

HELEN OF TROY LTD
Form 10-Q
January 09, 2014
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended November 30, 2013

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)

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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)

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.

Class
Common Shares, \$0.10 par value, per share

Outstanding at January 3, 2014
32,064,062 shares

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HELEN OF TROY LIMITED AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HELEN OF TROY LIMITED AND SUBSIDIARIES****Consolidated Condensed Balance Sheets (Unaudited)***(in thousands, except shares and par value)*

	November 30, 2013	February 28, 2013
Assets		
Assets, current:		
Cash and cash equivalents	\$ 28,775	\$ 12,842
Receivables - principally trade, less allowances of \$4,653 and \$5,031	279,699	219,719
Inventory, net	289,890	280,872
Prepaid expenses and other current assets	10,321	8,442
Income taxes receivable	-	1,800
Deferred tax assets, net	25,314	21,530
Total assets, current	633,999	545,205
Property and equipment, net of accumulated depreciation of \$74,576 and \$74,775	130,577	101,716
Goodwill	453,241	453,241
Other intangible assets, net of accumulated amortization of \$89,504 and \$73,344	327,604	355,628
Deferred tax assets, net	2,780	2,401
Other assets, net of accumulated amortization of \$6,214 and \$5,403	10,819	15,813
Total assets	\$ 1,559,020	\$ 1,474,004
Liabilities and Stockholders Equity		
Liabilities, current:		
Revolving line of credit	\$ 4,900	\$ 82,000
Accounts payable, principally trade	93,322	72,263
Accrued expenses and other current liabilities	158,536	134,063
Income taxes payable	1,261	-
Deferred tax liabilities, net	243	339
Long-term debt, current maturities	96,900	20,000
Total liabilities, current	355,162	308,665
Long-term debt, excluding current maturities	113,609	155,000
Deferred tax liabilities, net	55,880	57,991
Other liabilities, non-current	24,547	25,742
Total liabilities	549,198	547,398
Commitments and contingencies		
Stockholders equity:		
Cumulative preferred stock, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued	-	-
Common stock, \$0.10 par. Authorized 50,000,000 shares; 32,053,272 and 31,868,416 shares issued and outstanding	3,205	3,187
Additional paid in capital	172,766	164,471
Accumulated other comprehensive loss	(1,726)	(2,729)
Retained earnings	835,577	761,677
Total stockholders equity	1,009,822	926,606

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Total liabilities and stockholders' equity	\$	1,559,020	\$	1,474,004
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See accompanying notes to consolidated condensed financial statements.

Table of Contents**HELEN OF TROY LIMITED AND SUBSIDIARIES****Consolidated Condensed Statements of Income (Unaudited)***(in thousands, except per share data)*

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2013	2012	2013	2012
Sales revenue, net	\$ 380,730	\$ 374,599	\$ 1,004,633	\$ 962,221
Cost of goods sold	233,029	226,146	613,513	575,590
Gross profit	147,701	148,453	391,120	386,631
Selling, general and administrative expense	98,308	101,401	278,697	277,590
Asset impairment charges	-	-	12,049	-
Operating income	49,393	47,052	100,374	109,041
Nonoperating income (expense), net	13	(16)	153	38
Interest expense	(2,513)	(3,232)	(7,647)	(9,674)
Income before income taxes	46,893	43,804	92,880	99,405
Income tax expense (benefit):				
Current	10,911	11,705	24,780	26,093
Deferred	(1,542)	(5,620)	(7,133)	(10,847)
Net income	\$ 37,524	\$ 37,719	\$ 75,233	\$ 84,159
Earnings per share:				
Basic	\$ 1.17	\$ 1.19	\$ 2.35	\$ 2.65
Diluted	\$ 1.16	\$ 1.18	\$ 2.33	\$ 2.64
Weighted average shares of common stock used in computing net earnings per share:				
Basic	32,047	31,775	31,982	31,739
Diluted	32,482	31,970	32,311	31,885

See accompanying notes to consolidated condensed financial statements.

Table of Contents**HELEN OF TROY LIMITED AND SUBSIDIARIES****Consolidated Condensed Statements of Comprehensive Income (Unaudited)***(in thousands)***Three Months Ended November 30,**

	2013			2012		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Income	\$ 46,893	\$ (9,369)	\$ 37,524	\$ 43,804	\$ (6,085)	\$ 37,719
Other comprehensive income						
Cash flow hedge activity - interest rate swaps:						
Changes in fair market value	(70)	24	(46)	452	(158)	294
Interest rate settlements reclassified to income	946	(330)	616	1,000	(350)	650
Subtotal	876	(306)	570	1,452	(508)	944
Cash flow hedge activity - foreign currency contracts:						
Changes in fair market value	(641)	125	(516)	(596)	64	(532)
Ineffectiveness recorded in income	-	-	-	93	(15)	78
Settlements reclassified to income	78	(15)	63	350	(55)	295
Subtotal	(563)	110	(453)	(153)	(6)	(159)
Total other comprehensive income	313	(196)	117	1,299	(514)	785
Comprehensive income	\$ 47,206	\$ (9,565)	\$ 37,641	\$ 45,103	\$ (6,599)	\$ 38,504

