

HELEN OF TROY LTD  
Form 10-Q  
July 11, 2011

**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 May 31, 2011**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ..... to ..**

**Commission file number: 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 July 5, 2011</u> |
|--|------------------------------------|
| Common Shares, \$0.10 par value, per share | 30,900,494 shares                  |

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**HELEN OF TROY LIMITED AND SUBSIDIARIES**

**INDEX FORM 10-Q**

|                                      | Page  |
|--------------------------------------|---|
| <b>PART I. FINANCIAL INFORMATION</b> |   |
| <u>Item 1.</u>                       | <u>Financial Statements</u>   |
|                                      | <u>Consolidated Condensed Balance Sheets (unaudited)<br/>as of May 31, 2011 and February 28, 2011</u>                               |
|                                      | 3   |
|                                      | <u>Consolidated Condensed Statements of Income (unaudited)<br/>for the Three Months Ended<br/>May 31, 2011 and May 31, 2010</u>     |
|                                      | 4   |
|                                      | <u>Consolidated Condensed Statements of Cash Flows (unaudited)<br/>for the Three Months Ended<br/>May 31, 2011 and May 31, 2010</u> |
|                                      | 5   |
|                                      | <u>Notes to Consolidated Condensed Financial Statements<br/>(unaudited)</u>   |
|                                      | 6   |
| <u>Item 2.</u>                       | <u>Management's Discussion and Analysis of Financial Condition<br/>and Results of Operations</u>                                    |
|                                      | 23  |
| <u>Item 3.</u>                       | <u>Quantitative and Qualitative Disclosures about Market Risk</u>   |
|                                      | 36  |
| <u>Item 4.</u>                       | <u>Controls and Procedures</u>  |
|                                      | 41  |
| <b>PART II. OTHER INFORMATION</b>    |   |
| <u>Item 1.</u>                       | <u>Legal Proceedings</u>  |
|                                      | 42  |
| <u>Item 1A.</u>                      | <u>Risk Factors</u>   |
|                                      | 42  |
| <u>Item 2.</u>                       | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>  |
|                                      | 42  |
| <u>Item 6.</u>                       | <u>Exhibits</u>   |
|                                      | 43  |
| <u>Signatures</u>                    | 44  |



**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)*

|  | May 31,<br>2011 |    | February 28,<br>2011 |
|--|-----------------|----|----------------------|
| <b>Assets</b>  |                 |    |                      |
| Asset, current:  |                 |    |                      |
| Cash and cash equivalents  | \$ 16,037       | \$ | 27,193               |
| Investments, at market value   | 1,177           |    | 1,233                |
| Receivables - principally trade, less allowances of \$5,249 and \$4,148                      | 197,761         |    | 188,404              |
| Inventory, net   | 228,234         |    | 217,230              |
| Prepaid expenses   | 8,008           |    | 5,149                |
| Income taxes receivable  | 1,508           |    | 2,399                |
| Deferred tax assets, net   | 14,176          |    | 18,843               |
| Total assets, current  | 466,901         |    | 460,451              |
| Property and equipment, net of accumulated depreciation of \$67,339 and \$65,428             | 82,191          |    | 82,487               |
| Goodwill   | 356,137         |    | 356,242              |
| Other intangible assets, net of accumulated amortization of \$40,511 and \$36,083            | 300,207         |    | 304,705              |
| Other assets, net of accumulated amortization of \$3,187 and \$4,096                         | 33,859          |    | 36,639               |
| Total assets   | \$ 1,239,295    | \$ | 1,240,524            |
| <b>Liabilities and Stockholders Equity</b>   |                 |    |                      |
| Liabilities, current:  |                 |    |                      |
| Revolving line of credit   | \$ 53,200       | \$ | 71,000               |
| Accounts payable, principally trade  | 77,545          |    | 73,321               |
| Accrued expenses and other current liabilities   | 132,944         |    | 141,620              |
| Long-term debt, current maturities   | 53,000          |    | 53,000               |
| Total liabilities, current   | 316,689         |    | 338,941              |
| Deferred compensation liability  | 3,115           |    | 4,712                |
| Other liabilities, noncurrent  | 1,555           |    | 1,594                |
| Deferred tax liabilities, net  | 19,374          |    | 23,216               |
| Long-term debt, excluding current maturities   | 178,000         |    | 178,000              |
| Liability for uncertain tax positions  | 2,928           |    | 2,481                |
| Derivative liabilities, noncurrent   | 6,537           |    | 6,031                |
| Total liabilities  | 528,198         |    | 554,975              |
| Commitments and contingencies  |                 |    |                      |
| Stockholders equity:   |                 |    |                      |
| Cumulative preferred stock, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued | -               |    | -                    |
|  | 3,089           |    | 3,084                |

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|  |    |                  |    |           |
|--|----|------------------|----|-----------|
| Common stock, \$0.10 par. Authorized 50,000,000 shares;<br>30,893,487 and 30,838,860 shares issued and outstanding |    |                  |    |           |
| Additional paid in capital   |    | <b>131,907</b>   |    | 130,015   |
| Accumulated other comprehensive loss   |    | <b>(8,577)</b>   |    | (7,850)   |
| Retained earnings  |    | <b>584,678</b>   |    | 560,300   |
| Total stockholders' equity   |    | <b>711,097</b>   |    | 685,549   |
| Total liabilities and stockholders' equity   | \$ | <b>1,239,295</b> | \$ | 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)*

|   | <b>Three Months Ended May 31,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2011</b>                       | <b>2010</b> |
| Sales revenue, net  | \$ 271,467                        | \$ 160,153  |
| Cost of goods sold  | 161,554                           | 87,726      |
| Gross profit  | 109,913                           | 72,427      |
| Selling, general, and administrative expense                                      | 79,259                            | 49,194      |
| Operating income before impairments   | 30,654                            | 23,233      |
| Asset impairment charges  | -                                 | 501         |
| Operating income  | 30,654                            | 22,732      |
| Nonoperating income, net  | 143                               | 170         |
| Interest expense  | (3,429)                           | (2,160)     |
| Income before income taxes  | 27,368                            | 20,742      |
| Income tax expense:   |                                   |             |
| Current   | 1,390                             | 1,689       |
| Deferred  | 1,373                             | 666         |
| Net income  | \$ 24,605                         | \$ 18,387   |
| Earnings per share:   |                                   |             |
| Basic   | \$ 0.80                           | \$ 0.60     |
| Diluted   | \$ 0.78                           | \$ 0.59     |
| Weighted average shares of common stock used in computing net earnings per share: |                                   |             |
| Basic   | 30,857                            | 30,632      |
| Diluted   | 31,660                            | 31,353      |

*See accompanying notes to consolidated condensed financial statements.*

**HELEN OF TROY LIMITED AND SUBSIDIARIES****Consolidated Condensed Statements of Cash Flows (unaudited)***(in thousands)*

|   | <b>Three Months Ended May 31,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2011</b>                       | <b>2010</b> |
| Net cash provided by operating activities:  |                                   |             |
| Net income  | \$ 24,605                         | \$ 18,387   |
| Adjustments to reconcile net income to net cash provided by operating activities          |                                   |             |
| Depreciation and amortization   | 7,094                             | 4,083       |
| Provision for doubtful receivables  | 227                               | (83)        |
| Share-based compensation  | 466                               | 407         |
| Intangible asset impairment charges   | -                                 | 501         |
| (Gain) loss on the sale of property and equipment   | (24)                              | 36          |
| Realized and unrealized loss on investments   | 56                                | -           |
| Deferred income taxes and tax credits   | 1,373                             | 640         |
| Changes in operating assets and liabilities, net of effects of acquisition of businesses: |                                   |             |
| Receivables   | (8,634)                           | 3,025       |
| Inventories   | (11,004)                          | (6,110)     |
| Prepaid expenses  | (2,862)                           | (1,844)     |
| Other assets  | (543)                             | (660)       |
| Accounts payable  | 4,224                             | (1,622)     |
| Accrued expenses and other current liabilities  | (11,002)                          | (12,055)    |
| Accrued income taxes  | 447                               | 149         |
| Net cash provided by operating activities   | 4,423                             | 4,854       |
| Net cash used in investing activities:  |                                   |             |
| Capital, license, trademark, and other intangible expenditures                            | (2,036)                           | (786)       |
| Proceeds from the sale of property and equipment  | 24                                | 32          |
| Proceeds from sale of investments   | 3,050                             | 100         |
| Payments to acquire businesses  | -                                 | (69,000)    |
| Net cash provided by (used in) investing activities                                       | 1,038                             | (69,654)    |
| Net cash provided by (used in) financing activities:                                      |                                   |             |
| Proceeds from line of credit  | 142,700                           | -           |
| Repayment of line of credit   | (160,500)                         | -           |
| Payments of financing costs   | (24)                              | -           |
| Proceeds from exercise of stock options, net  | 1,207                             | 2,196       |
| Net cash provided by (used in) financing activities                                       | (16,617)                          | 2,196       |
| Net decrease in cash and cash equivalents   | (11,156)                          | (62,604)    |
| Cash and cash equivalents, beginning balance  | 27,193                            | 110,208     |
| Cash and cash equivalents, ending balance   | \$ 16,037                         | \$ 47,604   |
| Supplemental cash flow information:   |                                   |             |
| Interest paid   | \$ 2,285                          | \$ 2,057    |
| Income taxes paid, net of refunds   | \$ (51)                           | \$ 1,486    |
| Value of common stock received as exercise price of options                               | \$ 837                            | \$ -        |

*See accompanying notes to consolidated condensed financial statements.*





## HELEN OF TROY LIMITED AND SUBSIDIARIES

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

May 31, 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 May 31, 2011 and February 28, 2011, and the results of our consolidated operations for the three month periods ended May 31, 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, and 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, service 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 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 803,500 and 721,000 shares of common stock for the three month periods ended May 31, 2011 and 2010, respectively. Options for common stock that were antidilutive totaled approximately 407,300 and 481,500 at May 31, 2011 and 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 May 31, |           |
|--|----------------------------|-----------|
|  | 2011                       | 2010      |
| Net income   | \$ 24,605                  | \$ 18,387 |
| Other comprehensive income (loss), net of tax:                   |                            |           |
| Cash flow hedges - interest rate swaps, net of tax (1)           | (500)                      | 399       |
| Cash flow hedges - foreign currency, net of tax (2)              | (190)                      | 872       |
| Unrealized gain (loss) - auction rate securities, net of tax (3) | (37)                       | 156       |
| Comprehensive income, net of tax                                 | \$ 23,878                  | \$ 19,814 |

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)

|   | May 31,<br>2011 | February 28,<br>2011 |
|---|-----------------|----------------------|
| Unrealized holding losses on cash flow hedges - interest rate swaps, net of tax (1) | \$ (6,852)      | \$ (6,352)           |
| Unrealized holding losses on cash flow hedges - foreign currency, net of tax (2)    | (804)           | (614)                |
| Temporary impairment loss on auction rate securities, net of tax (3)                | (921)           | (884)                |
| Total accumulated other comprehensive loss  | \$ (8,577)      | \$ (7,850)           |

(1) The change in unrealized loss on interest rate swap cash flow hedges is recorded net of tax benefit (expense) of \$0.42 and (\$0.21) million for the three month periods ended May 31, 2011 and 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 \$3.69 and \$3.27 million at May 31, 2011 and February 28, 2011, respectively.

