HELEN OF TROY LTD
Form 10-Q
January 06, 2012

**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 quarterly period ended November 30, 2011**

**or**

o **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: 001-14669**

# HELEN OF TROY LIMITED

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Bermuda**<br>(State or other jurisdiction of incorporation or organization) | **74-2692550**<br>(I.R.S. Employer Identification No.) |
| **Clarenden House**<br><br>**Church Street**<br><br>**Hamilton, Bermuda**<br>(Address of principal executive offices) | |
| **1 Helen of Troy Plaza**<br>**El Paso, Texas**<br>(Registrant s United States Mailing Address) | **79912**<br>(Zip Code) |

**(915) 225-8000**

(Registrant s telephone number, including area code)

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 T 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 T 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer £ Accelerated filer T

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 T

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

| Class | Outstanding at December 30, 2011 |
|---|---|
| Common Shares, $0.10 par value, per share | 31,611,090 shares |

**HELEN OF TROY LIMITED AND SUBSIDIARIES**

**INDEX FORM 10-Q**


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**PART I. FINANCIAL INFORMATION**

## ITEM 1. FINANCIAL STATEMENTS

## HELEN OF TROY LIMITED AND SUBSIDIARIES

**Consolidated Condensed Balance Sheets (unaudited)**

***(in thousands, except shares and par value)***

| | November 30, 2011 | February 28, 2011 |
|---|---|---|
| **Assets** | | |
| Asset, current: | | |
| Cash and cash equivalents | $ 35,419 | $ 27,193 |
| Investments, at market value | - | 1,233 |
| Receivables - principally trade, less allowances of $5,414 and $4,148 | 229,221 | 188,404 |
| Inventory, net | 251,760 | 217,230 |
| Prepaid expenses and other assets, current | 6,358 | 5,149 |
| Income taxes receivable | 2,865 | 2,399 |
| Deferred tax assets, net | 14,760 | 18,843 |
| Total assets, current | 540,383 | 460,451 |
| | | |
| Property and equipment, net of accumulated depreciation of $71,342 and $65,428 | 86,713 | 82,487 |
| Goodwill | 367,409 | 356,242 |
| Other intangible assets, net of accumulated amortization of $48,645 and $36,083 | 291,308 | 304,705 |
| Deferred tax assets, net | 981 | - |
| Other assets, net of accumulated amortization of $3,580 and $4,096 | 14,185 | 36,639 |
| Total assets | $ 1,300,979 | $ 1,240,524 |
| | | |
| **Liabilities and Stockholders Equity** | | |
| Liabilities, current: | | |
| Revolving line of credit | $ 70,000 | $ 71,000 |
| Accounts payable, principally trade | 96,648 | 73,321 |
| Accrued expenses and other current liabilities | 140,077 | 141,620 |
| Deferred tax liabilities, net | 1,360 | - |
| Long-term debt, current maturities | 3,000 | 53,000 |
| Total liabilities, current | 311,085 | 338,941 |
| | | |
| Deferred compensation liability | 3,840 | 4,712 |
| Other liabilities, noncurrent | 1,674 | 1,594 |
| Deferred tax liabilities, net | 27,222 | 23,216 |
| Long-term debt, excluding current maturities | 175,000 | 178,000 |
| Liability for uncertain tax positions | 12,246 | 2,481 |
| Derivative liabilities, noncurrent | 5,707 | 6,031 |
| Total liabilities | 536,774 | 554,975 |
| | | |
| Commitments and contingencies | | |

| | | | | |
|---|---|---|---|---|
| Stockholders equity: | | | | |
| Cumulative preferred stock, non-voting, $1.00 par. Authorized 2,000,000 shares; none issued | | **-** | | - |
| Common stock, $0.10 par. Authorized 50,000,000 shares; 31,605,993 and 30,838,860 shares issued and outstanding | | **3,161** | | 3,084 |
| Additional paid in capital | | **147,543** | | 130,015 |
| Accumulated other comprehensive loss | | **(5,787)** | | (7,850) |
| Retained earnings | | **619,288** | | 560,300 |
| Total stockholders equity | | **764,205** | | 685,549 |
| Total liabilities and stockholders equity | **$** | **1,300,979** | $ | 1,240,524 |

*See accompanying notes to consolidated condensed financial statements.*

## HELEN OF TROY LIMITED AND SUBSIDIARIES

**Consolidated Condensed Statements of Income (unaudited)**

***(in thousands, except per share data)***

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Sales revenue, net | **$ 338,785** | $ 205,001 | **$ 887,672** | $ 539,977 |
| Cost of goods sold | **205,603** | 112,256 | **532,295** | 294,529 |
| Gross profit | **133,182** | 92,745 | **355,377** | 245,448 |
| Selling, general, and administrative expense | **91,354** | 61,205 | **252,546** | 163,020 |
| Operating income before impairments | **41,828** | 31,540 | **102,831** | 82,428 |
| Asset impairment charges | **-** | - | **-** | 501 |
| Operating income | **41,828** | 31,540 | **102,831** | 81,927 |
| Nonoperating income (expense), net | **190** | 156 | **(325)** | 490 |
| Interest expense | **(2,958)** | (2,081) | **(9,652)** | (6,377) |
| Income before income taxes | **39,060** | 29,615 | **92,854** | 76,040 |
| Income tax expense (benefit): | | | | |
| Current | **4,222** | 2,191 | **6,656** | 7,365 |
| Deferred | **1,959** | 361 | **5,121** | (248) |
| Net income | **$ 32,879** | $ 27,063 | **$ 81,077** | $ 68,923 |
| Earnings per share: | | | | |
| Basic | **$ 1.04** | $ 0.88 | **$ 2.59** | $ 2.25 |
| Diluted | **$ 1.04** | $ 0.86 | **$ 2.56** | $ 2.20 |
| Weighted average shares of common stock used in computing net earnings per share: | | | | |
| Basic | 31,592 | 30,644 | 31,246 | 30,640 |
| Diluted | 31,666 | 31,297 | 31,685 | 31,293 |

