted	0.56	0.56
Weighted-average shares outstanding (millions):		
Basic	61.6	61.1
Diluted	63.6	62.9
Dividends per common share	$ 0.22	$ 0.22

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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TUPPERWARE BRANDS CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	26 Weeks Ended	
(Dollars in millions, except per share amounts)	**June 28, 2008**	**June 30, 2007**
Net sales	$ 1,127.0	$ 949.8
Cost of products sold	394.1	328.8
Gross margin	732.9	621.0
Delivery, sales and administrative expense	614.6	529.8
Re-engineering and impairment charges, net	5.7	3.6
Impairment of intangible assets	9.0	
Gains on disposal of assets	0.6	4.6
Operating income	104.2	92.2
Interest income	2.5	2.0
Interest expense	18.8	22.7
Other expense	2.1	1.5
Income before income taxes	85.8	70.0
Provision for income taxes	17.7	14.9
Net income	$ 68.1	$ 55.1
Basic	$ 1.11	$ 0.91
Diluted	1.07	0.88
Weighted-average shares outstanding (millions):		
Basic	61.4	60.7
Diluted	63.3	62.4
Dividends per common share	$ 0.44	$ 0.44

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)	**June 28, 2008**	**December 29, 2007**
ASSETS		
Cash and cash equivalents	$ 89.8	$ 102.7
Accounts receivable, less allowances of $30.5 million in 2008 and $29.7 million in 2007	182.8	161.0
Inventories	310.1	269.9
Deferred income tax benefits, net	95.0	100.2
Non-trade amounts receivable, net	43.0	35.6
Prepaid expenses	34.4	30.1
Total current assets	755.1	699.5
Deferred income tax benefits, net	329.7	293.7
Property, plant and equipment, net	274.8	266.0
Long-term receivables, net of allowances of $23.1 million in 2008 and $20.9 million in 2007	37.6	37.8
Trademarks and tradenames	201.4	203.9
Other intangible assets, net	25.3	28.7
Goodwill	316.7	306.9
Other assets, net	32.8	32.2
Total assets	$ 1,973.4	$ 1,868.7
LIABILITIES AND SHAREHOLDERS EQUITY		
Accounts payable	$ 145.8	$ 137.5
Short-term borrowings and current portion of long-term debt and capital lease obligations	21.5	3.5
Accrued liabilities	307.5	309.3
Total current liabilities	474.8	450.3
Long-term debt and capital lease obligations	591.5	589.8
Other liabilities	297.4	305.9
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; 62,367,289 shares issued	0.6	0.6
Paid-in capital	41.8	38.8
Subscriptions receivable	(2.1)	(2.3)
Retained earnings	689.7	657.8
Treasury stock 327,676 and 845,376 shares in 2008 and 2007, respectively, at cost	(10.7)	(26.1)
Accumulated other comprehensive loss	(109.6)	(146.1)
Total shareholders equity	609.7	522.7
Total liabilities and shareholders equity	$ 1,973.4	$ 1,868.7

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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TUPPERWARE BRANDS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	**26 Weeks Ended June 28, 2008**	**June 30, 2007**
Operating Activities:		
Net income	$ 68.1	$ 55.1
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	31.8	31.3
Equity compensation	3.2	2.6
Amortization of debt issuance costs	0.5	1.7
Net gain on disposal of assets	(0.7)	(4.5)
Provision for bad debts	4.1	5.7
Net impact of writedown of inventories and change in LIFO reserve	8.1	4.4
Non-cash impact of re-engineering and impairment costs	9.5	0.4
Net change in deferred income taxes	(0.1)	(5.7)
Changes in assets and liabilities:		
Accounts and notes receivable	(14.4)	(10.2)
Inventories	(37.1)	(31.7)
Non-trade amounts receivable	(2.4)	(3.6)
Prepaid expenses	(3.8)	(5.0)
Other assets	0.2	1.2
Accounts payable and accrued liabilities	(5.7)	30.4
Income taxes payable	(22.2)	(11.7)
Other liabilities	(6.6)	1.0
Net cash impact from hedging activity	(27.2)	1.8
Other	0.1	0.6
Net cash provided by operating activities	5.4	63.8
Investing Activities:		
Capital expenditures	(24.4)	(19.2)
Proceeds from disposal of property, plant and equipment	2.4	4.6
Proceeds from insurance settlements	7.5	3.7
Net cash used in investing activities	(14.5)	(10.9)
Financing Activities:		
Dividend payments to shareholders	(27.1)	(26.7)
Proceeds from exercise of stock options	13.4	22.8
Proceeds from payments of subscriptions receivable	0.2	0.3
Repurchase of common stock	(7.3)	
Repayment of long-term debt and capital lease obligations	(1.8)	(68.2)
Net change in short-term debt	15.7	
Excess tax benefits from share-based payment arrangements		1.4
Net cash used in financing activities	(6.9)	(70.4)
Effect of exchange rate changes on cash and cash equivalents	3.1	1.1