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(2) The change in unrealized loss on foreign currency cash flow hedges is recorded net of tax benefits (expense) of \$0.09 and (\$0.41) million for the three month periods ended May 31, 2011 and 2010, respectively. The unrealized holding loss on foreign currency cash flow hedges included in accumulated other comprehensive loss, includes net deferred tax benefits of \$0.39 and \$0.30 million at May 31, 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 \$0.04 and (\$0.08) million for the three month periods ended May 31, 2011 and 2010, respectively. The temporary impairment loss on auction rate securities included in accumulated other comprehensive loss, includes net deferred tax benefits of \$0.50 and \$0.46 million at May 31, 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 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 and women's antiperspirants and deodorants, liquid and bar soaps, shampoos, conditioners, hair treatments, foot powder, body powder, and skin care products. Our Housewares segment reports the operations of the OXO family of brands 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 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. Kaz is a provider of a broad range of consumer products in two primary product categories consisting of healthcare and home environment. Significant products of the segment include humidifiers, de-humidifiers, vaporizers, thermometers, air purifiers, fans, portable heaters, heating pads and electronic insect control traps and devices.

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 MAY 31, 2011 AND 2010***(in thousands)*

| <b>May 31, 2011</b>   | <b>Personal<br/>Care</b> | <b>Housewares</b> | <b>Healthcare /<br/>Home Environment</b> | <b>Total</b> |
|---|--------------------------|-------------------|--|--------------|
| Sales revenue, net  | \$ 122,718               | \$ 52,946         | \$ 95,803                                | \$ 271,467   |
| Operating income (loss)                                       | 19,852                   | 10,865            | (63)                                     | 30,654       |
| Capital, license, trademark and other intangible expenditures | 897                      | 580               | 559                                      | 2,036        |
| Depreciation and amortization                                 | 2,661                    | 1,441             | 2,992                                    | 7,094        |
| <b>May 31, 2010</b>   | <b>Personal<br/>Care</b> | <b>Housewares</b> | <b>Healthcare /<br/>Home Environment</b> | <b>Total</b> |
| Sales revenue, net  | \$ 112,228               | \$ 47,925         | \$ -                                     | \$ 160,153   |
| Operating income before impairment                            | 13,583                   | 9,650             | -  | 23,233       |
| Asset impairment charges                                      | 501                      | -                 | -  | 501          |
| Operating income  | 13,082                   | 9,650             | -  | 22,732       |
| Capital, license, trademark and other intangible expenditures | 296                      | 490               | -  | 786          |
| Depreciation and amortization                                 | 2,589                    | 1,494             | -  | 4,083        |

We compute operating income for each segment based on net sales revenue, less cost of goods sold, 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. For the three month period ended May 31, 2011, we began making an

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allocation of corporate overhead to the Healthcare / Home Environment segment. This allocation totaled \$1.50 million for the first quarter of the fiscal year. As we continue to further 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. When we decide such operating cost allocations are appropriate, there may be some additional reduction 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.

- 8 -

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

### IDENTIFIABLE ASSETS AT MAY 31, 2011 AND FEBRUARY 28, 2011

(in thousands)

|                   | Personal<br>Care | Housewares | Healthcare /<br>Home Environment | Total        |
|-------------------|------------------|------------|----------------------------------|--------------|
| May 31, 2011      | \$ 475,474       | \$ 361,959 | \$ 401,862                       | \$ 1,239,295 |
| 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<br>Useful Lives<br>(Years) | May 31,<br>2011 | February 28,<br>2011 |
|-------------------------------|--------------------------------------|-----------------|----------------------|
| Land                          | -                                    | \$ 9,073        | \$ 9,073             |
| Building and improvements     | 10 - 40                              | 65,513          | 65,605               |
| Computer and other equipment  | 3 - 10                               | 47,368          | 47,171               |
| Tools, dies and molds         | 1 - 3                                | 15,730          | 13,080               |
| Transportation equipment      | 3 - 5                                | 118             | 118                  |
| Furniture and fixtures        | 5 - 15                               | 8,726           | 8,668                |
| Construction in progress      | -                                    | 3,002           | 4,200                |
| Property and equipment, gross |                                      | 149,530         | 147,915              |
| Less accumulated depreciation |                                      | (67,339)        | (65,428)             |
| Property and equipment, net   |                                      | \$ 82,191       | \$ 82,487            |

Depreciation expense was \$2.32 and \$2.06 million for the three month periods ended May 31, 2011 and 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 \$1.39 and \$0.57 million for the three month periods ended May 31, 2011 and 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



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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)

| Description / Life                  | May 31, 2011          |                                 |                          |                | February 28, 2011     |                                 |                          |                |
|-------------------------------------|-----------------------|---------------------------------|--------------------------|----------------|-----------------------|---------------------------------|--------------------------|----------------|
|                                     | 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                   | -                               | (63)                     | 87             | 150                   | -                               | (62)                     | 88             |
| Licenses - indefinite               | 10,300                | -                               | -                        | 10,300         | 10,300                | -                               | -                        | 10,300         |
| Licenses - finite                   | 19,564                | -                               | (15,580)                 | 3,984          | 19,564                | -                               | (15,450)                 | 4,114          |
| Other intangibles - finite          | 49,401                | -                               | (10,539)                 | 38,862         | 49,401                | -                               | (9,048)                  | 40,353         |
| Total Personal Care                 | 236,559               | (46,490)                        | (26,182)                 | 163,887        | 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          | 19,250                | -                               | (10,254)                 | 8,996          | 19,320                | -                               | (9,893)                  | 9,427          |
| Total Housewares                    | 260,581               | -                               | (10,254)                 | 250,327        | 260,651               | -                               | (9,893)                  | 250,758        |
| Healthcare / Home Environment:      |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                            | 154,655               | -                               | -                        | 154,655        | 154,700               | -                               | -                        | 154,700        |
| Other intangibles - finite          | 91,550                | -                               | (4,075)                  | 87,475         | 91,550                | -                               | (1,630)                  | 89,920         |
| Total Healthcare / Home Environment | 246,205               | -                               | (4,075)                  | 242,130        | 246,250               | -                               | (1,630)                  | 244,620        |
| Total                               | \$ 743,345            | \$ (46,490)                     | \$ (40,511)              | \$ 656,344     | \$ 743,520            | \$ (46,490)                     | \$ (36,083)              | \$ 660,947     |

The following table summarizes the amortization expense attributable to intangible assets for the three month periods ended May 31, 2011 and 2010, respectively, 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

|              |    |       |
|--------------|----|-------|
| May 31, 2011 | \$ | 4,557 |
| May 31, 2010 | \$ | 1,971 |

### Estimated Amortization Expense For the fiscal years ended

|               |    |        |
|---------------|----|--------|
| February 2012 | \$ | 17,806 |
| February 2013 | \$ | 17,776 |
| February 2014 | \$ | 17,227 |
| February 2015 | \$ | 16,742 |

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|               |    |        |
|---------------|----|--------|
| February 2016 | \$ | 16,599 |
| February 2017 | \$ | 16,526 |

- 10 -

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**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 will help 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 estate values and customer attrition rates of 10.00 percent per year used in the determination of customer list values.

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Gross receivables of \$77.49 million have been recorded in the transaction. We estimate that \$6.70 million of gross receivables will not be collected. The goodwill of \$154.70 million arising from the acquisition consists 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.

- 11 -

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**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.

We accounted for the acquisition as the purchase of a business and recorded the excess purchase price as goodwill. All of the goodwill is held in jurisdictions that do not allow deductions for tax purposes. We completed our analysis of the economic lives of all the assets acquired and determined the appropriate allocation of the initial purchase price. We assigned the acquired trademarks indefinite economic lives and will amortize the customer list and patent rights over expected average lives of approximately 8.2 and 7.5 years, respectively. For the customer list, we used our historical attrition rates to assign an expected life. For patent rights, we used the underlying non-renewable term of a royalty free license we acquired for the use of patented formulas in certain Pert Plus and Sure products. The trademarks acquired are considered to have indefinite lives that are not subject to amortization. The goodwill arising from the Pert Plus and Sure acquisition consists largely of the distribution network, marketing synergies and economies of scale expected to occur from the addition of the new product line.

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 provides for an unsecured total revolving commitment of up to \$150.00 million, 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 May 31, 2011, there were \$53.20 million in revolving loans and \$1.50 million of open letters of credit outstanding against the 2010 RCA. For the three months ended May 31, 2011, borrowings under the 2010 RCA incurred interest charges at rates ranging from 1.95 to 4.00 percent. As of May 31, 2011, the amount available for borrowings under the 2010 RCA was \$95.30 million.

The 2010 RCA and our other debt agreements require the maintenance of maximum debt leverage and interest coverage ratios, specify minimum consolidated net worth levels and contain other customary covenants, which restrict us, among other things, 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. As of May 31, 2011, all our debt agreements effectively limited our ability to incur more than an estimated \$199.70 million of additional debt from all sources, including draws on the 2010 RCA. As of May 31, 2011, we were in compliance with the terms of the 2010 RCA and our other debt agreements.

**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)

|  | May 31,<br>2011 |    | February 28,<br>2011 |
|--|-----------------|----|----------------------|
| Accrued sales returns, discounts and allowances      | \$ 34,639       | \$ | 32,136               |
| Accrued warranty returns                             | 24,369          |    | 24,021               |
| Accrued compensation                                 | 13,962          |    | 24,379               |
| Accrued advertising                                  | 7,814           |    | 10,159               |
| Accrued interest                                     | 2,900           |    | 1,973                |
| Accrued royalties                                    | 6,694           |    | 7,265                |
| Accrued legal expenses and professional fees         | 5,958           |    | 6,851                |
| Accrued benefits and payroll taxes                   | 10,848          |    | 10,100               |
| Accrued freight                                      | 1,727           |    | 1,950                |
| Accrued property, sales and other taxes              | 5,716           |    | 4,668                |
| Kaz acquisition liabilities                          | 4,261           |    | 4,261                |
| Derivative liabilities, current                      | 5,317           |    | 4,564                |
| Other  | 8,739           |    | 9,293                |
| Total accrued expenses and other current liabilities | \$ 132,944      | \$ | 141,620              |

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Kaz acquisition liabilities at May 31, 2011 and February 28, 2011 consist of \$4.26 million of additional purchase price due to former Kaz owners as a working capital adjustment settlement.

- 13 -

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**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, Inc. 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. The IRS has not proposed any 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.

**Note 13 Long-Term Debt**

A summary of long-term debt is as follows:

**LONG-TERM DEBT**

(dollars in thousands)

|   | <b>Original<br/>Date<br/>Borrowed</b> | <b>Interest<br/>Rates</b> | <b>Matures</b> | <b>May 31,<br/>2011</b> | <b>February 28,<br/>2011</b> |
|---|---------------------------------------|---------------------------|----------------|-------------------------|------------------------------|
| \$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                                 | <b>7.24%</b>              | 07/12          | \$ <b>6,000</b>         | \$ 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) (2)              | 06/04                                 | <b>5.89%</b>              | 06/11          | <b>50,000</b>           | 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                                 | <b>6.01%</b>              | 06/14          | <b>75,000</b>           | 75,000                       |
| \$100 million unsecured Senior Notes payable at a fixed interest rate of 3.90%. Interest payable semi-annually. Annual principal payments of \$20 million begin in January 2014. Prepayment of notes are subject to a make whole premium. | 01/11                                 | <b>3.90%</b>              | 01/18          | <b>100,000</b>          | 100,000                      |
| Total long-term debt  |                                       |                           |                | <b>231,000</b>          | 231,000                      |
| Less current maturities of long-term debt   |                                       |                           |                | <b>(53,000)</b>         | (53,000)                     |
| Long-term debt, excluding current maturities  |                                       |                           |                | \$ <b>178,000</b>       | \$ 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.