*See accompanying notes to consolidated condensed financial statements.*

## HELEN OF TROY LIMITED AND SUBSIDIARIES

**Consolidated Condensed Statements of Cash Flows (unaudited)**

***(in thousands)***

| | Nine Months Ended November 30, | |
|---|---|---|
| | **2011** | 2010 |
| Net cash provided by operating activities: | | |
| Net income | **$ 81,077** | $ 68,923 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | **21,066** | 12,415 |
| Provision for doubtful receivables | **605** | 69 |
| Share-based compensation | **2,231** | 1,547 |
| Intangible asset impairment charges | **-** | 501 |
| (Gain) loss on the sale of property and equipment | **(95)** | 50 |
| Realized loss on investments | **697** | **-** |
| Deferred income taxes and tax credits | **5,041** | (324) |
| Changes in operating assets and liabilities, net of effects of acquisition of businesses: | | |
| Receivables | **(41,363)** | (34,172) |
| Inventories | **(34,530)** | (23,404) |
| Prepaid expenses and other assets | **(1,071)** | (1,460) |
| Other assets and liabilities, net | **128** | (765) |
| Accounts payable | **23,327** | (901) |
| Accrued expenses and other current liabilities | **(1,488)** | 13,214 |
| Accrued income taxes | **548** | (2,094) |
| Net cash provided by operating activities | **56,173** | 33,599 |
| | | |
| Net cash provided (used) by investing activities: | | |
| Capital and other intangible expenditures | **(11,238)** | (3,032) |
| Proceeds from the sale of property and equipment | **1,534** | 63 |
| Proceeds from sale of investments | **22,421** | 300 |
| Payments to acquire businesses | **-** | (69,000) |
| Net cash provided (used) by investing activities | **12,717** | (71,669) |
| | | |
| Net cash used by financing activities: | | |
| Proceeds from line of credit | **809,450** | **-** |
| Repayment of line of credit | **(810,450)** | **-** |
| Repayment of long-term debt | **(53,000)** | (3,000) |
| Payments of financing costs | **(25)** | **-** |
| Proceeds from exercise of stock options and employee stock purchases, including tax benefits | **5,907** | 3,284 |
| Payments for repurchases of common stock | **-** | (1,799) |
| Payment of tax obligations resulting from cashless option exercise | **(12,546)** | **-** |
| Net cash used by financing activities | **(60,664)** | (1,515) |
| Net increase (decrease) in cash and cash equivalents | **8,226** | (39,585) |
| Cash and cash equivalents, beginning balance | **27,193** | 110,208 |
| Cash and cash equivalents, ending balance | **$ 35,419** | $ 70,623 |
| | | |
| Supplemental cash flow information: | | |
| Interest paid | **$ 8,745** | $ 6,208 |
| Income taxes paid, net of refunds | **$ 1,779** | $ 9,389 |
| Value of common stock received as exercise price of options | **$ 25,822** | $ - |
| Transfer of auction rate securities from non-current assets to investments | **$ 18,950** | $ - |

*See accompanying notes to consolidated condensed financial statements.*

**HELEN OF TROY LIMITED AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)**

**November 30, 2011**

## Note 1 - *Basis of Presentation and Conventions Used in this Report*

In our opinion, the accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of November 30, 2011 and February 28, 2011, and the results of our consolidated operations for the three- and nine-month periods ended November 30, 2011 and 2010. The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K for the fiscal year ended February 28, 2011, and our other reports on file with the Securities and Exchange Commission ( SEC ).

In this report and the accompanying consolidated condensed financial statements and notes, unless the context suggests otherwise or otherwise indicated, references to the Company, our Company, Helen of Troy, we, us, or our refer to Helen of Troy Limited and its subsidiaries, an amounts are expressed in thousands of U.S. Dollars. References to Kaz refer to the operations of Kaz, Inc. and its subsidiaries, which we acquired in a merger on December 31, 2010. Kaz is its own segment within the Company referred to as the Healthcare / Home Environment segment. References to OXO refer to the operations of OXO International and certain affiliated subsidiaries that comprise the Housewares segment of the Company s business. Product and service names mentioned in this report are used for identification purposes only and may be protected by trademarks, trade names, services marks, and/or other intellectual property rights of the Company and/or other parties in the United States and/or other jurisdictions. The absence of a specific attribution in connection with any such mark does not constitute a waiver of any such right. All trademarks, trade names, service marks and logos referenced herein belong to their respective owners. We refer to the Company s common shares, par value $0.10 per share, as common stock. References to the FASB refer to the Financial Accounting Standards Board. References to GAAP refer to U.S. generally accepted accounting principles. References to ASC refer to the codification of U.S. GAAP in the Accounting Standards Codification issued by the FASB.

## Note 2 *New Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company s management believes that the impact of recently issued standards that are not yet effective, some of which may impact presentation in the financial statements and/or accompanying footnotes, will not have a material impact on its consolidated financial position, results of operations and cash flows upon adoption.

## Note 3 *Litigation*

We are involved in various legal claims and proceedings in the normal course of operations. We believe the outcome of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

**Note 4** ***Earnings per Share***

Basic earnings per share is computed based upon the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based upon the weighted average number of shares of common stock outstanding during the period plus the effect of dilutive securities. Our dilutive securities consist entirely of outstanding options for common stock that were in-the-money, meaning that the exercise price of the options was less than the average market price of our common stock during the period reported. Out-of-the-money options are outstanding options to purchase common stock that were excluded from the computation of earnings per share because the exercise price of the options was greater than the average market price of our common stock during the period reported. Thus, their effect would be antidilutive.