Net change in cash and cash equivalents	(12.9)	(16.4)
Cash and cash equivalents at beginning of year	102.7	102.2
Cash and cash equivalents at end of period	$ 89.8	$ 85.8

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 2007 audited financial statements included in the Company s Annual Report on Form 10-K for the year ended December 29, 2007.

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.

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 the delivery, sales and administrative expense line item. Distribution costs are comprised of outbound freight and associated labor costs. The shipping and handling costs included in delivery, sales and administrative expense totaled $35.6 million and $25.1 million for the second quarter of 2008 and 2007, respectively, and $66.5 million and $52.4 million for the year-to-date periods ended June 28, 2008 and June 30, 2007, respectively. Fees billed to customers associated with the distribution of products are classified as revenue.

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, 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 delivery, sales and administrative expense. These accruals require estimates as to the cost of the awards based upon expected 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 delivery, sales and administrative expense totaled $106.4 million and $89.8 million for the second quarter of 2008 and 2007, respectively, and $204.2 million and $172.8 million for the year-to-date periods ended June 28, 2008 and June 30, 2007, respectively.

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Note 4: Inventories

	June 28, 2008	December 29, 2007
	(in millions)	
Finished goods	$ 206.3	$ 186.4
Work in process	23.9	18.3
Raw materials and supplies	79.9	65.2
Total inventories	$ 310.1	$ 269.9

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 Company s potential common stock consists of employee and director stock options, restricted stock and restricted stock units. Restricted stock and restricted stock units are excluded from the basic per share calculation and are included in the diluted per share calculation when doing so would not be anti-dilutive.

The common stock elements of the earnings per share computations are as follows (in millions):

	13 Weeks Ended June 28, 2008	13 Weeks Ended June 30, 2007	26 Weeks Ended June 28, 2008	26 Weeks Ended June 30, 2007
Net income	$ 36.0	$ 35.5	$ 68.1	$ 55.1
Weighted-average shares of common stock outstanding	61.6	61.1	61.4	60.7
Common equivalent shares:				
Assumed exercise of dilutive options, restricted shares and restricted stock units	2.0	1.8	1.9	1.7
Weighted-average common and common equivalent shares outstanding	63.6	62.9	63.3	62.4
Basic earnings per share	$ 0.59	$ 0.58	$ 1.11	$ 0.91
Diluted earnings per share	$ 0.56	$ 0.56	$ 1.07	$ 0.88
Potential common stock excluded from diluted earnings per share because inclusion would have been anti-dilutive	0.3		0.5	0.8

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Note 6: Comprehensive Income

In addition to net income, comprehensive income included certain amounts recorded directly in equity. The components of comprehensive income, net of related income tax effects, for the respective periods, were as follows (in millions):

	13 Weeks Ended June 28, 2008	13 Weeks Ended June 30, 2007	26 Weeks Ended June 28, 2008	26 Weeks Ended June 30, 2007
Net income	$ 36.0	$ 35.5	$ 68.1	$ 55.1
Foreign currency translation adjustments	9.5	18.3	37.6	21.5
Deferred gain (loss) on cash flow hedges, net of tax provision of $5.0 and $0.1 million for the second quarter 2008 and 2007, and a benefit of $0.5 and provision of $0.2 million for the comparable year-to-date periods	9.6	0.1	(1.9)	0.3
Pension and other post retirement costs, net of tax provision of $0.3 million for the second quarter of both 2008 and 2007, respectively, and $0.4 and $1.4 million for the comparable year-to-date periods	0.6	0.7	0.8	2.7
Comprehensive income	$ 55.7	$ 54.6	$ 104.6	$ 79.6

Accumulated other comprehensive loss is comprised of pension liabilities, foreign currency translation adjustments and hedge activity as disclosed in Note 11 to the Consolidated Financial Statements.