(2) In June 2011, \$50.00 million of principal on our 7 year Senior Notes were repaid at maturity.

The fair market value of the fixed rate debt at May 31, 2011 computed using a discounted cash flow analysis was \$107.83 million compared to the \$106.00 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 May 31, 2011.

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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 May 31, 2011, our debt agreements effectively limited our ability to incur more than \$199.70 million of additional debt from all sources, including draws on the 2010 RCA. As of May 31, 2011, 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 May 31, |          |
|-------------------------------------|----|----------------------------|----------|
|                                     |    | 2011                       | 2010     |
| Interest and commitment fees        | \$ | 1,686                      | \$ 568   |
| Deferred finance costs              |    | 217                        | 57       |
| Interest rate swap settlements, net |    | 1,526                      | 1,535    |
| Total interest expense              | \$ | 3,429                      | \$ 2,160 |

### 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 May 31, 2011 and February 28, 2011:

## FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(in thousands)

| Description                     | Fair Values at<br>May 31, 2011 | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Market Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------|--------------------------------|---|---|--|
| Assets:                         |                                |   |   |  |
| Money market accounts           | \$ 1,909                       | \$ 1,909  | \$ -  | \$ -   |
| Commercial paper                | 1,850                          | 1,850   | -   | -  |
| Investments                     | 1,177                          | 1,177   | -   | -  |
| Auction rate securities         | 17,583                         | -   | -   | 17,583   |
| Total assets                    | \$ 22,519                      | \$ 4,936  | \$ -  | \$ 17,583  |
| Liabilities:                    |                                |   |   |  |
| Long-term debt - fixed rate (1) | \$ 107,829                     | \$ -  | \$ 107,829  | \$ -   |
| Long-term debt - floating rate  | 125,000                        | -   | 125,000   | -  |
| Interest rate swaps             | 10,541                         | -   | 10,541  | -  |
| Foreign currency contracts      | 1,312                          | -   | 1,312   | -  |
| Total liabilities               | \$ 244,682                     | \$ -  | \$ 244,682  | \$ -   |

| Description | Fair Value at<br>February 28, 2011 | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Market Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|-------------|------------------------------------|---|---|--|
|-------------|------------------------------------|---|---|--|

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|                                 |    |         |    |       |            |           |
|---------------------------------|----|---------|----|-------|------------|-----------|
| Assets:                         |    |         |    |       |            |           |
| Money market accounts           | \$ | 6,435   | \$ | 6,435 | \$ -       | \$ -      |
| Commercial paper                |    | 1,560   |    | 1,560 | -          | -         |
| Investments                     |    | 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.

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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. Investments are also classified as Level 1 assets because they consist of mutual funds, which are stated in the consolidated condensed balance sheets at market value, as determined by the most recent trading price of each fund as of the balance sheet dates.

We classify our auction rate securities ( ARS ) as Level 3 assets because we determine their 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.

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 1.76 to 3.91 percent at May 31, 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. 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 month period ended May 31, 2011:

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

*(in thousands)*

|  | <b>Three Months<br/>Ended<br/>May 31, 2011</b> |
|--|--|
| Balance at beginning of period   | \$ 20,711                                      |
| Total gains (losses):  |  |
| Included in net income - realized  | 120  |
| Included in other comprehensive income - unrealized  | (198)  |
| Sales at par   | (3,050)  |
| Balance at end of period   | \$ 17,583                                      |
| Cumulative unrealized losses relating to assets still held at the reporting date, net of taxes | \$ (921)                                       |



**Note 15** *Financial Instruments and Risk Management*

**Foreign Currency Risk** - Our functional currency is the U.S. Dollar. By operating internationally, we are subject to foreign currency risk from transactions denominated in currencies other than the U.S. Dollar ( foreign currencies ). Such transactions include sales, certain inventory purchases and operating expenses. As a result of such transactions, portions of our cash, trade accounts receivable, and trade accounts payable are denominated in foreign currencies. During the three month periods ended May 31, 2011 and 2010, approximately 20 and 14 percent, respectively, of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Japanese Yen, Australian Dollars, Chilean Pesos, Peruvian Soles and Venezuelan Bolivares Fuertes. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases. In our consolidated condensed statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses are recognized in SG&A. For the three month periods ended May 31, 2011 and 2010, we recorded net foreign exchange gains (losses), including the impact of currency hedges, of (\$0.15) and (\$0.54) million, respectively, in SG&A and (\$0.04) and \$0.15 million, respectively, in income tax expense.

We have historically hedged against certain foreign currency exchange rate-risk by using a series of forward contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes.

**Interest Rate Risk** Interest on our long-term debt outstanding as of May 31, 2011 is both floating and fixed. Fixed rates are in place on \$106.00 million of Senior Notes at rates ranging from 3.90 to 7.24 percent and floating rates are in place on \$53.20 million in advances against our 2010 RCA and \$125 million of Senior Notes. If short term interest rates increase, we will incur higher interest rates on any outstanding balances under the 2010 RCA. The floating rate Senior Notes reset as described in Note 13, and have been effectively converted to fixed rate debt using interest rate swaps, as described below.

We manage our floating rate debt using interest rate swaps (the swaps ). As of May 31, 2011, we had two swaps that converted an aggregate notional principal of \$125.00 million from floating interest rate payments under our 7 and 10 year Senior Notes to fixed interest rate payments at 5.89 and 6.01 percent, respectively. In the swap transactions, we maintain two contracts to pay fixed rates of interest on an aggregate notional principal amount of \$125 million at rates of 5.04 and 5.11 percent on our 7 and 10 year Senior Notes, respectively, while simultaneously receiving floating rate interest payments set at 0.31 percent as of May 31, 2011 on the same notional amounts. The fixed rate side of the swap will not change over the life of the swap. The floating rate payments are reset quarterly based on three month LIBOR. The resets are concurrent with the interest payments made on the underlying debt. Changes in the spread between the fixed rate payment side of the swap and the floating rate receipt side of the swap offset 100 percent of the change in any period of the underlying debt s floating rate payments. These swaps are used to reduce the Company s risk of increased interest costs; however, when interest rates drop significantly below the swap rates, we lose the benefit that our floating rate debt would provide, if not managed with swaps. The swaps are considered 100 percent effective.



The following table summarizes the fair values of our various derivative instruments at May 31, 2011 and February 28, 2011:

### FAIR VALUES OF DERIVATIVE INSTRUMENTS IN THE CONSOLIDATED BALANCE SHEETS

*(in thousands)*

| Designated as hedging instruments          | Hedge Type | May 31, 2011      |            |                                    |                         |
|--|------------|-------------------|------------|------------------------------------|-------------------------|
|  |            | Final Settlement  | Notional   | Accrued Expenses and Other Current | Derivative Liabilities, |
|  |            | Date              | Amount     | Liabilities                        | Noncurrent              |
| Foreign currency contracts - sell Pounds   | Cash flow  | 2/2012            | £ 7,000    | \$ 298                             | \$ -                    |
| Foreign currency contracts - sell Canadian | Cash flow  | 12/2012           | \$ 13,000  | 243                                | 239                     |
| Foreign currency contracts - sell Euros    | Cash flow  | 2/2012            | 4,000      | 532                                | -                       |
| Subtotal                                   |            |                   |            | 1,073                              | 239                     |
| Interest rate swaps                        | Cash flow  | 6/2014            | \$ 125,000 | 4,244                              | 6,297                   |
| Total fair value                           |            |                   |            | \$ 5,317                           | \$ 6,536                |
|  |            | February 28, 2011 |            |                                    |                         |
| Designated as hedging instruments          | Hedge Type | Final Settlement  | Notional   | Accrued Expenses and Other Current | Derivative Liabilities, |
|  |            | Date              | Amount     | Liabilities                        | Noncurrent              |
|  |            |                   |            |                                    |                         |
| Foreign currency contracts - sell Pounds   | Cash flow  | 2/2012            | £ 7,000    | \$ 197                             | \$ -                    |
| Foreign currency contracts - sell Canadian | Cash flow  | 12/2012           | \$ 13,000  | 208                                | 191                     |
| Foreign currency contracts - sell Euros    | Cash flow  | 2/2012            | 5,000      | 374                                | -                       |
| Subtotal                                   |            |                   |            | 779                                | 191                     |
| Interest rate swaps                        | Cash flow  | 6/2014            | \$ 125,000 | 3,785                              | 5,840                   |
| Total fair value                           |            |                   |            | \$ 4,564                           | \$ 6,031                |

The pre-tax effect of derivative instruments for the three month periods ended May 31, 2011 and 2010 is as follows:

### PRE TAX EFFECT OF DERIVATIVE INSTRUMENTS

*(in thousands)*

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|   | Gain \ (Loss)<br>Recognized in OCI<br>(effective portion) |               | Three Months Ended May 31,<br>Gain \ (Loss) Reclassified<br>from Accumulated Other<br>Comprehensive Loss into Income |                   | Gain \ (Loss) Recognized<br>as Income (1) |          |                |                |
|---|---|---------------|--|-------------------|---|----------|----------------|----------------|
|   | 2011  | 2010          | Location   | 2011              | 2010                                      | Location | 2011           | 2010           |
| Foreign currency contracts -<br>ordinary and cash flow hedges | \$ (487)  | \$ 1,254      | SG&A   | \$ (144)          | \$ 52                                     | SG&A     | \$ (63)        | \$ (74)        |
| Interest rate swap contracts - cash<br>flow hedges            | (2,442)   | (930)         | Interest<br>expense  | (1,526)           | (1,535)                                   |          | -              | -              |
| <b>Total</b>  | <b>\$ (2,929)</b>   | <b>\$ 324</b> |  | <b>\$ (1,670)</b> | <b>\$ (1,483)</b>                         |          | <b>\$ (63)</b> | <b>\$ (74)</b> |

(1) The amounts shown represent the ineffective portion of the change in fair value of a cash flow hedge.

We expect losses of \$1.1 million associated with foreign currency contracts that are currently reported in accumulated other comprehensive loss to be reclassified into income over the next twelve months. The amount ultimately realized, however, will differ as exchange rates change and the underlying contracts settle.

**Counterparty Credit Risk** - Financial instruments, including foreign currency contracts and interest rate swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk through only dealing with counterparties who are substantial international financial institutions with significant experience using such derivative instruments. Although our theoretical credit risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring credit risk losses is remote.