The effect of dilutive securities was approximately 74,600 and 439,100 shares of common stock for the three- and nine-month periods ended November 30, 2011, respectively, and 652,600 and 653,900 shares of common stock for the three- and nine-month periods ended November 30, 2010, respectively. Options to purchase common stock that were antidilutive totaled approximately 490,300 and 420,700 shares for the three- and nine-month periods ended November 30, 2011, respectively, and 527,700 and 620,500 shares for the three- and nine-month periods ended November 30, 2010, respectively.

## Note 5 *Comprehensive Income*

The components of comprehensive income, net of tax, for each of the periods covered by this report are as follows:

### COMPONENTS OF COMPREHENSIVE INCOME

***(in thousands)***

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Net income | **$ 32,879** | $ 27,063 | **$ 81,077** | $ 68,923 |
| Other comprehensive income (loss), net of tax: | | | | |
| Cash flow hedges - interest rate swaps, net of tax (1) | **721** | 860 | **388** | 118 |
| Cash flow hedges - foreign currency, net of tax (2) | **477** | (412) | **791** | 17 |
| Unrealized gain (loss) - auction rate securities, net of tax (3) | **-** | (4) | **884** | (7) |
| Comprehensive income, net of tax | **$ 34,077** | $ 27,507 | **$ 83,140** | $ 69,051 |

The components of accumulated other comprehensive loss, net of tax, for the periods covered by our consolidated condensed balance sheets are as follows:

### COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

***(in thousands)***

| | **November 30, 2011** | February 28, 2011 |
|---|---|---|
| Unrealized holding losses on cash flow hedges - interest rate swaps, net of tax (1) | **$ (5,964)** | $ (6,352) |
| Unrealized holding gains (losses) on cash flow hedges - foreign currency, net of tax (2) | **177** | (614) |
| Temporary impairment loss on auction rate securities, net of tax (3) | **-** | (884) |
| Total accumulated other comprehensive loss | **$ (5,787)** | $ (7,850) |

(1) The change in unrealized loss on interest rate swap cash flow hedges is recorded net of tax (expense) of ($0.39) and ($0.06) million for the three- and nine-month periods ended November 30, 2011, respectively, and ($0.44) and ($0.06) million for the three- and nine-month periods ended November 30, 2010, respectively. The unrealized holding loss on interest rate swap cash flow hedges included in accumulated other comprehensive loss includes net deferred tax benefits of $3.21 and $3.27 million at November 30, 2011 and February 28, 2011,

respectively.

(2) The change in unrealized gain (loss) on foreign currency cash flow hedges is recorded net of tax benefit (expense) of (\$0.24) and (\$0.38) million for the three- and nine-month periods ended November 30, 2011, respectively, and \$0.21 and (\$0.02) million for the three- and nine-month periods ended November 30, 2010, respectively. The unrealized holding gain (loss) on foreign currency cash flow hedges included in accumulated other comprehensive loss, includes net deferred tax benefit (expense) of (\$0.08) and \$0.30 million at November 30, 2011 and February 28, 2011, respectively.

(3) The change in temporary impairment loss on auction rate securities is recorded net of tax benefit (expense) of \$0.00 and (\$0.46) million for the three- and nine-month periods ended November 30, 2011, respectively, and \$0.00 million for both the three- and nine-month periods ended November 30, 2010, respectively. The temporary impairment loss on auction rate securities included in accumulated other comprehensive loss, includes net deferred tax benefits of \$0.00 and \$0.46 million at November 30, 2011 and February 28, 2011, respectively.

## Note 6 *Segment Information*

In the tables that follow, we present three segments: Personal Care, Housewares and Healthcare / Home Environment. Our Personal Care segment s products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid, solid- and powder-based personal care and grooming products. Our Housewares segment reports the operations of the OXO family of brands, which provide a broad range of innovative consumer products for the home. Product offerings include food preparation and storage, cleaning, organization, and baby and toddler care products. The Healthcare / Home Environment segment reports the operations of Kaz, which we acquired on December 31, 2010, as further discussed in Note 9 to these consolidated condensed financial statements. This segment focuses on health care devices such as thermometers, humidifiers and heating pads, and small domestic appliances such as air purifiers, portable heaters, fans, and bug zappers.

All three segments sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores, and specialty stores. In addition, the Personal Care segment sells extensively through beauty supply retailers and wholesalers and the Healthcare / Home Environment segment sells certain of its product lines through medical distributors and other products through home improvement stores. We use third-party manufacturers to produce our goods.

The following tables contain segment information for the periods covered by our consolidated condensed statements of income:

### THREE MONTHS ENDED NOVEMBER 30, 2011 AND 2010

***(in thousands)***

| **November 30, 2011** | **Personal Care** | **Housewares** | **Healthcare / Home Environment** | **Total** |
|---|---|---|---|---|
| Sales revenue, net | **$ 148,984** | **$ 61,223** | **$ 128,578** | **$ 338,785** |
| Operating income | **17,292** | **11,016** | **13,520** | **41,828** |
| Capital, license, trademark and other intangible expenditures | **1,876** | **521** | **1,862** | **4,259** |
| Depreciation and amortization | **2,640** | **1,765** | **2,970** | **7,375** |

| **November 30, 2010** | **Personal Care** | **Housewares** | **Healthcare / Home Environment** | **Total** |
|---|---|---|---|---|
| Sales revenue, net | $ 146,506 | $ 58,495 | $ - | $ 205,001 |
| Operating income | 18,816 | 12,724 | - | 31,540 |
| Capital, license, trademark and other intangible expenditures | 299 | 734 | - | 1,033 |
| Depreciation and amortization | 2,674 | 1,435 | - | 4,109 |