Note 7: Re-engineering Costs

The Company recorded $3.5 million and $5.7 million in re-engineering and impairment charges during the second quarter and first half of 2008, respectively, primarily related to severance costs incurred to reduce headcount in the Company s BeautiControl, France, Germany, Netherlands, Italy, Mexico, Malaysia and Philippines operations. The bulk of the remaining cost was an impairment charge related to software the Company no longer expects to utilize in the South African beauty business.

The Company recorded $0.8 million and $3.6 million in re-engineering and impairment charges during the second quarter and first half of 2007, respectively. The charges were primarily related to the cessation of production in the Company s BeautiControl North America manufacturing facility in Texas in conjunction with moving into a new facility located nearby. The purpose of the move was to provide a more efficient manufacturing layout, as well as capacity for continued growth and the ultimate consolidation with its distribution operations. The costs recorded related to the impairment of assets that would no longer be utilized and were not salable, as well as costs for lease and related payments still due on the former facility. The bulk of the remaining costs related to headcount reductions totaling 48 positions in Japan, Mexico, Philippines, Switzerland and Australia, with the reduction in Japan being the most significant as a result of the consolidation of distribution facilities of the Company s two Japanese operating entities.

The balances, included in accrued liabilities, related to re-engineering and impairment charges as of June 28, 2008 and December 29, 2007 were as follows (in millions):

	June 28, 2008	December 29, 2007
Beginning of the year balance	$ 2.3	$ 0.6
Provision	5.7	9.0
Cash expenditures:		
Severance	(3.4)	(3.5)
Other	(0.9)	(0.2)
Non-cash impairments	(0.5)	(3.6)

End of period balance	$ 3.2	$ 2.3

Of the total accrual at June 28, 2008, $0.4 million related to lease payments, less expected sub-lease income, remaining on the vacated BeautiControl North America manufacturing facility. The remaining lease term runs through the third quarter of 2009. The bulk of the remaining balance of the accrual relates to severance payments expected to be made in several markets by the first quarter of 2009.

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Note 8: Goodwill and Intangible Assets

The Company does not amortize its tradename intangible assets and goodwill. Instead, the Company tests these assets for impairment annually, or more frequently if events or changes in circumstances indicate they may be impaired. The impairment test for the Company s tradenames involve comparing the estimated fair value of the assets to their carrying amounts to determine if a write-down to fair value is required. If the carrying amount of a tradename exceeds its estimated fair value, an impairment charge is recognized in an amount equal to the excess. The impairment test for goodwill involves comparing the fair value of a reporting unit to its carrying amount, including goodwill, and after any intangible asset impairment charges. If the carrying amount of the reporting unit exceeds its fair value, a second step is required to measure the goodwill impairment loss. This step revalues all assets and liabilities of the reporting unit to their current fair value and then compares the implied fair value of the reporting unit s goodwill to the carrying amount of that goodwill. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

During the second quarter of 2008, the financial results of the Nutrimetics and NaturCare businesses were below expectations and the Company lowered its forecast of future sales and profit below that used to value these tradenames in the Company s 2007 annual impairment analysis performed as of September 2007. As a result of these factors, the Company performed interim impairment tests of these tradenames. The fair values calculated were determined using a discounted cash flow model. The result of the interim impairment tests was to record a $6.5 million impairment to the Nutrimetics tradename and a $2.5 million impairment to the NaturCare tradename in the second quarter of 2008.

Since the acquisition of these businesses, the Company has implemented certain strategies to realize its expectations as of the acquisition date; however, it has taken longer than originally estimated for the benefits of these strategies to be fully realized. The impairment charge recorded reflects the current expectation of future earnings and profits. If, in the future, the estimated fair value of the Company s tradenames or goodwill were to decline further, it would be necessary to record an additional non-cash impairment charge. The Nutrimetics tradename is included in the Beauty Other segment and the NaturCare tradename is included in the Asia Pacific segment. The Company also evaluated the goodwill for these reporting units as of June 28, 2008, determining no write down of these assets was required.

Note 9: 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, products, production process, class of customers and distribution method. Sales and segment profit are from transactions with customers, with inter-segment profit eliminated. The Company s reportable segments include the following businesses:

Tupperware:	Primarily design-centric preparation, storage and serving solutions for the kitchen and home through the Tupperware® brand. Europe includes Avroy Shlain® and Swissgarde®, which are beauty and personal care units in Southern Africa. Asia Pacific includes NaturCare®, a beauty and personal care unit in Japan.
Europe Asia Pacific North America	
Beauty North America	Primarily cosmetics, skin care and personal care products marketed under the BeautiControl® brand in the United States, Canada and Puerto Rico and the Fuller Cosmetics® brand in Mexico.
Beauty Other	Primarily beauty and personal care products mainly in Australia and the Philippines under the brands Nutrimetics® and Fuller®, respectively. Both home and beauty products in South America under the brand names Fuller®, Nuvo® and Tupperware ®.