**Risks Inherent in Cash, Cash Equivalents and Investment Holdings** Our cash, cash equivalents and investments are subject to interest rate risk, credit risk, and liquidity risk. Cash consists of both interest bearing and non-interest bearing disbursement or short-term investment accounts. Cash equivalents consist of commercial paper and money market investment accounts. Investments consist of BAA3 to AAA rated ARS and mutual funds. The following table summarizes our cash, cash equivalents, and investments at May 31, 2011 and February 28, 2011:

## CASH, CASH EQUIVALENTS AND INVESTMENTS

(in thousands)

|   | May 31, 2011    |                         | February 28, 2011 |                         |
|---|-----------------|-------------------------|-------------------|-------------------------|
|   | Carrying Amount | Range of Interest Rates | Carrying Amount   | Range of Interest Rates |
| Cash and cash equivalents                                       |                 |                         |                   |                         |
| Cash, interest and non-interest-bearing accounts - unrestricted | \$ 9,920        | 0.00 to 1.60%           | \$ 16,587         | 0.00 to 1.60%           |
| Cash, interest and non-interest-bearing accounts - restricted   | 2,358           | 0.00 to 1.25%           | 2,611             | 0.00 to 1.25%           |
| Commercial paper  | 1,850           | 0.08 to 0.09%           | 1,560             | 0.13%                   |
| Money market funds  | 1,909           | 0.01 to 4.20%           | 6,435             | 0.03 to 3.27%           |
| Total cash and cash equivalents                                 | \$ 16,037       |                         | \$ 27,193         |                         |
| Investments:  |                 |                         |                   |                         |
| Auction rate securities   | \$ 17,583       | 0.00 to 2.85%           | \$ 20,711         | 1.76 to 8.47%           |
| Mutual funds, principally equity based                          | 1,177           |                         | 1,233             |                         |
| Total investments   | \$ 18,760       |                         | \$ 21,944         |                         |

Our cash balances at May 31, 2011 and February 28, 2011 include restricted cash of \$2.36 and \$2.61 million, respectively, denominated in Venezuelan Bolivares Fuertes, shown above under the heading Cash, interest and non-interest-bearing accounts - restricted. The balances arise from our operations within the Venezuelan market. Until we are able to officially repatriate cash from Venezuela, we intend to use these cash balances in-country to continue to fund operations. We do not otherwise rely on these restricted funds as a source of liquidity.

Most of our cash equivalents and investments are in commercial paper, money market accounts, mutual funds and ARS with frequent rate resets; therefore, we believe there is no material interest rate risk. In addition, our commercial paper and ARS are from issuers with high credit ratings; therefore, we believe the commercial paper and ARS do not present a significant credit risk.

We hold investments in ARS collateralized by student loans (with underlying maturities from 17 to 35 years). Substantially all of the collateral is guaranteed by the U.S. government under the Federal Family Education Loan Program. Liquidity for these securities was normally dependent on an auction process that reset the applicable interest rate at pre-determined intervals, ranging from 7 to 35 days. Beginning in February 2008, the auctions for the ARS held by us and others were unsuccessful, requiring us to hold them beyond their typical auction reset dates. Auctions fail when there is insufficient demand. However, this does not represent a default by the issuer of the security. Upon an auction's failure, the interest rates reset based on a formula contained in the security. The securities will continue to accrue interest and be auctioned until one of the following occurs: the auction succeeds; the issuer calls the securities; or the securities mature. ARS are currently classified as non-current assets held for sale under the heading Other assets in our consolidated balance sheets.

At May 31, 2011 and February 28, 2011, we had cumulative pre-tax unrealized losses on our ARS of \$1.42 and \$1.34 million, respectively, which are reflected in accumulated other comprehensive loss in our accompanying consolidated condensed balance sheets, net of related tax effects of \$0.50 and \$0.46 million, respectively. The recording of these unrealized losses is not a result of the quality of the underlying

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collateral, but rather a markdown reflecting a lack of liquidity and other market conditions. During the three month periods ended May 31, 2011 and 2010, we liquidated \$3.05 and \$0.10 million, respectively, of ARS at par.

- 20 -

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**Note 16 Repurchase of Helen of Troy Common Stock**

Under the latest program approved by our Board of Directors, as of May 31, 2011, we are authorized to purchase up to 1,166,734 shares of common stock in the open market or through private transactions. During the three month periods ended May 31, 2011 and May 31, 2010, there was no open market repurchase activity. During the three month period ended May 31, 2011, employees tendered 26,183 shares of common stock having an aggregate market value of \$0.84 million, or an average of \$31.98 per share, as payment for the exercise price arising from the exercise of options. We accounted for this activity as a purchase and retirement of the shares.

On July 7, 2011, a key employee tendered 1,016,227 shares of common stock having a market value of \$36.52 million as payment for the exercise price and related federal tax obligations arising from the exercise of 1,625,000 stock options. We accounted for this activity as a purchase and retirement of the shares at a \$35.93 per share average price.

**Note 17 Share-Based Compensation Plans**

We have options outstanding under two expired and two active share-based compensation plans. The Company recorded share-based compensation expense in SG&A for the three month periods ended May 31, 2011 and 2010, respectively, as follows:

**SHARE BASED PAYMENT EXPENSE**

*(in thousands, except per share data)*

|   | <b>Three Months Ended May 31,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2011</b>                       | <b>2010</b> |
| Stock options   | \$ 466                            | \$ 407      |
| Employee stock purchase plan                              | -                                 | -           |
| Share-based payment expense                               | 466                               | 407         |
| Less income tax benefits                                  | (25)                              | (25)        |
| Share-based payment expense, net of income tax benefits   | \$ 441                            | \$ 382      |
| Earnings per share impact of share based payment expense: |                                   |             |
| Basic   | \$ 0.01                           | \$ 0.01     |
| Diluted   | \$ 0.01                           | \$ 0.01     |

On May 17, 2011 the Board of Directors authorized and granted options for 351,500 shares of common stock at an exercise price of \$32.90 per share to various officers and employees of the Company. The fair value of the options were estimated using the Black-Scholes option pricing model to estimate fair values of \$12.92 and \$13.21 for grants with four and five year vesting terms, respectively. The following assumptions were used for the four and five year grants, respectively: expected life of 4.05 and 4.35 years; risk free interest rates of 1.38 and 1.51 percent; zero dividend yield; and expected volatility of 52.41 and 51.48 percent.



A summary of option activity as of May 31, 2011, and changes during the three months then ended is as follows:

## SUMMARY OF STOCK OPTION ACTIVITY

*(in thousands, except contractual term and per share data)*

|                                  | Options | Weighted<br>Average<br>Exercise<br>Price<br>(per share) | Weighted<br>Average<br>Grant Date<br>Fair Value<br>(per share) | Weighted<br>Average<br>Remaining<br>Contractual<br>Term<br>(in years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|---------|---|--|---|---------------------------------|
| Outstanding at February 28, 2011 | 2,510   | \$ 17.64  | \$ 6.40  | 3.05  | \$ 26,054                       |
| Granted                          | 352     | 32.90   |  |   |                                 |
| Exercised                        | (81)    | (22.99)   |  |   | 685                             |
| Forfeited / expired              | (36)    | (28.24)   |  |   |                                 |
| Outstanding at May 31, 2011      | 2,745   | \$ 19.30  | \$ 7.14  | 3.47  | \$ 36,119                       |
| Exercisable at May 31, 2011      | 2,005   | \$ 16.58  | \$ 5.85  | 2.11  | \$ 31,726                       |

- 22 -

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## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially due to a number of factors, including those discussed in Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk and Information Regarding Forward Looking Statements in this report and Risk Factors in the Company's most recent annual report on Form 10-K and its other filings with the Securities and Exchange Commission (the SEC). This discussion should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1 of this report.

### **ABOUT THE COMPANY**

We are a global designer, developer, importer and distributor of an expanding portfolio of brand-name consumer products. We were incorporated as Helen of Troy Corporation in Texas in 1968 and reincorporated as Helen of Troy Limited in Bermuda in 1994. We have three segments: Personal Care, Housewares and Healthcare / Home Environment. 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 care and styling products, men's fragrances, men's and women's antiperspirants and deodorants, liquid and bar soaps, shampoos, conditioners, hair treatments, foot powder, body powder, and skin care products. Our Housewares segment reports the operations of the OXO family of brands 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 baby and toddler care products. Our Healthcare / Home Environment segment reports the operations of Kaz, which we acquired on December 31, 2010. The Healthcare / Home Environment segment's products include humidifiers, de-humidifiers, vaporizers, thermometers, air purifiers, fans, portable heaters, heating pads and electronic insect control traps and devices. 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 purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

### **OVERVIEW OF THE QUARTER'S RESULTS:**

Our first fiscal quarter's net sales revenue is generally the lowest net sales revenue volume quarter of each fiscal year. Historically, we average approximately 22 percent of the year's total net sales revenue in this quarter.

Over our latest fiscal quarter, domestic and global economic indicators have signaled a tenuous economic recovery. We believe that high gasoline prices, volatile capital markets, continued anemic housing starts and daily coverage of European sovereign debt issues have negatively impacted current overall consumer sentiment. This has resulted in very modest overall year-over-year comparable retail sales gains. In addition, the consequences of recent events, including the March 2011 Japanese earthquake's effect on the availability of components supplied to our manufacturers, the impact of Middle East tensions and related political instabilities on fuel and transportation prices, uncertainties regarding the direction of foreign currency markets and the impact of cost increases on materials used in some of our products continue to keep us cautious regarding our outlook for fiscal 2012.



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In addition, we are currently implementing certain significant and interdependent initiatives. These include the upgrade of our Enterprise Resource Planning System and the integration of the Kaz acquisition and its supply chain. Implementing these initiatives is complex and requires the devotion of significant time by our employees. If complications arise in this process, we could potentially experience supply disruptions, order cancellations, loss of product placement and charge-backs as a result of late deliveries. Accordingly, for the remainder of the fiscal year, we will focus on mitigating these risks by taking certain measures, including increasing our internal staffing and resources in key areas in order to effectively manage upgrade and integration activities, while adjusting our sourcing capabilities for expanding product offerings.

Consolidated net sales revenue for the three month period ended May 31, 2011 increased 69.5 percent to \$271.47 million, compared to \$160.15 million for the same period last year. Net sales revenue in our Personal Care segment was up \$10.49 million, or 9.3 percent, for the three month period ended May 31, 2011, when compared to the same period last year. Growth in the Personal Care segment came from an additional month of net sales revenue of \$6.51 million, or 5.8 percent, from the March 31, 2010 acquisition of Pert and Sure, when compared with the same period last year, and year-over-year growth in our core business of \$3.98 million, or 3.5 percent. Net sales revenue in our Housewares segment was up 10.5 percent for the three month period ended May 31, 2011, when compared to the same period last year. The Housewares segment's growth was fueled by shipments of its new OXO tot baby and toddler product lines and expanded shelf space with a key retail account. The Healthcare / Home Environment segment reported net sales revenue totaling \$95.80 million for the three month period ended May 31, 2011. On a pro forma basis, the segment experienced net sales revenue growth of 7.2 percent, when compared to the same period last year, prior to the acquisition.

In addition to our net sales revenue performance discussed above, key items for the three month period ended May 31, 2011 include the following:

- Consolidated gross profit margin as a percentage of net sales revenue for the fiscal quarter ended May 31, 2011 decreased 4.7 percentage points to 40.5 percent compared to 45.2 percent for the same period last year. The decline in our margin was primarily due to the dilutive impact of the Healthcare / Home Environment segment, which we acquired on December 31, 2010, whose overall gross profit margin is below those of our other two segments.
- Selling, general and administrative expense ( SG&A ) as a percentage of net sales revenue decreased by 1.5 percentage points to 29.2 percent for the three months ended May 31, 2011, compared to 30.7 percent for the same period last year.
- For the three month period ended May 31, 2011, operating income before impairments was \$30.65 million compared to \$23.23 million for the same period last year.
- For the three month period ended May 31, 2011, our net income was \$24.61 million compared to \$18.39 million for the same period last year, an increase of 33.8 percent. Our diluted earnings per share was \$0.78 for the three month period ended May 31, 2011, compared to \$0.59 for the same period last year, an increase of 32.2 percent.