### NINE MONTHS ENDED NOVEMBER 30, 2011 AND 2010

***(in thousands)***

| **November 30, 2011** | **Personal Care** | **Housewares** | **Healthcare / Home Environment** | **Total** |
|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Sales revenue, net | **$** | **386,998** | **$** | **178,017** | **$** | **322,657** | **$** | **887,672** |
| Operating income | | **48,299** | | **33,854** | | **20,678** | | **102,831** |
| Capital, license, trademark and other intangible expenditures | | **6,509** | | **1,486** | | **3,243** | | **11,238** |
| Depreciation and amortization | | **7,883** | | **4,604** | | **8,579** | | **21,066** |

| **November 30, 2010** | | **Personal Care** | | **Housewares** | | **Healthcare / Home Environment** | | **Total** |
|---|---|---|---|---|---|---|---|---|
| Sales revenue, net | $ | 377,853 | $ | 162,124 | $ | - | $ | 539,977 |
| Operating income before impairment | | 47,142 | | 35,286 | | - | | 82,428 |
| Asset impairment charges | | 501 | | - | | - | | 501 |
| Operating income | | 46,641 | | 35,286 | | - | | 81,927 |
| Capital, license, trademark and other intangible expenditures | | 1,220 | | 1,812 | | - | | 3,032 |
| Depreciation and amortization | | 7,904 | | 4,511 | | - | | 12,415 |

We compute operating income for each segment based on net sales revenue, less cost of goods sold, selling, general and administrative expense ( SG&A ) and any impairment charges associated with the segment. The SG&A used to compute each segment s operating income is comprised of SG&A directly associated with the segment, plus overhead expenses that are allocable to the segment. We make allocations of overhead between operating segments using a number of relevant allocation criteria, depending on the nature of the expense, the most significant of which are relative revenues, estimates of relative labor expenditures, headcount, and facilities square footage. Beginning in fiscal 2012, we began making an allocation of corporate overhead to the Healthcare / Home Environment segment. For the three- and nine-month periods ended November 30, 2011, these allocations totaled $1.51 and $4.52 million, respectively. As we continue to integrate the operations of the Healthcare / Home Environment segment, we expect to allocate the costs of certain operating functions that will likely be shared between segments. As we decide such operating cost allocations are appropriate, there may be additional reductions in the operating results of the Healthcare / Home Environment segment offset by increases in operating income of the Personal Care and Housewares segments. The extent of this operating income impact between the segments has not yet been determined. We do not allocate other items of income and expense, including income taxes to operating segments.

The following tables contain identifiable assets allocable to each segment for the periods covered by our consolidated condensed balance sheets:

## IDENTIFIABLE ASSETS AT NOVEMBER 30, 2011 AND FEBRUARY 28, 2011

***(in thousands)***

| | Personal Care | Housewares | Healthcare / Home Environment | Total |
|---|---|---|---|---|
| November 30, 2011 | **$ 501,250** | **$ 372,176** | **$ 427,553** | **$ 1,300,979** |
| February 28, 2011 | 474,344 | 363,128 | 403,052 | 1,240,524 |

## Note 7 *Property and Equipment*

A summary of property and equipment is as follows:

## PROPERTY AND EQUIPMENT

***(in thousands)***

| | Estimated Useful Lives (Years) | November 30, 2011 | February 28, 2011 |
|---|---|---|---|
| Land | - | **$ 9,073** | $ 9,073 |
| Building and improvements | 3 - 40 | **66,237** | 65,605 |
| Computer and other equipment | 3 - 10 | **48,303** | 47,171 |
| Tools, dies and molds | 1 - 3 | **17,705** | 13,080 |
| Transportation equipment | 3 - 5 | **118** | 118 |
| Furniture and fixtures | 5 - 15 | **8,809** | 8,668 |
| Construction in progress | - | **7,810** | 4,200 |
| Property and equipment, gross | | **158,055** | 147,915 |
| Less accumulated depreciation | | **(71,342)** | (65,428) |

| | | | | |
|---|---|---|---|---|
| Property and equipment, net | **$** | **86,713** | $ | 82,487 |

Depreciation expense was $2.23 and $6.45 million for the three- and nine-month periods ended November 30, 2011, respectively, and $1.97 and $6.07 million for the three- and nine-month periods ended November 30, 2010, respectively.

We lease certain facilities, equipment and vehicles under operating leases, which expire at various dates through fiscal 2019. Certain leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was $1.41 and $4.22 million for the three- and nine-month periods ended November 30, 2011, respectively, and $0.60 and $1.62 million for the three- and nine-month periods ended November 30, 2010, respectively.

## Note 8 *Intangible Assets*

***Annual Impairment Testing in the First Quarter of Fiscal 2012 -*** The Company performed its annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal 2012. As a result of its testing, the Company concluded no impairment charges were required as the estimated fair value of the indefinite-lived trademarks and licenses, reporting unit net assets and the Company s estimated enterprise value exceeded their respective carrying values as of the date of the evaluation.

***Annual Impairment Testing in the First Quarter of Fiscal 2011 -*** The Company performed its annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal 2011. As a result of its testing, the Company recorded a non-cash impairment charge of $0.50 million ($0.49 million after tax). The charge was related to an indefinite-lived trademark in our Personal Care segment that was written down to its fair value, determined on the basis of future discounted cash flows using the relief from royalty method.

