

HELEN OF TROY LTD
Form 10-Q
January 11, 2010

**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 quarterly period ended November 30, 2009

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: 001-14669

HELEN OF TROY LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

74-2692550
(I.R.S. Employer
Identification No.)

Clarendon House

Church Street

Hamilton, Bermuda
(Address of principal executive offices)

1 Helen of Troy Plaza
El Paso, Texas
(Registrant's United States Mailing Address)

79912
(Zip Code)

(915) 225-8000

(Registrant's telephone number, including area code)

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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 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

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

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

<u>Class</u>	<u>Outstanding at January 4, 2010</u>
Common Shares, \$0.10 par value per share	30,530,958 shares

HELEN OF TROY LIMITED AND SUBSIDIARIES

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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, 2009	February 28, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 58,960	\$ 102,675
Trading securities, at market value	-	570
Receivables - principally trade, less allowance of \$1,999 and \$1,916	144,831	103,548
Inventories	129,757	169,780
Prepaid expenses	4,148	2,819
Income taxes receivable	1,646	4,051
Deferred income tax benefit	12,355	13,010
Total current assets	351,697	396,453
Property and equipment, net of accumulated depreciation of \$58,339 and \$51,607	79,826	83,946
Goodwill	185,831	166,131
Other intangible assets, net of accumulated amortization of \$31,602 and \$27,321	178,868	143,660
Deferred income tax benefit	-	1,618
Other long-term assets, net of accumulated amortization of \$3,719 and \$3,447	29,947	29,499
Total assets	\$ 826,169	\$ 821,307
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 3,000	\$ 78,000
Accounts payable, principally trade	37,694	33,957
Accrued expenses and other current liabilities	77,118	51,278
Total current liabilities	117,812	163,235
Long-term compensation liability	3,335	3,459
Long-term income taxes payable	1,975	2,903
Deferred income tax liability	219	-
Long-term portion of interest rate swaps	8,421	9,017
Long-term debt, less current portion	131,000	134,000
Total liabilities	262,762	312,614
Commitments and contingencies		
Shareholders' equity:		
Cumulative preferred shares, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued	-	-
Common shares, \$0.10 par. Authorized 50,000,000 shares; 30,501,558 and 29,878,988 shares issued and outstanding	3,050	2,988
Additional paid-in-capital	118,922	105,627
Retained earnings	451,864	410,372
Accumulated other comprehensive loss	(10,429)	(10,294)
Total shareholders' equity	563,407	508,693
Total liabilities and shareholders' equity	\$ 826,169	\$ 821,307

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES**Consolidated Condensed Statements of Operations (unaudited)***(in thousands, except per share data)*

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2008	2009	2008
Net sales	\$ 189,399	\$ 185,619	\$ 495,465	\$ 484,165
Cost of sales	105,877	112,075	284,540	282,456
Gross profit	83,522	73,544	210,925	201,709
Selling, general and administrative expense	53,658	53,543	141,230	149,428
Operating income before impairment charges	29,864	20,001	69,695	52,281
Impairment charges	-	-	900	7,760
Operating income	29,864	20,001	68,795	44,521
Other income (expense):				
Interest expense	(2,146)	(3,380)	(8,192)	(10,317)
Other income, net	125	575	927	2,244
Total other income (expense)	(2,021)	(2,805)	(7,265)	(8,073)
Earnings before income taxes	27,843	17,196	61,530	36,448
Income tax expense (benefit):				
Current	2,589	2,534	3,887	1,929
Deferred	521	(428)	2,490	3,273
Net earnings	\$ 24,733	\$ 15,090	\$ 55,153	\$ 31,246
Earnings per share:				
Basic	\$ 0.81	\$ 0.50	\$ 1.83	\$ 1.03
Diluted	\$ 0.80	\$ 0.48	\$ 1.79	\$ 1.00
Weighted average common shares used in computing net earnings per share:				
Basic	30,357	30,196	30,110	30,206
Diluted	31,047	31,229	30,848	31,162