**RESULTS OF OPERATIONS****Comparison of the three month period ended May 31, 2011 to the three month period ended May 31, 2010**

The following table sets forth, for the periods indicated, our selected operating data, in U.S. Dollars, as a year-over-year percentage change, and as a percentage of net sales revenue.

**SELECTED OPERATING DATA**

*(dollars in thousands)*

|  | Quarter Ended May 31, |            | \$ Change | % Change | % of Sales Revenue, net |        |
|--|-----------------------|------------|-----------|----------|-------------------------|--------|
|  | 2011                  | 2010       |           |          | 2011                    | 2010   |
| Sales revenue, net                           |                       |            |           |          |                         |        |
| Personal Care                                | \$ 122,718            | \$ 112,228 | \$ 10,490 | 9.3%     | 45.2%                   | 70.1%  |
| Housewares                                   | 52,946                | 47,925     | 5,021     | 10.5%    | 19.5%                   | 29.9%  |
| Healthcare / Home Environment                | 95,803                | -          | 95,803    | *        | 35.3%                   | 0.0%   |
| Total sales revenue, net                     | 271,467               | 160,153    | 111,314   | 69.5%    | 100.0%                  | 100.0% |
| Cost of goods sold                           | 161,554               | 87,726     | 73,828    | 84.2%    | 59.5%                   | 54.8%  |
| Gross profit                                 | 109,913               | 72,427     | 37,486    | 51.8%    | 40.5%                   | 45.2%  |
| Selling, general, and administrative expense | 79,259                | 49,194     | 30,065    | 61.1%    | 29.2%                   | 30.7%  |
| Operating income before impairments          | 30,654                | 23,233     | 7,421     | 31.9%    | 11.3%                   | 14.5%  |
| Asset impairment charges                     | -                     | 501        | (501)     | *        | 0.0%                    | 0.3%   |
| Operating income                             | 30,654                | 22,732     | 7,922     | 34.8%    | 11.3%                   | 14.2%  |
| Other income (expense):                      |                       |            |           |          |                         |        |
| Nonoperating income, net                     | 143                   | 170        | (27)      | -15.9%   | 0.1%                    | 0.1%   |
| Interest expense                             | (3,429)               | (2,160)    | (1,269)   | 58.8%    | -1.3%                   | -1.3%  |
| Total other income (expense)                 | (3,286)               | (1,990)    | (1,296)   | 65.1%    | -1.2%                   | -1.2%  |
| Income before income taxes                   | 27,368                | 20,742     | 6,626     | 31.9%    | 10.1%                   | 13.0%  |
| Income tax expense                           | 2,763                 | 2,355      | 408       | 17.3%    | 1.1%                    | 1.5%   |
| Net income                                   | \$ 24,605             | \$ 18,387  | \$ 6,218  | 33.8%    | 9.1%                    | 11.5%  |

\* Calculation is not meaningful

*Consolidated net sales revenue:*

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Consolidated net sales revenue for the fiscal quarter ended May 31, 2011 increased 69.5 percent to \$271.47 million, compared to \$160.15 million for the same period last year. Net sales revenue for the three months ended May 31, 2011 includes sales results totaling \$95.80 million from our recent acquisition of Kaz on December 31, 2010, which is reported as our Healthcare / Home Environment segment. Our Personal Care segment contributed growth of \$10.49 million, or 6.6 percentage points, to consolidated net sales revenue for the three month period ended May 31, 2011, when compared to the same period last year. Our Housewares segment contributed growth of \$5.02 million, or 3.1 percentage points, to consolidated net sales revenue for the three month period ended May 31, 2011, when compared to the same period last year.

- 25 -

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*Impact of acquisitions on net sales revenue:*

Net sales revenue from acquisitions, principally the Kaz acquisition on December 31, 2010, contributed 63.9 percentage points to our consolidated net sales revenue growth for the three month period ended May 31, 2011. Kaz's results are reported as the Healthcare / Home Environment segment and accounted for 59.8 percentage points, or \$95.80 million, of consolidated net sales revenue growth for the fiscal quarter. Net sales revenue from acquisitions also included one month of net sales revenue from our Pert Plus hair care and Sure antiperspirant and deodorant product lines acquired on March 31, 2010. The Pert Plus and Sure product lines contributed 4.1 percentage points, or \$6.51 million, of consolidated net sales revenue growth. Organic growth came from our core business (business owned and operated over the same fiscal period last year) which contributed 5.6 percentage points, or \$9.00 million, of consolidated net sales revenue growth for the three month period ended May 31, 2011, when compared to the same period last year. All of our core business major product groups provided year-over-year net sales revenue growth. The following table sets forth the impact acquisitions had on our net sales revenue:

**IMPACT OF ACQUISITIONS ON NET SALES REVENUE***(in thousands)*

|   | <b>Three Months Ended May 31,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2011</b>                       | <b>2010</b> |
| Prior year's sales revenue, net   | <b>\$ 160,153</b>                 | \$ 143,873  |
| Components of net sales revenue change                                      |                                   |             |
| Core business   | <b>8,998</b>                      | 3,044       |
| Incremental net sales revenue from acquisitions:                            |                                   |             |
| Infusium (one month in fiscal 2011)   | -                                 | 2,366       |
| Pert Plus & Sure (one and two months in fiscal 2012 and 2011, respectively) | <b>6,513</b>                      | 10,870      |
| Healthcare / Home Environment (three months in fiscal 2012)                 | <b>95,803</b>                     | -           |
| Change in sales revenue, net  | <b>111,314</b>                    | 16,280      |
| Sales revenue, net  | <b>\$ 271,467</b>                 | \$ 160,153  |
| Total net sales revenue growth  | <b>69.5%</b>                      | 11.3%       |
| Core business   | <b>5.6%</b>                       | 2.1%        |
| Acquisitions  | <b>63.9%</b>                      | 9.2%        |

In the above table, core business is net sales revenue associated with product lines or brands after the first twelve months from the date the product line or brand was acquired. Net sales revenue from internally developed brands or product lines are always considered core business. Net sales revenue from acquisitions is net sales revenues associated with product lines or brands that we have acquired and operated for less than twelve months during each period presented.

*Impact of foreign currencies on net sales revenue:*

During the three month periods ended May 31, 2011 and 2010, we transacted approximately 20 and 14 percent, respectively, of our net sales revenues in foreign currencies. These were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Japanese Yen, Australian Dollars, Chilean Pesos, Peruvian Soles, and Venezuelan Bolivares Fuertes. For the three month period ended May 31, 2011, the

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impact of net foreign currency exchange rates increased our international net sales revenue by approximately \$3.60 million. Most of the impact of these fluctuations affected sales in our Personal Care and Healthcare / Home Environment segments.

- 26 -

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**Segment net sales revenue:**

We operate our business under three segments: Personal Care, Housewares and Healthcare / Home Environment. 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 and women's antiperspirants and deodorants, liquid and bar soaps, shampoos, conditioners, hair treatments, foot powder, body powder, and skin care products. Our Housewares segment reports the operations of the OXO family of brands 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 baby and toddler care products. The Healthcare / Home Environment segment reports the operating results from Kaz, which we acquired on December 31, 2010. Kaz is a provider of a broad range of consumer products in two primary product categories consisting of healthcare and home environment. Significant products of the segment include humidifiers, de-humidifiers, vaporizers, thermometers, air purifiers, fans, portable heaters, heating pads and electronic insect control traps and devices. The following table sets forth, for the periods indicated our net sales revenue and the impact of volume and price mix changes for each segment:

**SALES REVENUE, NET BY SEGMENT***(dollars in thousands)*

|   | Quarter Ended May 31, |            |            | \$ Change |            | % Change |       |       |
|---|-----------------------|------------|------------|-----------|------------|----------|-------|-------|
|   | 2011                  | 2010       | Volume     | Price     | Net        | Volume   | Price | Net   |
| Sales revenue, net  |                       |            |            |           |            |          |       |       |
| Personal Care   | \$ 122,718            | \$ 112,228 | \$ 5,601   | \$ 4,889  | \$ 10,490  | 5.0%     | 4.4%  | 9.3%  |
| Housewares  | 52,946                | 47,925     | 3,310      | 1,711     | 5,021      | 6.9%     | 3.6%  | 10.5% |
| Healthcare / Home Environment (three months in fiscal 2012) | 95,803                | -          | 95,803     | -         | 95,803     | *        | *     | *     |
| Total sales revenue, net                                    | \$ 271,467            | \$ 160,153 | \$ 104,714 | \$ 6,600  | \$ 111,314 | 65.4%    | 4.1%  | 69.5% |

\* Calculation is not meaningful

**Personal Care Segment** - Net sales revenue in the Personal Care segment for the three months ended May 31, 2011 increased \$10.49 million, or 9.3 percent, to \$122.72 million compared with \$112.23 million for the same period last year. Net sales revenue increases came from all major product categories within the segment. Organic growth from our core business contributed 3.5 percentage points of the segment's net sales revenue growth, or \$3.98 million. The balance of 5.8 percentage points in segment net sales revenue growth was provided by an additional month of net sales revenue from the Pert Plus and Sure product lines, when compared with the same period last year (which only included two months revenue, due to Pert Plus and Sure being acquired on March 31, 2010).

We continue to expect that net sales revenue performance in our Personal Care segment will be heavily dependent on improvements in employment, housing markets and consumers' personal finances.

**Housewares Segment** Net sales revenue in the Housewares segment for the three months ended May 31, 2011 increased \$5.02 million, or 10.5 percent, to \$52.95 million compared with \$47.93 million for the same period last year. While our Housewares segment has expanded distribution somewhat, growth was fueled by shipments of its new OXO baby and toddler product lines and expanded shelf space with a key retail account.

Future net sales revenue growth in this segment of our business continues to be dependent on new product innovation, continued product line expansion, new sources of distribution, geographic expansion and the retail economic environment. While we believe in the segment's organic growth potential, we remain cautious about its ability to sustain the pace of net sales revenue growth that it has historically experienced. We continue to expect net sales revenue annual growth rates for the segment to stabilize around mid to high single digits in fiscal 2012.



**Healthcare / Home Environment** -- The Healthcare / Home Environment segment reflects three months of operating results from Kaz, which we acquired on December 31, 2010. Net sales revenue was \$95.80 million for the three month period ended May 31, 2011, which reflects growth of 7.2 percent when measured on a pro forma basis in comparison to the same period last year, prior to acquisition. Net sales growth in the segment was fueled by new product introductions in the thermometer and humidifier product categories and expanded shelf space with a key retail account.

***Consolidated gross profit margin:***

Consolidated gross profit margin as a percentage of net sales revenue for the three months ended May 31, 2011 decreased 4.7 percentage points to 40.5 percent compared to 45.2 percent for the same period last year. The decline in our margin was primarily due to the dilutive impact of the Healthcare / Home Environment segment, whose overall gross profit margin is below those of our other two segments.

Our product sourcing mix is heavily dependent on imports from China. China has moved its currency off a peg to the U.S. dollar, which will likely result in an appreciation move and increase our product costs over time. In addition, there have been recent increases across all segments in raw material, labor and inbound transportation costs. Accordingly, we remain cautious about the gross profit margin for the remainder of fiscal 2012.