A summary of the carrying amounts and associated accumulated amortization for all intangible assets by operating segment is as follows:

## GOODWILL AND INTANGIBLE ASSETS

***(in thousands)***

| | **November 30, 2011** | | | | **February 28, 2011** | | | |
|---|---|---|---|---|---|---|---|---|
| **Description** | **Gross Carrying Amount** | **Cumulative Goodwill Impairments** | **Accumulated Amortization** | **Net Book Value** | **Gross Carrying Amount** | **Cumulative Goodwill Impairments** | **Accumulated Amortization** | **Net Book Value** |
| Personal Care: | | | | | | | | |
| Goodwill | **$ 81,841** | **$ (46,490)** | **$ -** | **$ 35,351** | $ 81,901 | $ (46,490) | $ - | $ 35,411 |
| Trademarks - indefinite | **75,303** | **-** | **-** | **75,303** | 75,303 | - | - | 75,303 |
| Trademarks - finite | **150** | **-** | **(66)** | **84** | 150 | - | (62) | 88 |
| Licenses - indefinite | **10,300** | **-** | **-** | **10,300** | 10,300 | - | - | 10,300 |
| Licenses - finite | **19,564** | **-** | **(15,838)** | **3,726** | 19,564 | - | (15,450) | 4,114 |
| Other intangibles - finite | **49,437** | **-** | **(13,521)** | **35,916** | 49,401 | - | (9,048) | 40,353 |
| Total Personal Care | **236,595** | **(46,490)** | **(29,425)** | **160,680** | 236,619 | (46,490) | (24,560) | 165,569 |
| Housewares: | | | | | | | | |
| Goodwill | **166,131** | **-** | **-** | **166,131** | 166,131 | - | - | 166,131 |
| Trademarks - indefinite | **75,200** | **-** | **-** | **75,200** | 75,200 | - | - | 75,200 |
| Other intangibles - finite | **18,149** | **-** | **(10,231)** | **7,918** | 19,320 | - | (9,893) | 9,427 |
| Total Housewares | **259,480** | **-** | **(10,231)** | **249,249** | 260,651 | - | (9,893) | 250,758 |
| Healthcare / Home Environment: | | | | | | | | |
| Goodwill | **165,927** | **-** | **-** | **165,927** | 154,700 | - | - | 154,700 |
| Other Intangibles - finite | **91,850** | **-** | **(8,989)** | **82,861** | 91,550 | - | (1,630) | 89,920 |
| Total Healthcare / Home Environment | **257,777** | **-** | **(8,989)** | **248,788** | 246,250 | - | (1,630) | 244,620 |
| Total | **$ 753,852** | **$ (46,490)** | **$ (48,645)** | **$ 658,717** | $ 743,520 | $ (46,490) | $ (36,083) | $ 660,947 |

During the fiscal quarter ended November 30, 2011, the Company recorded a $11.20 million net increase to goodwill related to certain Kaz pre-acquisition tax positions.

The following table summarizes the amortization expense attributable to intangible assets for the three- and nine- month periods ended November 30, 2011 and 2010, as well as our estimated amortization expense for the fiscal years ending the last day of each February 2012 through 2017.

## AMORTIZATION OF INTANGIBLE ASSETS

***(in thousands)***

| | | |
|---|---|---|
| **Aggregate Amortization Expense For the three months ended** | | |
| November 30, 2011 | $ | 4,952 |
| November 30, 2010 | $ | 2,086 |
| **Aggregate Amortization Expense For the nine months ended** | | |
| November 30, 2011 | $ | 14,001 |
| November 30, 2010 | $ | 6,177 |
| **Estimated Amortization Expense For the fiscal years ended** | | |
| February 2012 | $ | 18,443 |
| February 2013 | $ | 18,035 |
| February 2014 | $ | 17,424 |
| February 2015 | $ | 16,889 |
| February 2016 | $ | 16,667 |
| February 2017 | $ | 16,107 |

## NOTE 9 - *Acquisitions*

***Kaz, Inc. Acquisition*** On December 31, 2010, we completed the merger of Kaz under the terms of an Agreement and Plan of Merger dated December 8, 2010, among us, Helen of Troy Texas Corporation, our wholly-owned subsidiary, KI Acquisition Corp., our indirect wholly-owned subsidiary, Kaz, and certain shareholders of Kaz. Pursuant to the terms of the merger agreement, all of the shares of capital stock of Kaz were cancelled and converted into a total cash purchase price of $271.50 million, subject to certain future adjustments. The acquisition was funded with $77.50 million of cash and $194.00 million in short- and long-term debt. Based in Southborough, Massachusetts, Kaz is a world leader in providing a broad range of consumer products in two primary product categories consisting of healthcare and home environment. Kaz sources, markets and distributes a number of well-recognized brands including: Vicks, Braun, Kaz, Smart-Temp, SoftHeat, Honeywell, Duracraft, Protec, Stinger, and Nosquito. The acquisition helps broaden the Company s geographic footprint, increase our mutual significance with common customers and vendors, and expand our customer base worldwide.

The following schedule presents the identifiable assets and liabilities acquired, assumed or recognized at the acquisition date at their fair values. These balances are provisional and may be subject to additional adjustment.