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,	
	2009	2008
Cash flows from operating activities:		
Net earnings	\$ 55,153	\$ 31,246
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,436	10,604
Provision for doubtful receivables	577	678
Share-based compensation	1,264	1,037
Realized and unrealized (gain) loss - trading securities	(421)	68
Deferred taxes, net	2,427	3,205
(Gain) loss on the sale of property and equipment	33	(100)
Impairment charges	900	7,760
Changes in operating assets and liabilities, net of effects of acquisition of business:		
Accounts receivable	(41,860)	(37,795)
Inventories	40,023	(26,209)
Prepaid expenses	(1,329)	2,584
Other assets	(397)	(376)
Accounts payable	3,789	8,930
Accrued expenses	24,837	5,810
Income taxes payable	1,497	(4,268)
Net cash provided by operating activities	97,929	3,174
Cash flows from investing activities:		
Capital, license, trademark, and other intangible expenditures	(3,303)	(4,964)
Business acquisitions	(60,000)	(4,765)
Purchase of investments	-	(453)
Sale of investments	1,141	40,575
Proceeds from the sale of property and equipment	44	2,613
Net cash (used in) provided by investing activities	(62,118)	33,006
Cash flows from financing activities:		
Repayment of long-term debt	(78,000)	(3,000)
Proceeds from exercise of stock options, including tax benefits	5,846	515
Proceeds from employee stock purchase plan	151	212
Common share repurchases	(419)	(4,264)
Payment of tax obligations resulting from cashless option exercises	(7,166)	-
Share-based compensation tax benefit	62	63
Net cash used in financing activities	(79,526)	(6,474)
Net (decrease) increase in cash and cash equivalents	(43,715)	29,706
Cash and cash equivalents, beginning of period	102,675	57,851
Cash and cash equivalents, end of period	\$ 58,960	\$ 87,557
Supplemental cash flow disclosures:		
Interest paid	\$ 8,673	\$ 9,797
Income taxes paid (refunded), net	\$ (2,194)	\$ 6,156
Common shares received as exercise price of options	\$ 23,261	\$ -

See accompanying notes to consolidated condensed financial statements.

HELEN OF TROY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)

November 30, 2009

Note 1 *Basis of Presentation*

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, 2009 and February 28, 2009, and the results of our consolidated operations for the three- and nine-month periods ended November 30, 2009 and 2008. 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, and our other reports on file with the Securities and Exchange Commission (SEC). In some cases, we have provided additional information for prior periods in the accompanying notes to consolidated condensed financial statements to conform to the current period's presentation. 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.

During the fiscal quarter ended November 30, 2009, management changed the balance sheet classification of interest rate swaps to show the portion of these obligations that will not be paid within 12 months as long-term. The obligations as of February 28, 2009 and November 30, 2008 have been similarly classified on the Company's consolidated condensed balance sheets and in the accompanying footnotes to conform with the current period's presentation. The change in classification had no effect on current or prior period reported earnings or equity.

Note 2 *New Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (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 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*

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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. The effect of dilutive securities (stock options) was approximately 690,600 and 737,400 common shares for the three- and nine-month periods ended November 30, 2009, respectively, and 1,032,700 and 955,900 for the three- and nine-month periods ended November 30, 2008, respectively. Our earnings per share computations did not include stock options to purchase approximately 1,203,400 and 1,521,400 common shares for the three- and nine-month periods ended November 30, 2009, respectively, and 1,437,400 and 1,527,200 common shares for the three- and nine-month periods ended November 30, 2008, respectively, because their inclusion would be anti-dilutive.