Worldwide sales of beauty and personal care products totaled $200.3 million and $180.8 million in the second quarter of 2008 and 2007, respectively, and $377.1 million and $341.1 million for the year-to-date periods ended June 28, 2008 and June 30, 2007, respectively.

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(in millions)	13 Weeks Ended June 28, 2008	13 Weeks Ended June 30, 2007	26 Weeks Ended June 28, 2008	26 Weeks Ended June 30, 2007
Net sales:				
Tupperware				
Europe	$ 203.3	$ 162.1	$ 423.5	$ 340.5
Asia Pacific	85.6	69.4	155.8	126.0
North America	84.2	81.5	153.7	144.1
Beauty				
North America	134.0	122.1	248.7	226.3
Beauty Other	76.5	57.8	145.3	112.9
Total net sales	$ 583.6	$ 492.9	$ 1,127.0	$ 949.8
Segment profit (loss):				
Tupperware				
Europe (a)	$ 29.9	$ 24.8	$ 68.0	$ 53.6
Asia Pacific (a)	17.2	11.6	27.1	17.6
North America	9.4	8.3	12.4	9.5
Beauty				
North America (a)	20.1	20.1	34.5	34.0
Beauty Other (a)	(0.4)	(3.4)	(6.0)	(7.1)
Total segment profit	76.2	61.4	136.0	107.6
Unallocated expenses	(9.4)	(8.9)	(19.8)	(17.9)
Other income (b)	0.6	2.1	0.6	4.6
Re-engineering and impairment charges (c)	(3.5)	(0.8)	(5.7)	(3.6)
Impairment of intangible assets (c)	(9.0)		(9.0)	
Interest expense, net	(8.7)	(10.0)	(16.3)	(20.7)
Income before income taxes	$ 46.2	$ 43.8	$ 85.8	$ 70.0

	June 28, 2008	December 29, 2007
Identifiable Assets:		
Tupperware:		
Europe	$ 428.1	$ 392.2
Asia Pacific	183.3	167.9
North America	189.6	183.4
Beauty:		
North America	498.2	476.7
Beauty Other	321.5	312.8
Corporate	352.7	335.7
Total Identifiable Assets	$ 1,973.4	$ 1,868.7

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(a) Charges for amortization of definite-lived intangible assets by segment were as follows:

	13 Weeks Ended June 28, 2008	13 Weeks Ended June 30, 2007	26 Weeks Ended June 28, 2008	26 Weeks Ended June 30, 2007
Europe	$ 0.1	$ 0.2	$ 0.2	$ 0.5
Asia Pacific	0.4	0.6	0.8	1.1
Beauty North America	1.0	1.5	1.9	3.0
Beauty Other	0.9	1.1	1.8	2.1
Total	$ 2.4	$ 3.4	$ 4.7	$ 6.7

(b) Other income of $0.6 million for the second quarter of 2008 reflects a gain from a final insurance claim settlement related to flood damage in Indonesia. Other income for the second quarter of 2007 reflects a gain from the sale of excess land in Australia. The 2007 year-to-date balance also includes a final insurance claim settlement related to a fire at a former manufacturing facility.

(c) See Note 7 and 8 to the Consolidated Financial Statements for a discussion of the re-engineering and impairment charges.

Note 10: Debt

On September 28, 2007, the Company entered into an $800 million five-year senior secured credit agreement (2007 Credit Agreement) consisting of a $200 million revolving credit facility and $600 million in term loans. The debt under the 2007 Credit Agreement is secured by substantially all of the Company s domestic assets, excluding real estate, and capital stock of its domestic subsidiaries plus a 66 percent stock pledge of its significant foreign subsidiaries. The interest rate charged on the outstanding borrowings on the term loans is a floating LIBOR base rate plus an applicable margin. As of June 28, 2008, the applicable margin was 75 basis points, resulting in an effective interest rate on outstanding borrowings of 3.4 percent, for the Company s LIBOR-based borrowings. Although the 2007 Credit Agreement is a floating rate debt instrument the Company is required to maintain at least 40 percent of total outstanding debt at fixed rates, which is achieved through the use of interest rate swaps as further discussed below. Borrowings outstanding under the 2007 Credit Agreement totaled $580.2 million and $565.0 million as of June 28, 2008 and December 29, 2007, respectively.