**KAZ - NET ASSETS RECORDED UPON ACQUISITION AT DECEMBER 31, 2010**

***(in thousands)***

| | | |
|---|---|---|
| **Assets:** | | |
| Cash | $ | 4,258 |
| Receivables | | 70,792 |
| Inventory | | 62,415 |
| Prepaid expenses and other current assets | | 2,197 |
| Property and equipment | | 4,083 |
| Goodwill | | 154,700 |
| Other intangible assets - finite | | 91,550 |
| Deferred tax assets | | 12,376 |
| Other assets | | 3,098 |
| Subtotal - assets | | 405,469 |
| **Liabilities:** | | |
| Accounts payable | | 41,371 |
| Accrued expenses | | 64,118 |
| Income taxes payable | | 1,496 |
| Deferred tax liabilities | | 24,303 |
| Liabilities for uncertain tax positions | | 1,453 |
| Deferred compensation | | 1,230 |
| Subtotal - liabilities | | 133,971 |
| Net assets recorded | $ | 271,498 |

The fair values of the intangible assets acquired were estimated by applying income and market approaches. These fair value measurements were based on significant inputs that are not observable in the market and, therefore, represent Level 3 measurements. Key assumptions included various discount rates based upon a 10.25 percent weighted average cost of capital, royalty rates ranging from 2.00 to 3.50 percent used in the determination of patent values and customer attrition rates of 10.00 percent per year used in the determination of customer list values.

Gross receivables of $77.49 million have been recorded in the transaction. We estimated that $6.70 million of gross receivables would not be collected and recorded the acquired receivables at their estimated fair value of $70.79 million. Since these receivables were recorded at a fair value which contemplated their ultimate collectability, no additional allowances for collectability needed to be recorded against acquired receivables while they remained on our balance sheets. As of November 30, 2011, allowances totaling $1.38 million have been established against Kaz s post-acquisition trade receivables. These allowances are included in the $5.41 million of receivables allowance set forth in the accompanying consolidated balance sheet at November 30, 2011.

The goodwill of $154.70 million provisionally recorded with the acquisition consisted largely of the synergies and economies of scale expected from combining the operations of the Company and Kaz. All of the goodwill was assigned to the Company s Healthcare / Home Environment segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

***Pert Plus and Sure Acquisition -*** On March 31, 2010, we completed the acquisition of certain assets and liabilities of the Pert Plus hair care and Sure antiperspirant and deodorant businesses from Innovative Brands, LLC for a net purchase price of $69.00 million, which we paid with cash on hand. Net assets acquired consist principally of accounts receivable, finished goods inventories, prepaid expenses, goodwill, patents, trademarks, tradenames, product design specifications, production know-how, certain fixed assets, distribution rights and customer lists, less certain product related operating accruals and other current liabilities. We market Pert Plus and Sure products primarily into retail trade channels.

The following schedule presents the acquisition date fair value of the net assets of Pert Plus and Sure:

**PERT PLUS AND SURE - NET ASSETS ACQUIRED ON MARCH 31, 2010**

***(in thousands)***

| | | |
|---|---|---|
| Receivables | $ | 8,589 |
| Inventory | | 4,887 |
| Prepaid expenses | | 392 |
| Tools, dies and molds | | 730 |
| Goodwill | | 15,845 |
| Trademarks | | 23,650 |
| Patent rights | | 2,600 |
| Customer list | | 21,275 |
| Total assets acquired | | 77,968 |
| Less: Accounts payable and other current liabilities assumed or recorded at acquisition | | (8,968) |
| Net assets acquired | $ | 69,000 |

The fair values of the intangible assets acquired were estimated by applying income and market approaches. These fair value measurements were based on significant inputs that are not observable in the market and, therefore, represent Level 3 measurements. Key assumptions included various discount rates based upon a 15.80 percent weighted average cost of capital, royalty rates of 5.00 percent used in the determination of trademark values and customer attrition rates of 11.50 percent per year used in the determination of customer list values.

## Note 10 *Short-Term Debt*

We have a Credit Agreement (the 2010 RCA ) with Bank of America, N.A. that provided for an unsecured total revolving commitment of up to $150.00 million as of November 30, 2011, subject to certain terms and limitations as described below. The commitment under the 2010 RCA terminates on December 30, 2015. Borrowings under the 2010 RCA accrue interest at a Base Rate plus a margin of 0.25 to 1.375 percent per annum based on the Leverage Ratio (as defined in the 2010 RCA) at the time of borrowing. The base rate is equal to the highest of the Federal Funds Rate (as defined in the 2010 RCA) plus 0.50 percent, Bank of America s prime rate or the one month LIBOR rate plus 1.00 percent. Alternatively, if we elect, borrowings accrue interest based on the respective 1-, 2-, 3-, or 6-month LIBOR rate plus a margin of 1.25 to 2.375 percent per annum based upon the Leverage Ratio at the time of the borrowing. We incur loan commitment fees at a rate ranging from 0.30 to 0.50 percent per annum on the unused balance of the 2010 RCA. We incur letter of credit fees under the 2010 RCA at a rate ranging from 1.25 to 2.375 percent per annum on the face value of any letter of credit. Outstanding letters of credit reduce the borrowing availability under the 2010 RCA on a dollar-for-dollar basis. The 2010 RCA and our other debt are unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. As of November 30, 2011, there were $70.00 million in revolving loans and $0.34 million of open letters of credit outstanding against the 2010 RCA. For the three- and nine-months ended November 30, 2011, borrowings under the 2010 RCA incurred interest charges at rates ranging from 1.94 to 4.00 percent. As of November 30, 2011, the amount available for borrowings under the 2010 RCA was $79.66 million.

The 2010 RCA and our other debt agreements require the maintenance of maximum debt leverage and minimum interest coverage ratios, specify minimum consolidated net worth levels and contain other customary covenants, which restrict us from incurring liens on any of our properties, except under certain conditions, and limit our ability to pay dividends and repurchase shares of our common stock, among other things. As of November 30, 2011, all our debt agreements effectively limited our ability to incur more than an estimated $250.43 million of additional debt from all sources, including draws on the 2010 RCA and we were in compliance with the terms of the 2010 RCA and our other debt agreements.