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Note 5 Comprehensive Income

The components of comprehensive income are as follows:

COMPONENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2009	2008	2009	2008
Net earnings, as reported	\$ 24,733	\$ 15,090	\$ 55,153	\$ 31,246
Other comprehensive income (loss), net of tax:				
Cash flow hedges - interest rate swaps	(828)	(4,046)	355	(805)
Cash flow and ordinary hedges - foreign currency	66	254	(801)	1,480
Unrealized gain (loss) - auction rate securities	(59)	(529)	311	(2,114)
Comprehensive income	\$ 23,912	\$ 10,769	\$ 55,018	\$ 29,807

The components of accumulated other comprehensive income (loss), net of tax, at the end of each period are as follows:

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands)

	November 30,	February 28,
	2009	2009
Accumulated net unrealized holding loss on cash flow hedges - interest rate swaps	\$ (8,799)	\$ (9,154)
Accumulated net unrealized holding gain (loss) on cash flow and ordinary hedges - foreign currency	(174)	627
Accumulated net temporary impairment loss on auction rate securities	(1,456)	(1,767)
Total accumulated other comprehensive loss	\$ (10,429)	\$ (10,294)

Note 6 Segment Information

In the tables that follow, we present two segments: Personal Care and Housewares. Our Personal Care segment's products include hair dryers, straighteners, curling irons, hairsetters, shavers, mirrors, hot air brushes, home hair clippers and trimmers, paraffin baths, massage cushions, footbaths, body massagers, brushes, combs, hair accessories, liquid and aerosol hair styling products, men's fragrances, men's deodorants, liquid and bar soaps, shampoos, hair treatments, foot powder, body powder and skin care products. Our Housewares segment reports the operations of OXO International (OXO) whose products include kitchen tools, cutlery, bar and wine accessories, household cleaning tools, food storage containers, tea kettles, trash cans, storage and organization products, hand tools, gardening tools, kitchen mitts and trivets, barbecue tools and rechargeable lighting products. We use third-party manufacturers to produce our goods. Both our Personal Care and Housewares 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 through beauty supply retailers and wholesalers.

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

THREE MONTHS ENDED NOVEMBER 30, 2009 AND 2008

(in thousands)

	Personal Care		Housewares		Total
November 30, 2009					
Net sales	\$	134,206	\$	55,193	\$ 189,399
Operating income before impairment charges		16,591		13,273	29,864
Operating income		16,591		13,273	29,864
Capital, license, trademark and other intangible expenditures		982		740	1,722
Depreciation and amortization		2,131		1,372	3,503

	Personal Care		Housewares		Total
November 30, 2008					
Net sales	\$	140,318	\$	45,301	\$ 185,619
Operating income before impairment charges		11,780		8,221	20,001
Operating income		11,780		8,221	20,001
Capital, license, trademark and other intangible expenditures		190		767	957
Depreciation and amortization		2,221		1,313	3,534

NINE MONTHS ENDED NOVEMBER 30, 2009 AND 2008

(in thousands)

	Personal Care		Housewares		Total
November 30, 2009					
Net sales	\$	347,018	\$	148,447	\$ 495,465
Operating income before impairment charges		36,503		33,192	69,695
Impairment charges		900		-	900
Operating income		35,603		33,192	68,795
Capital, license, trademark and other intangible expenditures		1,264		2,039	3,303
Depreciation and amortization		7,329		4,107	11,436

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November 30, 2008	Personal		Housewares		Total
	Care				
Net sales	\$ 353,258	\$ 130,907	\$	\$	484,165
Operating income before impairment charges	34,143	18,138			52,281
Impairment charges	7,760	-			7,760
Operating income	26,383	18,138			44,521
Capital, license, trademark and other intangible expenditures	1,576	3,388			4,964
Depreciation and amortization	6,793	3,811			10,604

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Operating income for each operating segment is computed based on net sales, less cost of sales, selling, general, and administrative expenses (SG&A), and any impairment charges associated with the segment. The SG&A used to compute each segment s operating income are comprised of SG&A directly associated with the segment, plus overhead expenses that are allocable to the operating segment. 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, 2009 AND FEBRUARY 28, 2009

(in thousands)

	Personal Care		Housewares		Total
November 30, 2009	\$ 466,015	\$	360,154	\$	826,169
February 28, 2009	466,590		354,717		821,307

Note 7 Significant Charge Against Allowance for Doubtful Accounts

For the fiscal quarter ended May 31, 2008, we charged \$3.88 million to our bad debt provision and we established a specific allowance of the same amount to account for uncollectable receivables as a result of the Linens n Things retail chain (Linens) bankruptcy.