At June 28, 2008, the Company had $317.0 million of unused lines of credit, including $176.3 million under the committed, secured $200 million revolving line of credit and $140.7 million available under various uncommitted lines around the world. The Company satisfies most of its short-term financing needs utilizing its committed, secured revolving line of credit. The Company s credit agreement contains customary covenants. While the covenants are restrictive and could inhibit the Company s ability to borrow, pay dividends, or make capital investments in its business, this is not currently expected to occur. The primary financial covenants are a fixed charge coverage ratio, a leverage ratio and an adjusted net worth requirement as defined in the 2007 Credit Agreement. As of June 28, 2008, the Company was in compliance with all of its covenants.

Note 11: Derivative Instruments and Hedging Activities

The Company markets its products in almost 100 countries and 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.

The Company uses derivative financial instruments to hedge selected foreign currency exposures resulting from firm purchase commitments or anticipated transactions, and classifies these as cash flow hedges. The Company generally enters into cash flow hedge contracts for periods ranging from three 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. Consequently, the balance at the end of each reporting period in other accumulated comprehensive loss relating to these hedges will be reclassified into earnings within the next 12 months. The associated asset or liability on the open hedge is recorded in other current assets or accrued liabilities as applicable. The impact of these foreign currency cash flow hedges included in other accumulated comprehensive loss, net of tax, was a net loss of $1.8 million and a net gain of $0.3 million for the year-to-date periods ended June 28, 2008 and June 30, 2007, respectively. 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 the ineffective portion of the hedge, were included in foreign currency translation adjustments within accumulated other comprehensive loss. For the second quarter of 2008 and 2007, the Company recorded, in comprehensive income, net losses associated with its net equity hedges $0.4 million and $2.2 million, net of tax, respectively. For the year-to-date periods ended June 28, 2008 and June 30, 2007, the Company recorded losses, net of tax, of $13.7 million and $6.7 million related to these net equity hedges. Due to the permanent nature of the investments, the Company does not anticipate reclassifying any portion of the amount included in accumulated other comprehensive loss to the income statement in the next 12 months.

While the Company s net equity and fair value hedges mitigate its exposure to foreign exchange gains or losses, they result in an impact to operating cash flows as they are settled. In the first half of 2008, the cash flow impact of these currency hedges was an outflow of $27.2 million. The U.S. dollar equivalent of the Company s most significant net open foreign currency hedge positions as of June 28, 2008 were to sell euro, $25.2 million; Swiss francs, $15.6 million; Philippine pesos, $14.0 million and Japanese yen, $27.9 million and to buy Korean won, $11.8 million and South African rand, $14.8 million. 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 currency exposures and desire to hedge certain net investment positions, and in some cases, based on the exposure being hedged, the offsetting currency is not the U.S. dollar. Based on rates existing at the end of the second quarter of 2008, the Company was in a net payable position of approximately $8.7 million related to its currency hedges. The hedges will be settled at their expiration, which could have a significant impact on the Company s cash flow.

The Company s credit agreement requires it to maintain at least 40 percent of its outstanding borrowings at a fixed rate for a period of at least three years in the future. In September 2007, the Company entered into four interest rate swap agreements with notional values totaling $325 million that expire in 2012. Under the terms of these swap agreements, the Company receives a floating rate equal to the 3 month U.S. dollar LIBOR and pays a weighted average fixed rate of about 4.8 percent. The swap agreements combined with a contractual spread dictated by the credit agreement, which was 75 basis points as of June 28, 2008, gave the Company an all-in effective rate of about 5.5 percent on these borrowings as of June 28, 2008.

On November 8, 2007, the Company entered into four forward interest rate agreements that fix for 2008, the LIBOR base borrowing rate for an additional $200 million under the 2007 Credit Agreement. These agreements locked in the LIBOR base rate for these borrowings at the forward rates then existing for the 3-month borrowing periods beginning at the end of December 2007 and at the end of the first three quarters of 2008. The average locked-in LIBOR rate is 4.3 percent. The Company will incur this rate on the $200 million of borrowings plus the spread under the 2007 Credit Agreement, which was 75 basis points at June 28, 2008.