On December 15, 2011, we amended the 2010 RCA to increase the amount of borrowings available under the revolving commitment from $150.00 million to $250.00 million. See Note 18 for further information related to this amendment to the 2010 RCA.

## Note 11 *Accrued Expenses and Current Liabilities*

A summary of accrued expenses and other current liabilities is as follows:

### ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

***(in thousands)***

| | **November 30, 2011** | February 28, 2011 |
|---|---|---|
| Accrued sales returns, discounts and allowances | **$ 35,380** | $ 32,136 |
| Accrued warranty returns | **24,199** | 24,021 |
| Accrued compensation | **19,483** | 24,379 |
| Accrued advertising | **10,166** | 10,159 |
| Accrued interest | **2,270** | 1,973 |
| Accrued royalties | **8,902** | 7,265 |
| Accrued legal expenses and professional fees | **4,898** | 6,851 |
| Accrued benefits and payroll taxes | **7,723** | 10,100 |
| Accrued freight | **2,079** | 1,950 |
| Accrued property, sales and other taxes | **7,117** | 4,668 |
| Kaz acquisition liabilities | **-** | 4,261 |
| Derivative liabilities, current | **3,563** | 4,564 |
| Other | **14,297** | 9,293 |
| Total accrued expenses and other current liabilities | **$ 140,077** | $ 141,620 |

Kaz acquisition liabilities at February 28, 2011 consisted of $4.26 million of additional purchase price consideration due to former Kaz shareholders as a working capital adjustment settlement, which was paid during the fiscal quarter ended August 31, 2011.

## Note 12 *Income Taxes*

***United States Income Taxes*** - In April 2010, the IRS concluded its audits of the 2007 and 2008 consolidated U.S. federal tax returns for Helen of Troy Texas Corporation. No adjustments were made to either year s tax returns. The U.S. federal income tax returns of Kaz and its subsidiaries for tax years 2003, 2004, 2006, 2007, and 2008 are currently under examination. The IRS has issued a notice of proposed adjustment for the 2006 tax year, which is currently under appeal. The Company is protesting the adjustments and believes that the potential impact of any adjustments sustained at appeal will not have a material impact on our results of operations or financial position, as the proposed adjustments relate to a tax receivable that was not acquired in the purchase of Kaz.

In November and December 2011, the Company received additional notices of proposed permanent adjustments related to Kaz s 2007 and 2008 tax years that would increase tax expense by $0.52 and $1.1 million, respectively. The Company also received notices of proposed timing adjustments related to the Kaz 2007 and 2008 tax years that would increase taxes payable and deferred tax assets by $0.51 and $2.51 million, respectively. The Company is currently evaluating the merits of the adjustments, but does not expect them to have a material impact on our results of operations or financial position. The IRS has not proposed any other adjustments for the other tax years under examination.

***Income Tax Provisions*** - We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments must be used in the calculation of certain tax assets and liabilities because of differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. As changes occur in our assessments regarding our ability to recover our deferred tax assets, our tax provision is increased in any period in which we determine that the recovery is not probable.

In 1994, we engaged in a corporate restructuring that, among other things, resulted in a greater portion of our income not being subject to taxation in the U.S. If such income were subject to U.S. federal income taxes, our effective income tax rate would increase materially. Future actions by taxing authorities may result in tax liabilities that are significantly higher than the reserves established, which could have a material adverse effect on our consolidated results of operations or cash flows. Additionally, the U.S. government is constantly considering numerous proposed legislative changes in the tax law that, if enacted, could increase our overall effective tax rate.

***Unrecognized Tax Benefits*** During the fiscal quarter ended November 30, 2011, in connection with its ongoing evaluation of its tax positions, the company recorded a $9.13 million net increase to unrecognized tax benefits, primarily related to certain Kaz pre-acquisition tax positions.

## Note 13 *Long-Term Debt*

A summary of long-term debt is as follows:

## LONG-TERM DEBT

***(dollars in thousands)***

| | **Original Date Borrowed** | **Interest Rates** | **Matures** | **November 30, 2011** | February 28, 2011 |
|---|---|---|---|---|---|
| $15 million unsecured Senior Note payable at a fixed interest rate of 7.24%. Interest payable quarterly. Annual principal payments of $3 million began in July 2008. | 07/97 | **7.24%** | 07/12 | **$ 3,000** | $ 6,000 |
| $50 million unsecured floating interest rate 7 year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1) | 06/04 | **5.89%** | 06/11 | - | 50,000 |
| $75 million unsecured floating interest rate 10 year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 90 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1) | 06/04 | **6.01%** | 06/14 | **75,000** | 75,000 |
| $100 million unsecured Senior Notes payable at a fixed interest rate of 3.90%. Interest payable semi-annually. | 01/11 | **3.90%** | 01/18 | **100,000** | 100,000 |

| | | | | |
|---|---|---|---|---|
| Annual principal payments of $20 million begin in January 2014. Prepayment of notes are subject to a make whole premium. | | | | |
| Total long-term debt | | **178,000** | | 231,000 |
| Less current maturities of long-term debt | | **(3,000)** | | (53,000) |
| Long-term debt, excluding current maturities | **$** | **175,000** | $ | 178,000 |

(1) Floating interest rates have been hedged with interest rate swaps to effectively fix interest rates. Additional information regarding these swaps is provided in Note 15.

The fair market value of the fixed rate debt at November 30, 2011, computed using a discounted cash flow analysis, was $102.46 million compared to the $103.00 million book value and represents a Level 2 liability. All other long-term debt has floating interest rates, and its book value approximates its fair value at November 30, 2011.