***Selling, general and administrative expense:***

SG&A decreased 1.5 percentage points to 29.2 percent of net sales revenue for the three month period ended May 31, 2011, compared to 30.7 percent for the same period last year. The year-over-year decrease in SG&A as a percentage of net sales revenue is primarily due to:

- Transition service fees incurred during the fiscal quarter ended May 31, 2010 in connection with the acquisition of the Pert Plus and Sure brands which we did not incur during the fiscal quarter ended May 31, 2011; and
- The impact of Kaz, which operated on lower SG&A as a percentage of net sales revenue for the fiscal quarter ended May 31, 2011 than the Company's consolidated SG&A as a percentage of net sales revenue for the same period last year.

These decreases were partially offset by higher amortization expense as a result of the Kaz acquisition.

***Operating income (loss) before impairment by segment:***

The following table sets forth, for the periods indicated, our operating income before impairment charges by segment, as a year-over-year percentage change, and as a percentage of net sales revenue for each segment and the Company overall:

**OPERATING INCOME (LOSS) BEFORE IMPAIRMENT BY SEGMENT**

*(dollars in thousands)*

|  | Quarter Ended May 31, |           | \$ Change | % Change | % of Sales Revenue, net |       |
|--|-----------------------|-----------|-----------|----------|-------------------------|-------|
|  | 2011                  | 2010      |           |          | 2011                    | 2010  |
| Personal Care                                    | \$ 19,852             | \$ 13,583 | \$ 6,269  | 46.2%    | 16.2%                   | 12.1% |
| Housewares                                       | 10,865                | 9,650     | 1,215     | 12.6%    | 20.5%                   | 20.1% |
| Healthcare / Home Environment                    | (63)                  | -         | (63)      | *        | -0.1%                   | 0.0%  |
| Total operating income (loss) before impairments | \$ 30,654             | \$ 23,233 | \$ 7,421  | 31.9%    | 11.3%                   | 14.5% |

\* Calculation is not meaningful

We compute operating income before impairment for each segment based on net sales revenue, less cost of goods sold and any SG&A associated with the segment, not including impairment charges. 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. For the three month period ended May 31, 2011, we began making an allocation of corporate overhead to the Healthcare / Home Environment segment. This allocation totaled \$1.50 million for the first quarter of this fiscal year. As we continue to further 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. When we decide such operating cost allocations are appropriate, there may be some additional reduction 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.

The Personal Care segment's operating income before impairment charges increased \$6.27 million, or 46.2 percent, for the three months ended May 31, 2011 compared to the same period last year. The improvement was due to net sales revenue increases across all major product categories combined with overall improvements in gross profit margins.

The Housewares segment's operating income before impairment charges increased \$1.22 million, or 12.6 percent, for the three months ended May 31, 2011, when compared to the same period last year. The increase in operating income is principally due to an increase in net sales revenue of \$5.02 million over the same three month period last year.

The Healthcare / Home Environment segment reported a slight operating loss for the three months ended May 31, 2011 reflecting the seasonal nature of the business. The quarterly period ending in May has historically been Kaz's weakest of the year in terms of net sales revenue and operating margin. We do not expect the segment's operating loss for the quarter ended May 31, 2011 to be reflective of its full year results for fiscal 2012. The segment also operates on a lower overall gross profit margin than the Personal Care and Housewares segments, which is the principal reason for its lower overall operating profit.

#### ***Impairment Charges:***

The Company conducts its annual test of impairment of goodwill and indefinite-lived intangible assets in the first quarter of each fiscal year. The Company also tests for impairment if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit or an indefinite-lived intangible asset is below its carrying amount.

As a result of its testing during the fiscal quarter ended May 31, 2011, 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.

As a result of its testing during the fiscal quarter ended May 31, 2010, 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 which was written down to its fair value, determined on the basis of future discounted cash flows using the relief from royalty method.

*Interest expense and nonoperating income (expense), net:*

Interest expense for the three month period ended May 31, 2011 was \$3.43 million compared to \$2.16 million for the same period last year. Interest expense was higher when compared to the same period last year primarily due to the increase in floating-rate short- and fixed-rate long-term debt outstanding which was used to finance the acquisition of Kaz.

Nonoperating income (expense), net, for the three month period ended May 31, 2011 was \$0.14 million compared to \$0.17 million for the same period last year.

**Income tax expense:**

Income tax expense for the three month period ended May 31, 2011 was 10.1 percent of income before income taxes compared to 11.4 percent for the same period last year. The fluctuations in our effective tax rate, when significant for the periods under comparison, are generally attributable to shifts in the mix of taxable income earned between the various high and low tax rate jurisdictions in which we conduct our business.

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, Inc. 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. The IRS has not proposed any adjustments for the other tax years under examination.

**Net income:**

For the three month period ended May 31, 2011, our net income was \$24.61 million compared \$18.39 million for the same period last year, an increase of 33.8 percent. Our diluted earnings per share was \$0.78 for the three month period ended May 31, 2011 compared to \$0.59 for the same period last year, an increase of 32.2 percent.

**FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES**

Selected measures of our liquidity and capital resources for the three month periods ended May 31, 2011 and 2010 are shown below:

**SELECTED MEASURES OF OUR LIQUIDITY AND CAPITAL RESOURCES**

|   | <b>Three Months Ended May 31,</b> |             |
|---|-----------------------------------|-------------|
|   | <b>2011</b>                       | <b>2010</b> |
| Accounts Receivable Turnover (Days) (1) | <b>63.8</b>                       | 65.0        |
| Inventory Turnover (Times) (1)          | <b>2.8</b>                        | 2.6         |
| Working Capital ( <i>in thousands</i> ) | <b>\$150,212</b>                  | \$214,408   |
| Current Ratio                           | <b>1.5 : 1</b>                    | 3.1 : 1     |
| Debt to Equity Ratio (2)                | <b>40.0%</b>                      | 22.1%       |
| Return on Average Equity (1)            | <b>15.1%</b>                      | 13.4%       |

(1) Accounts receivable turnover, inventory turnover, and return on average equity computations use 12-month trailing sales, cost of sales, or net income components as required by the particular measure. The current and four prior quarters' ending balances of accounts receivable, inventory, and equity are used for the purposes of computing the average balance component as required by the particular measure.

(2) Debt is defined as all debt outstanding at the balance sheet date. This includes the sum of the following lines on our consolidated balance sheets: Revolving line of credit , Long-term debt, current maturities and Long-term debt, excluding current maturities.

***Operating activities:***

Operating activities provided \$4.42 million of cash during the first three months of fiscal 2012, compared to \$4.85 million of cash provided during the same period in fiscal 2011.

Accounts receivable increased \$9.36 million to \$197.76 million as of May 31, 2011, compared to \$188.40 million at the end of fiscal 2011. The increase was due to our overall growth in net sales revenue when compared to the immediately preceding quarter. Accounts receivable turnover improved to 63.8 days at May 31, 2011 from 65.0 days at May 31, 2010. This calculation is based on a rolling five quarter accounts receivable balance.

Inventories increased \$11.00 million to \$228.23 million as of May 31, 2011, compared to \$217.23 million at the end of fiscal 2011. Inventory turnover was 2.8 times at May 31, 2011 compared to 2.6 times at May 31, 2010. The increase in inventories reflects a normal seasonal build up in anticipation of our heavy shipping season which begins in early August and continues through November.

Working capital was \$150.21 million at May 31, 2011, compared to \$214.41 million at May 31, 2010. Our current ratio decreased to 1.5:1 at May 31, 2011, compared to 3.1:1 at May 31, 2010. The decrease in our working capital and current ratio was primarily due to the following:

- \$50.00 million of long-term debt scheduled to mature in June 2011 became classified as a current liability during the quarter ended August 31, 2010, and
- A net decrease in cash and increase in short-term debt, due to the use of cash on hand and our revolving line of credit to fund the Kaz acquisition.

***Investing activities:***

Investing activities provided \$1.04 million of cash during the three months ended May 31, 2011. Highlights of those activities follow:

- We spent \$1.08 million on molds and tooling, \$0.80 million on information technology infrastructure and \$0.06 million on the development of new patents.
- We sold or redeemed at par \$3.05 million of ARS.

*Financing activities:*

Financing activities used \$16.62 million of cash during the three months ended May 31, 2011. Highlights of those activities follow:

- We had draws of \$142.70 million against our line of credit.
- We repaid \$160.50 million drawn against our line of credit.
- Employees exercised options to purchase 80,990 shares of common stock, providing \$1.21 million of cash, including related tax benefits.



***Revolving Line of Credit Agreement and Other Debt Agreements:***

On December 30, 2010, we entered into a Credit Agreement (the "2010 RCA") with Bank of America, N.A. that provides for an unsecured revolving commitment of up to \$150.00 million, subject to certain terms and limitations 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 May 31, 2011, there were \$53.20 million in revolving loans and \$1.50 million of open letters of credit outstanding against the 2010 RCA. For the three months ended May 31, 2011, borrowings under the 2010 RCA incurred interest charges at rates ranging from 1.95 to 4.00 percent. As of May 31, 2011, the amount available for borrowings under the 2010 RCA was \$95.30 million.

On January 12, 2011, the Company and certain of its subsidiaries entered into a Note Purchase Agreement which provided for the issuance and sale of \$100.00 million of 3.90 percent Senior Notes of Helen of Troy, L.P. (the "borrower"), due January 12, 2018 (the "Notes"). The borrower's obligations under the Notes are unsecured, and all obligations under the Note Purchase Agreement and the Notes were unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. The Company used the proceeds of the Notes to repay all outstanding borrowings under a term loan credit agreement dated December 30, 2010 with Bank of America, N.A. that was used as short-term bridge financing for the Kaz acquisition.

The Notes bear interest, payable semi-annually in arrears on January 12 and July 12 of each year at a rate of 3.90% per annum. The first interest payment is due on July 12, 2011. Principal payments of \$20.00 million (or, if applicable, such lesser principal amount then outstanding) are due on January 12, 2014 and each anniversary thereafter through January 12, 2017, with the remaining outstanding balance due at maturity. The borrower may redeem the Notes, in whole or in part, at any time, at a price equal to 100% of their principal amount, plus accrued and unpaid interest and a "make-whole" premium. The Note Purchase Agreement also contains customary events of default, including failure to pay principal or interest on the Notes when due, among others. Upon an event of default under the Note Purchase Agreement, the holders may, among other things, accelerate the maturity of any amounts outstanding under the Notes. In addition, at May 31, 2011, we had an aggregate principal balance of \$131.00 million of term debt from prior year's financings with varying maturities due through June 2014.