Note 8 Property and Equipment

A summary of property and equipment is as follows:

PROPERTY AND EQUIPMENT

(in thousands)

	Estimated Useful Lives (Years)		November 30, 2009		February 28, 2009
Land	-	\$	9,073	\$	9,073
Building and improvements	10 - 40		65,125		65,028
Computer and other equipment	3 - 10		44,461		43,484
Molds and tooling	1 - 3		9,961		8,880
Furniture and fixtures	5 - 15		8,457		8,385
Construction in process	-		1,088		703
			138,165		135,553
Less accumulated depreciation			(58,339)		(51,607)
Property and equipment, net		\$	79,826	\$	83,946

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In addition to certain minor asset dispositions during the quarter ended May 31, 2008, we sold a fractional share of a corporate jet for \$0.97 million and recognized a pretax gain of \$0.10 million. During the quarter ended August 31, 2008, we sold the last remaining fractional share of a corporate jet for \$1.60 million and recognized a pretax gain of \$0.01 million.

Depreciation expense was \$1.95 and \$6.89 million for the three- and nine-month periods ended November 30, 2009, respectively, and \$2.55 and \$7.79 for the three- and nine-month periods ended November 30, 2008, respectively.

We lease certain facilities, equipment and vehicles under operating leases, which expire at various dates through fiscal 2018. Certain leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was \$0.56 and \$1.71 million for the three- and nine-month periods ended November 30, 2009, respectively, and \$0.46 and \$1.68 million for the three- and nine-month periods ended November 30, 2008, respectively.

Note 9 Intangible Assets

Impairments in the Second Quarter of Fiscal 2010 - During the fiscal quarter ended August 31, 2009, a significant customer decided to discontinue carrying our Skin Milk® brand of skin care products. Sales to this customer accounted for a substantial portion of the total sales of this brand, and accordingly, non-cash impairment charges were recorded to write off the remaining \$0.90 million (\$0.89 million after tax) in carrying value of the associated trademark.

Impairments in the First Quarter of Fiscal 2009 - The Company performed its annual impairment tests of its goodwill and trademarks during the first quarter of fiscal 2009. This resulted in non-cash impairment charges of \$7.76 million (\$7.61 million after tax) on certain intangible assets associated with our Personal Care segment recognized during the first quarter of fiscal 2009. All impairment charges were recorded in the Company's consolidated condensed statement of operations as a component of operating income.

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

INTANGIBLE ASSETS

(in thousands)

Description / Life	February 28, 2009		Nine Months Ended November 30, 2009			November 30, 2009		Net Book Value
	Gross Carrying Amount	Cumulative Goodwill Impairments	Additions	Impairments	Acquisition Adjustments	Accumulated Amortization		
Personal Care:								
Goodwill	\$ 46,490	\$ (46,490)	\$ 19,700	\$ -	\$ -	\$ -	\$ -	\$ 19,700
Trademarks - indefinite	35,575	-	18,700	(900)	(321)	-	-	53,054
Trademarks - definite	338	-	-	-	-	(244)	-	94
Licenses - indefinite	10,300	-	-	-	-	-	-	10,300
Licenses - definite	24,196	-	-	-	-	(19,303)	-	4,893
Other Intangibles - definite	4,689	-	21,600	-	-	(3,231)	-	23,058
Total Personal Care	121,588	(46,490)	60,000	(900)	(321)	(22,778)	-	111,099
Housewares:								
Goodwill	166,131	-	-	-	-	-	-	166,131
Trademarks - indefinite	75,554	-	-	-	-	-	-	75,554
Other Intangibles - definite	20,329	-	410	-	-	(8,824)	-	11,915
Total Housewares	262,014	-	410	-	-	(8,824)	-	253,600
Total	\$ 383,602	\$ (46,490)	\$ 60,410	\$ (900)	-	-	-	-