All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. Our debt agreements require the maintenance of certain financial covenants, including a maximum leverage ratio (as that term is defined in the various agreements), a minimum interest coverage ratio (as defined in the various agreements) and a minimum consolidated net worth (as defined in the various agreements). Additionally, our debt agreements contain other customary covenants, including, among other things, covenants restricting the Company, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on any of its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) limit our ability to repurchase shares of our common stock and pay dividends.

As of November 30, 2011, our debt agreements effectively limited our ability to incur more than $250.43 million of additional debt from all sources, including draws on the 2010 RCA and we were in compliance with the terms of all of our debt agreements.

The following table contains a summary of the components of our interest expense for the periods covered by our consolidated condensed statements of income:

## INTEREST EXPENSE

***(in thousands)***

| | Three Months Ended November 30, | | Nine Months Ended November 30, | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| Interest and commitment fees | **$ 1,844** | $ 534 | **$ 5,491** | $ 1,704 |
| Deferred finance costs | **192** | 57 | **610** | 171 |
| Interest rate swap settlements, net | **922** | 1,490 | **3,551** | 4,502 |
| Total interest expense | **$ 2,958** | $ 2,081 | **$ 9,652** | $ 6,377 |

## Note 14 *Fair Value*

The following tables present the fair value hierarchy of our financial assets and liabilities carried at fair value or measured for disclosure purposes on a recurring basis as of November 30, 2011 and February 28, 2011:

### FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES
***(in thousands)***

| Description | Fair Values at November 30, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Market Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Money market accounts | $ 2,134 | $ 2,134 | $ - | $ - |
| Foreign currency contracts | 162 | - | 162 | - |
| Total assets | $ 2,296 | $ 2,134 | $ 162 | $ - |
| Liabilities: | | | | |
| Long-term debt - fixed rate (1) | $ 102,459 | $ - | $ 102,459 | $ - |
| Long-term debt - floating rate | 75,000 | - | 75,000 | - |
| Interest rate swaps | 9,175 | - | 9,175 | - |
| Foreign currency contracts | 95 | - | 95 | - |
| Total liabilities | $ 186,729 | $ - | $ 186,729 | $ - |

| Description | Fair Value at February 28, 2011 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Market Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets: | | | | |
| Money market accounts | $ 6,435 | $ 6,435 | $ - | $ - |
| Commercial paper | 1,560 | 1,560 | - | - |
| Mutual funds | 1,233 | 1,233 | - | - |
| Auction rate securities | 20,711 | - | - | 20,711 |
| Total assets | $ 29,939 | $ 9,228 | $ - | $ 20,711 |
| Liabilities: | | | | |
| Long-term debt - fixed rate (1) | $ 104,650 | $ - | $ 104,650 | $ - |
| Long-term debt - floating rate | 125,000 | - | 125,000 | - |
| Interest rate swaps | 9,625 | - | 9,625 | - |
| Foreign currency contracts | 970 | - | 970 | - |
| Total liabilities | $ 240,245 | $ - | $ 240,245 | $ - |

(1) Debt values are reported at their estimated fair values in this table but are recorded in the accompanying consolidated condensed balance sheets at the undiscounted value of remaining principal payments due.

Money market accounts and commercial paper are included in cash and cash equivalents in the accompanying consolidated condensed balance sheets and are classified as Level 1 assets. Mutual funds are classified as Level 1 assets and included in the line entitled Investments, at market value in the consolidated condensed balance sheets. Mutual fund market values are determined by the most recent trading price of each fund as of the balance sheet dates. At February 28, 2011, we determined auction rate securities ( ARS ) estimated fair values with discounted cash flow models using the methodology and assumptions described in Note 10 to the consolidated financial statements contained in our latest annual report on Form 10-K. ARS were recorded in the line Other assets, net of accumulated amortization in the consolidated condensed balance sheet as of February 28, 2011.

We classify our fixed and floating rate debt as Level 2 liabilities because the estimation of the fair market value of debt requires the use of a discount rate based upon current market rates of interest for debt with comparable remaining terms. Such comparable rates are considered significant other observable market inputs. The fair market value of the fixed rate debt was computed using a discounted cash flow analysis and discount rates, ranging from 1.09 to 4.11 percent at November 30, 2011 and 1.86 to 4.36 percent at February 28, 2011, depending on the term of the loan. All other long-term debt has floating interest rates, and its book value approximates its fair value as of the reporting date.

We use derivatives for hedging purposes and our derivatives are primarily foreign currency contracts and interest rate swaps. While there are not active markets for these hedge contracts once they have been executed, the inputs used to calculate the fair values of those instruments at each reporting date are tied to active markets. Accordingly, we determine the fair value of our derivative instruments based on Level 2 inputs in the fair value hierarchy.

The Company s other non-financial assets include goodwill and other intangible assets, which we classify as Level 3 assets. These assets are measured at fair value on a nonrecurring basis as part of the Company s impairment assessments and as circumstances require.

The table below presents a reconciliation of our ARS measured and recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three- and nine-month periods ended November 30, 2011:

## FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (Level 3)

***(in thousands)***

| | Periods Ended November, 2011 | |
|---|---|---|
| | **Three Months** | **Nine Months** |
| Balance at beginning of period | **$ 18,194** | **$ 20,711** |
| Total gains (losses): | | |
| Included in net income - realized | **(752)** | **(626)** |
| Included in net income - unrealized | **756** | - |
| Included in other comprehensive income - unrealized | **-** | **1,213** |
| Sales at par | **(150)** | **(3,250)** |
| Sales at fair value | **(18,048)** | **(18,048)** |
| Balance at end of period | | |