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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, a minimum interest coverage ratio, and a minimum consolidated net worth. The table below provides the formulas for certain key financial covenants as defined in our various debt agreements:

| Applicable Financial Covenant         | 2010 RCA  | \$125 Million Floating Rate Senior Notes                                       | \$100 Million 3.90% Fixed Rate Senior Notes and \$6 Million 7.24% Fixed Rate Senior Notes    |
|---------------------------------------|---|--|--|
| <b>Minimum Consolidated Net Worth</b> | \$530 Million + 100% of Increase in Equity Due to Sale of Equity Interests After August 31, 2010 + 40% of Fiscal Quarter Net Earnings After August 31, 2010 (1) | \$260 Million + 25% of Fiscal Quarter Net Earnings After February 29, 2004 (1) | \$500 Million + 25% of Fiscal Quarter Net Earnings After November 30, 2010 (1)               |
| <b>Interest Coverage Ratio</b>        | EBIT (2)<br>÷<br>Interest Expense (2)   | None   | EBIT (2)<br>÷<br>Interest Expense (2)  |
|                                       | Minimum Required: 3.00 to 1.00  |  | Minimum Required: 2.50 to 1.00   |
| <b>Maximum Leverage Ratio</b>         | Total Current and Long Term Debt (3)<br>÷<br>[EBITDA (2) + Pro Forma Effect of Acquisitions]  | Total Current and Long Term Debt (3)<br>÷<br>Total Capitalization (3)          | Total Current and Long Term Debt (3)<br>÷<br>[EBITDA (2) + Pro Forma Effect of Acquisitions] |
|                                       | Maximum Allowed: 3:00 to 1:00   | Maximum Allowed: 55%   | Maximum Allowed: 3:25 to 1:00  |

**Key Definitions:**

|                                   |  |
|-----------------------------------|--|
| EBIT:                             | Earnings Before Non-Cash Charges, Interest Expense and Taxes   |
| EBITDA:                           | EBIT + Depreciation and Amortization Expense + Share Based Compensation  |
| Total Capitalization:             | Total Current and Long Term Debt + Total Equity  |
| Pro Forma Effect of Acquisitions: | For any acquisition, pre-acquisition EBITDA of the acquired business is included so that the EBITDA of the acquired business included in the computation equals its twelve month trailing total. |

**Notes:**

- (1) Excluding any fiscal quarter net losses.
- (2) Computed using totals for the latest reported four consecutive fiscal quarters.
- (3) Computed using the ending balances as of the latest reported fiscal quarter.

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

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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 May 31, 2011, all our debt agreements effectively limited our ability to incur more than an estimated \$199.70 million of additional debt from all sources, including draws on the 2010 RCA. We are currently in compliance with the terms of our debt agreements.

- 33 -

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**Contractual obligations and commercial commitments:**

Our contractual obligations and commercial commitments, at May 31, 2011, were:

**PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED MAY 31:**

(in thousands)

|                                       | Total      | 2012<br>1 year | 2013<br>2 years | 2014<br>3 years | 2015<br>4 years | 2016<br>5 years | After<br>5 years |
|---------------------------------------|------------|----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Term debt - fixed rate                | \$ 106,000 | \$ 3,000       | \$ 3,000        | \$ 20,000       | \$ 20,000       | \$ 20,000       | \$ 40,000        |
| Term debt - floating rate<br>(1) (2)  | 125,000    | 50,000         | -               | -               | 75,000          | -               | -                |
| Long-term incentive plan<br>payouts   | 4,391      | 2,617          | 1,480           | 294             | -               | -               | -                |
| Interest on fixed rate debt           | 18,244     | 4,144          | 3,927           | 3,594           | 2,815           | 2,035           | 1,729            |
| Interest on floating rate debt<br>(1) | 14,144     | 4,753          | 4,508           | 4,507           | 376             | -               | -                |
| Open purchase orders                  | 212,649    | 212,649        | -               | -               | -               | -               | -                |
| Minimum royalty payments              | 102,761    | 16,997         | 14,854          | 12,966          | 10,725          | 7,744           | 39,475           |
| Advertising and promotional           | 74,257     | 10,952         | 5,942           | 5,411           | 5,296           | 5,482           | 41,174           |
| Operating leases                      | 20,240     | 4,828          | 3,993           | 3,471           | 3,249           | 1,930           | 2,769            |
| Capital spending commitments          | 8,166      | 8,166          | -               | -               | -               | -               | -                |
| Total contractual obligations<br>(3)  | \$ 685,852 | \$ 318,106     | \$ 37,704       | \$ 50,243       | \$ 117,461      | \$ 37,191       | \$ 125,147       |

(1) The Company uses interest rate hedge agreements (the swaps ) in conjunction with its unsecured floating interest rate \$50.00 million, 7 year and \$75.00 million, 10 year Senior Notes. The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on these Senior Notes. The swaps effectively fix the interest rates on the 7 and 10 year Senior Notes at 5.89 and 6.01 percent, respectively. Accordingly, the future interest obligations related to this debt have been estimated using these rates.

(2) In June 2011, \$50.00 million of principal on our 7 year Senior Notes were repaid at maturity.

(3) In addition to the contractual obligations and commercial commitments in the table above, as of May 31, 2011, we have recorded a provision for our uncertain tax positions of \$2.93 million. We are unable to reliably estimate the timing of future payments, if any, related to uncertain tax positions; therefore, we have excluded these tax liabilities from the table above.

**Off-balance sheet arrangements:**

We have no existing activities involving special purpose entities or off-balance sheet financing.

***Current and future capital needs:***

Based on our current financial condition and current operations, we believe that cash flows from operations and available financing sources will continue to provide sufficient capital resources to fund our foreseeable short- and long-term liquidity requirements. We expect our capital needs to stem primarily from the need to purchase sufficient levels of inventory and to carry normal levels of accounts receivable on our balance sheet. In addition, we continue to evaluate acquisition opportunities on a regular basis and may augment our internal growth with acquisitions of complementary businesses or product lines. We may finance acquisition activity with available cash, the issuance of common stock, additional debt or other sources of financing, depending upon the size and nature of any such transaction and the status of the capital markets at the time of such acquisition.

The Company may elect to repurchase additional common stock from time to time based upon its assessment of its liquidity position and market conditions at the time, and subject to limitations contained in its debt agreements. For additional information, see Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds in this report.

### **CRITICAL ACCOUNTING POLICIES**

The SEC defines critical accounting policies as those that are both most important to the portrayal of a company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a discussion of our critical accounting policies, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Critical Accounting Policies" in our annual report on Form 10-K for the year ended February 28, 2011. There have been no material changes to the Company's critical accounting policies from the information provided in our Form 10-K.

### **NEW ACCOUNTING PRONOUNCEMENTS**

See Note 2 "New Accounting Pronouncements," to the accompanying consolidated condensed financial statements of this report, for a discussion of the status and potential impact of new accounting pronouncements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in currency exchange rates, interest rates, and the liquidity of our investments are our primary financial market risks.

#### *Foreign currency risk:*

Our functional currency is the U.S. Dollar. By operating internationally, we are subject to foreign currency risk from transactions denominated in currencies other than the U.S. Dollar ( foreign currencies ). Such transactions include sales, certain inventory purchases and operating expenses. As a result of such transactions, portions of our cash, trade accounts receivable, and trade accounts payable are denominated in foreign currencies. During the three month periods ended May 31, 2011 and 2010, approximately 20 and 14 percent, respectively, of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Japanese Yen, Australian Dollars, Chilean Pesos, Peruvian Soles and Venezuelan Bolivares Fuertes. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases. In our consolidated condensed statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses are recognized in SG&A.

We identify foreign currency risk by regularly monitoring our foreign currency-denominated transactions and balances. Where operating conditions permit, we reduce foreign currency risk by purchasing most of our inventory with U.S. Dollars and by converting cash balances denominated in foreign currencies to U.S. Dollars.

We have historically hedged against certain foreign currency exchange rate-risk by using a series of forward contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. In these transactions, we execute a forward currency contract that will settle at the end of a forecasted period. Because the size and terms of the forward contract are designed so that its fair market value will move in the opposite direction and approximate magnitude of the underlying foreign currency's forecasted exchange gain or loss during the forecasted period, a hedging relationship is created. To the extent that we forecast the expected foreign currency cash flows from the period we enter into the forward contract until the date it will settle with reasonable accuracy, we significantly lower or materially eliminate a particular currency's exchange risk exposure over the life of the related forward contract. We enter into these types of agreements where we believe we have meaningful exposure to foreign currency exchange risk and the hedge pricing appears reasonable. It is not practical for us to hedge all our exposures, nor are we able to project in any meaningful way the possible effect and interplay of all foreign currency fluctuations on translated amounts or future earnings. This is due to our constantly changing exposure to various currencies, the fact that each foreign currency reacts differently to the U.S. Dollar, and the significant number of currencies involved. Accordingly, we will always be subject to foreign exchange rate-risk on exposures we have not hedged, and these risks may be material. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes. We expect that as currency market conditions warrant, and our foreign denominated transaction exposure grows, we will continue to execute additional contracts in order to hedge against certain potential foreign exchange losses.

#### *Interest rate risk:*

Interest on our long-term debt outstanding as of May 31, 2011 is both floating and fixed. Fixed rates are in place on \$106.00 million of Senior Notes at rates ranging from 3.90 to 7.24 percent and floating rates are in place on \$53.20 million in advances against our 2010 RCA and \$125 million of Senior Notes. If short term interest rates increase, we will incur higher interest rates on any outstanding balances under the 2010

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RCA. The floating rate Senior Notes reset as described in Note 13 to the accompanying consolidated condensed financial statements, and have been effectively converted to fixed rate debt using interest rate swaps, as described below.

- 36 -

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Our levels of debt, certain additional draws against the 2010 RCA (whose interest rates can vary with the term of each draw), and the uncertainty regarding the level of future interest rates increase our risk profile. We manage our floating rate term debt using interest rate swaps. As of May 31, 2011, we had two swaps that converted an aggregate notional principal of \$125.00 million from floating interest rate payments under our 7 and 10 year Senior Notes to fixed interest rate payments at 5.89 and 6.01 percent, respectively. In the swap transactions, we maintain two contracts to pay fixed rates of interest on an aggregate notional principal amount of \$125 million at rates of 5.04 and 5.11 percent on our 7 and 10 year Senior Notes, respectively, while simultaneously receiving floating rate interest payments set at 0.31 percent as of May 31, 2011 on the same notional amounts. The fixed rate side of the swap will not change over the life of the swap. The floating rate payments are reset quarterly based on three month LIBOR. The resets are concurrent with the interest payments made on the underlying debt. Changes in the spread between the fixed rate payment side of the swap and the floating rate receipt side of the swap offset 100 percent of the change in any period of the underlying debt's floating rate payments. These swaps are used to reduce the Company's risk of increased interest costs; however, when interest rates drop significantly below the swap rates, we lose the benefit that our floating rate debt would provide, if not managed with swaps. The swaps are considered 100 percent effective.