On March 5, 2008, the Company entered into a forward interest rate agreement that fixes for the first quarter of 2009, the LIBOR base borrowing rate for $100 million under the 2007 Credit Agreement. This agreement locked in the LIBOR base rate for these borrowings at the forward rate then existing for the 3-month borrowing period beginning at the end of December 2008. The Company will pay a fixed rate of 2.3 percent plus the spread under the 2007 Credit Agreement, which was 75 basis points as of June 28, 2008.

On May 12, 2008, the Company entered into a forward interest rate agreement that fixes for the second and third quarters of 2009, the LIBOR base borrowing rate for $100 million under the 2007 Credit Agreement. This agreement locked in the LIBOR base rate for these borrowings at the forward rates then existing for the 3-month borrowing period beginning at the end of March 2009. The Company will pay a fixed rate of 3.1 percent plus the spread under the 2007 Credit Agreement, which was 75 basis points as of June 28, 2008.

All of the swap agreements have been designated as cash flow hedges with interest payments designed to perfectly match the interest payments under the term loans due in 2012. The fair value of these hedges was a net payable of $9.2 million ($6.0 million net of tax) as of June 28, 2008 and $9.2 million ($5.9 million net of tax) as of December 29, 2007. The net amount is included as a component of other comprehensive income.

Note 12: Fair Value Measurements

The Company adopted SFAS 157, *Fair Value Measurements*, (SFAS 157) at the beginning of its 2008 fiscal year. SFAS 157 clarifies the definition of fair value, describes the method used to appropriately measure fair value in accordance with generally accepted accounting principles and expands fair value disclosure requirements. This statement applies whenever other accounting pronouncements require or permit fair value measurements.

The fair value hierarchy established under SFAS 157 prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy defined by SFAS 157 are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

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Level 2 Pricing inputs are other than quoted prices in active markets included in level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management s best estimate of fair value from the perspective of a market participant.

The Company performs fair value measurements on certain assets and liabilities as the result of the application of accounting guidelines and pronouncements that were relevant prior to the adoption of SFAS 157. Some fair value measurements, such as foreign currency forward contracts and interest rate swaps are performed on a recurring basis, while others, such as impairment of goodwill and other intangibles are performed on a nonrecurring basis. In February 2008, the FASB issued Staff Position 157-2 (FSP 157-2)*, Effective Date of FASB Statement No. 157*. As permitted by FSP 157-2, the Company elected to defer the adoption of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill and intangible asset impairment test.

Description of Assets ***(in millions)***	**June 28, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Money market funds	$ 6.2	$ 6.2	$	$
Foreign currency derivative contracts	6.9		6.9	
Total	$ 13.1	$ 6.2	$ 6.9	$

Description of Liabilities ***(in millions)***	**June 28, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest rate swaps	$ 9.2	$	$ 9.2	$
Foreign currency derivative contracts	15.6		15.6	$
Total	$ 24.8	$	$ 24.8	$

The Company markets its products in almost 100 countries and is exposed to fluctuations in foreign currency exchange rates on the earnings, cash flows and financial position of its international operations. The Company s primary objective with respect to currency risk is to reduce volatility that would otherwise occur due to exchange-rate fluctuations. The Company uses financial instruments to hedge certain of its exposures and to manage the foreign exchange impact to its financial statements. As of June 28, 2008 the Company held several foreign currency forward contracts to hedge various currencies which had a net fair value liability of $8.7 million based on third party quotations. Changes in fair market value are recorded either in other comprehensive income or earnings depending on the designation of the hedge as previously discussed in Note 11 to the Consolidated Financial Statements.

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The fair value of interest rate swap contracts is based on the discounted net present value of the swap using third party quotes. Changes in fair market value are recorded in other comprehensive income, and changes resulting from ineffectiveness are recorded in current earnings.

Included in the Company s cash equivalents balance as of June 28, 2008 was $6.2 million in money market funds which are highly liquid investments with a maturity of three months or less. These assets are classified within Level 1 of the fair value hierarchy as the money market funds are valued using quoted market prices in active markets.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities,* which permits entities to elect to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. This election is irrevocable. SFAS 159 was effective in the first quarter of fiscal 2008. The Company has not elected to apply the fair value option to any of its financial instruments.

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Note 13: Retirement Benefit Plans

Components of net periodic benefit cost for the second quarter and year-to-date periods ended June 28, 2008 and June 30, 2007 were as follows (in millions):

	Second Quarter			Year-to-Date	
	Pension benefits		Postretirement benefits	Pension benefits	Postretirement benefits
	2008	2007	2008		