The following table summarizes the fair values of our various derivative instruments at May 31, 2011 and February 28, 2011:

## FAIR VALUES OF DERIVATIVE INSTRUMENTS IN THE CONSOLIDATED BALANCE SHEETS

(in thousands)

| May 31, 2011                               |            |                       |                 |  |                                    |
|--|------------|-----------------------|-----------------|--|------------------------------------|
| Designated as hedging instruments          | Hedge Type | Final Settlement Date | Notional Amount | Accrued Expenses and Other Current Liabilities | Derivative Liabilities, Noncurrent |
| Foreign currency contracts - sell Pounds   | Cash flow  | 2/2012                | £ 7,000         | \$ 298   | \$ -                               |
| Foreign currency contracts - sell Canadian | Cash flow  | 12/2012               | \$ 13,000       | 243  | 239                                |
| Foreign currency contracts - sell Euros    | Cash flow  | 2/2012                | 4,000           | 532  | -                                  |
| Subtotal                                   |            |                       |                 | 1,073  | 239                                |
| Interest rate swaps                        | Cash flow  | 6/2014                | \$ 125,000      | 4,244  | 6,297                              |
| Total fair value                           |            |                       |                 | \$ 5,317                                       | \$ 6,536                           |

| February 28, 2011                          |            |                       |                 |  |                                    |
|--|------------|-----------------------|-----------------|--|------------------------------------|
| Designated as hedging instruments          | Hedge Type | Final Settlement Date | Notional Amount | Accrued Expenses and Other Current Liabilities | Derivative Liabilities, Noncurrent |
| Foreign currency contracts - sell Pounds   | Cash flow  | 2/2012                | £ 7,000         | \$ 197   | \$ -                               |
| Foreign currency contracts - sell Canadian | Cash flow  | 12/2012               | \$ 13,000       | 208  | 191                                |
| Foreign currency contracts - sell Euros    | Cash flow  | 2/2012                | 5,000           | 374  | -                                  |
| Subtotal                                   |            |                       |                 | 779  | 191                                |
| Interest rate swaps                        | Cash flow  | 6/2014                | \$ 125,000      | 3,785  | 5,840                              |
| Total fair value                           |            |                       |                 | \$ 4,564                                       | \$ 6,031                           |

Counterparty credit risk:

Financial instruments, including foreign currency contracts and interest rate swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk through only dealing with counterparties who are substantial international financial institutions with significant experience using such derivative instruments. Although our theoretical credit risk is the replacement cost at the then estimated fair value of these instruments, we believe that the risk of incurring credit risk losses is remote.

- 37 -

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**Risks inherent in cash, cash equivalents, and investment holdings:**

Our cash, cash equivalents and investments are subject to interest rate risk, credit risk, and liquidity risk. Cash consists of both interest bearing and non-interest bearing disbursement or short-term investment accounts. Cash equivalents consist of commercial paper and money market investment accounts. Investments consist of BAA3 to AAA rated ARS and mutual funds. The following table summarizes our cash, cash equivalents, and investments we held at May 31, 2011 and February 28, 2011:

**CASH, CASH EQUIVALENTS AND INVESTMENTS***(in thousands)*

|  | May 31, 2011       |                            | February 28, 2011  |                            |
|--|--------------------|----------------------------|--------------------|----------------------------|
|  | Carrying<br>Amount | Range of<br>Interest Rates | Carrying<br>Amount | Range of<br>Interest Rates |
| Cash and cash equivalents  |                    |                            |                    |                            |
| Cash, interest and non-interest-bearing accounts -<br>unrestricted | \$ 9,920           | 0.00 to 1.60%              | \$ 16,587          | 0.00 to 1.60%              |
| Cash, interest and non-interest-bearing accounts - restricted      | 2,358              | 0.00 to 1.25%              | 2,611              | 0.00 to 1.25%              |
| Commercial paper   | 1,850              | 0.08 to 0.09%              | 1,560              | 0.13%                      |
| Money market funds   | 1,909              | 0.01 to 4.20%              | 6,435              | 0.03 to 3.27%              |
| Total cash and cash equivalents                                    | \$ 16,037          |                            | \$ 27,193          |                            |
| Investments:   |                    |                            |                    |                            |
| Auction rate securities  | \$ 17,583          | 0.00 to 2.85%              | \$ 20,711          | 1.76 to 8.47%              |
| Mutual funds, principally equity based                             | 1,177              |                            | 1,233              |                            |
| Total investments  | \$ 18,760          |                            | \$ 21,944          |                            |

Our cash balances at May 31, 2011 and February 28, 2011 include restricted cash of \$2.36 and \$2.61 million, respectively, denominated in Venezuelan Bolivares Fuertes, shown above under the heading Cash, interest and non-interest-bearing accounts restricted. The balances arise from our operations within the Venezuelan market. Until we are able to officially repatriate cash from Venezuela, we intend to use these cash balances in-country to continue to fund operations. We do not otherwise rely on these restricted funds as a source of liquidity.

Most of our cash equivalents and investments are in commercial paper, money market accounts, mutual funds and ARS with frequent rate resets; therefore, we believe there is no material interest rate risk. In addition, our commercial paper and ARS are from issuers with high credit ratings; therefore, we believe the commercial paper and ARS do not present a significant credit risk.

We hold investments in ARS collateralized by student loans (with underlying maturities from 17 to 35 years). Substantially all of the collateral is guaranteed by the U.S. government under the Federal Family Education Loan Program. Liquidity for these securities was normally dependent on an auction process that reset the applicable interest rate at pre-determined intervals, ranging from 7 to 35 days. Beginning in February 2008, the auctions for the ARS held by us and others were unsuccessful, requiring us to hold them beyond their typical auction reset dates. Auctions fail when there is insufficient demand. However, this does not represent a default by the issuer of the security. Upon an auction's failure, the interest rates reset based on a formula contained in the security. The securities will continue to accrue interest and be auctioned until one of the following occurs: the auction succeeds; the issuer calls the securities; or the securities mature. ARS are currently classified as non-current assets held for sale under the heading Other assets in our consolidated balance sheets.



### INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain written and oral statements made by our Company and subsidiaries of our Company may constitute forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. This includes statements made in this report, in other filings with the SEC, in press releases, and in certain other oral and written presentations. Generally, the words anticipates, believes, expects, plans, may, will, seeks, estimates, project, predict, potential, continue, intends, and other similar words identify forward-looking statements. All statements address operating results, events or developments that we expect or anticipate will occur in the future, including statements related to sales, earnings per share results, and statements expressing general expectations about future operating results, are forward-looking statements and are based upon the Company's current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company's assumptions will prove correct. Forward-looking statements are subject to risks that could cause them to differ materially from actual results. Accordingly, the Company cautions readers not to place undue reliance on forward-looking statements. We believe that these risks include, but are not limited to, the risks described in Part 1, Item 1A. Risk Factors of our annual report on Form 10-K for the year ended February 28, 2011 and risks otherwise described from time to time in our SEC reports as filed. Such risks, uncertainties and other important factors include, among others:

- the departure and recruitment of key personnel;
- our ability to deliver products to our customers in a timely manner and according to their fulfillment standards;
- our projections of product demand, sales and net income (including the Company's guidance for Kaz's net sales revenue and the expectation that the acquisition will be accretive) are highly subjective in nature and future sales and net income could vary in a material amount from such projections;
- expectations regarding the acquisition of Kaz, the Pert Plus and Sure brands and any other future acquisitions, including our ability to realize anticipated cost savings, synergies and other benefits along with our ability to effectively integrate acquired businesses;
- our relationship with key customers and licensors;
- the costs of complying with the business demands and requirements of large sophisticated customers;
- our dependence on foreign sources of supply and foreign manufacturing, and associated operational risks including but not limited to long lead times, consistent local labor availability and capacity, and timely availability of sufficient shipping carrier capacity;
- the impact of changing costs of raw materials and energy on cost of goods sold and certain operating expenses;

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- circumstances which may contribute to future impairment of goodwill, intangible or other long-lived assets;
- the risks associated with the use of trademarks licensed from third parties;
- our dependence on the strength of retail economies and vulnerabilities to a prolonged economic downturn;
- our ability to develop and introduce a continuing stream of new products to meet changing consumer preferences;
- disruptions in U.S. and international credit markets;
- foreign currency exchange rate fluctuations;
- trade barriers, exchange controls, expropriations and other risks associated with foreign operations;
- our leverage and the constraints it may impose on our ability to manage our cash resources and operate our business;
- the costs, complexity and challenges of upgrading and managing our global information systems;
- the inability to liquidate auction rate securities;

- the risks associated with tax audits and related disputes with taxing authorities;
- the risks of potential changes in laws, including tax laws and the complexities of compliance with such laws; and
- our ability to continue to avoid classification as a controlled foreign corporation.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events, or otherwise.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **DISCLOSURE CONTROLS AND PROCEDURES**

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), maintains disclosure controls and procedures as defined in Rules 13a-15(e) under the Exchange Act that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, including our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended May 31, 2011. In conducting our evaluation of the effectiveness of internal control over financial reporting, we have excluded the assets and liabilities and results of operations of Kaz, which we acquired on December 31, 2010, in accordance with the Securities and Exchange Commission's guidance concerning the reporting of internal controls over financial reporting in connection with a material acquisition. The assets resulting from this acquisition constituted approximately 32.4 percent of consolidated assets as of May 31, 2011, 35.3 percent of consolidated net sales revenue and (0.2) percent of consolidated operating income (loss) for the quarter then ended. Based upon that evaluation, which excluded the internal control over financial reporting of Kaz, the CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of May 31, 2011, the end of the period covered by this quarterly report on Form 10-Q.

### **CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

In connection with the evaluation described above, we identified no change in our internal control over financial reporting as defined in Rule 13a-15(f) that occurred during our fiscal quarter ended May 31, 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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.

**ITEM 1A. RISK FACTORS**

The ownership of our common stock involves a number of risks and uncertainties. When evaluating the Company and our business before making an investment decision regarding our securities, potential investors should carefully consider the risk factors and uncertainties described in Part I, Item 1A. Risk Factors of our annual report on Form 10-K for the fiscal year ended February 28, 2011. Since the filing of our annual report on Form 10-K, there have been no material changes in our risk factors from those disclosed therein.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Under the latest program approved by our Board of Directors, as of May 31, 2011, we are authorized to purchase up to 1,166,734 shares of common stock in the open market or through private transactions. During the three month periods ended May 31, 2011 and May 31, 2010, there was no open market repurchase activity. During the three month period ended May 31, 2011, employees tendered 26,183 shares of common stock having an aggregate market value of \$0.84 million, or an average of \$31.98 per share, as payment for the exercise price arising from the exercise of options. We accounted for this activity as a purchase and retirement of the shares. The following schedule sets forth the purchase activity for the three months ended May 31, 2011.

**ISSUER PURCHASES OF EQUITY SECURITIES FOR THE THREE MONTHS ENDED MAY 31, 2011**

| <b>Period</b>                         | <b>Total Number of<br/>Shares<br/>Purchased</b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of<br/>Shares<br/>Purchased as<br/>Part of Publicly<br/>Announced Plans<br/>or Programs</b> | <b>Maximum<br/>Number of<br/>Shares that May<br/>Yet Be Purchased<br/>Under the Plans<br/>or Programs</b> |
|---------------------------------------|---|---|---|---|
| <b>March 1 through March 31, 2011</b> | 806   | \$27.85                                 | 806   | 1,192,111   |
| <b>April 1 through April 30, 2011</b> | 914   | 29.51                                   | 914   | 1,191,197   |
| <b>May 1 through May 31, 2011</b>     | 24,463  | 32.21                                   | 24,463  | 1,166,734   |
| <b>Total</b>                          | 26,183  | \$31.98                                 | 26,183  | 1,166,734   |



**ITEM 6. EXHIBITS**

(a) Exhibits

31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Joint certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

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

HELEN OF TROY LIMITED  
(Registrant)

Date: July 11, 2011

/s/ Gerald J. Rubin  
Gerald J. Rubin  
Chairman of the Board, Chief Executive Officer,  
President, Director  
and Principal Executive Officer

Date: July 11, 2011

/s/ Thomas J. Benson  
Thomas J. Benson  
Senior Vice-President  
and Chief Financial Officer

Date: July 11, 2011

/s/ Richard J. Oppenheim  
Richard J. Oppenheim  
Financial Controller  
and Principal Accounting Officer

**Index to Exhibits**

31.1\* Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2\* Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32\*\* Joint Certification of the Chief Executive Officer and the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

\*\* Furnished herewith.