Nine Months Ended November 30,

	2013			2012		
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Income	\$ 92,880	\$ (17,647)	\$ 75,233	\$ 99,405	\$ (15,246)	\$ 84,159
Other comprehensive income						
Cash flow hedge activity - interest rate swaps:						
Changes in fair market value	(97)	34	(63)	(49)	17	(32)
Interest rate settlements reclassified to income	2,785	(975)	1,810	2,906	(1,017)	1,889
Subtotal	2,688	(941)	1,747	2,857	(1,000)	1,857
Cash flow hedge activity - foreign currency contracts:						
Changes in fair market value	(673)	136	(537)	(619)	73	(546)
Ineffectiveness recorded in income	-	-	-	44	2	46
Settlements reclassified to income	(246)	39	(207)	313	(43)	270
Subtotal	(919)	175	(744)	(262)	32	(230)
Total other comprehensive income	1,769	(766)	1,003	2,595	(968)	1,627
Comprehensive income	\$ 94,649	\$ (18,413)	\$ 76,236	\$ 102,000	\$ (16,214)	\$ 85,786

See accompanying notes to consolidated condensed financial statements.

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

	Nine Months Ended November 30,	
	2013	2012
Cash provided (used) by operating activities:		
Net income	\$ 75,233	\$ 84,159
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	25,861	26,591
Provision for doubtful receivables	744	114
Non-cash share-based compensation	9,200	4,417
Intangible asset impairment charges	12,049	-
(Gain) loss on the sale of property and equipment	74	43
Deferred income taxes and tax credits	(7,136)	(10,906)
Changes in operating capital:		
Receivables	(60,724)	(62,955)
Inventories	(9,018)	(60,052)
Prepaid expenses and other current assets	955	(512)
Other assets and liabilities, net	(1,340)	(469)
Accounts payable	21,478	16,414
Accrued expenses and other current liabilities	22,787	20,574
Accrued income taxes	949	6,909
Net cash provided by operating activities	91,112	24,327
Cash provided (used) by investing activities:		
Capital and intangible asset expenditures	(38,563)	(6,405)
Proceeds from the sale or disposal of property and equipment	-	26
Note receivable from land sale	-	737
Net cash used by investing activities	(38,563)	(5,642)
Cash provided (used) by financing activities:		
Proceeds from line of credit	107,300	184,950
Repayment of line of credit	(184,400)	(212,650)
Proceeds (repayments) of long-term debt	35,509	(3,000)
Payments of financing costs	(127)	(28)
Proceeds from share issuances under share-based compensation plans, including tax benefits	5,019	7,525
Payment of tax obligations resulting from issuance of restricted shares	(483)	(108)
Payments for repurchases of common stock	(1,311)	(1,759)
Share-based compensation tax benefit	1,877	661
Net cash used by financing activities	(36,616)	(24,409)
Net increase (decrease) in cash and cash equivalents	15,933	(5,724)
Cash and cash equivalents, beginning balance	12,842	21,846
Cash and cash equivalents, ending balance	\$ 28,775	\$ 16,122

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

November 30, 2013

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

The accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of November 30, 2013 and February 28, 2013, and the results of our consolidated operations for the three- and nine-month periods ended November 30, 2013 and 2012. We follow the same accounting policies when preparing quarterly financial data as we use for 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, 2013, 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 all amounts are expressed in thousands of U.S. Dollars. We refer to the Company 's common shares, par value \$0.10 per share, as common stock. References to Kaz refer to the operations of Kaz, Inc. and its subsidiaries. References to PUR refer to the PUR brand of water filtration products that we acquired, along with certain other assets and liabilities, from The Procter & Gamble Company and certain of its affiliates. Kaz and PUR comprise a segment within the Company referred to as the Healthcare / Home Environment segment. References to OXO refer to the operations of OXO International and certain of its affiliated subsidiaries that comprise our Housewares segment. 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 owners. 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 GAAP in the Accounting Standards Codification issued by the FASB.

We are a global designer, developer, importer, marketer, and distributor of an expanding portfolio of brand-name consumer products. We have three segments: Housewares, Healthcare / Home Environment and Personal Care. Our Housewares segment provides a broad range of innovative consumer products for the home. Product offerings include food preparation and storage, cleaning, organization, and baby and toddler care products. The Healthcare / Home Environment segment focuses on health care devices such as thermometers, blood pressure monitors, humidifiers, and heating pads; water filtration systems; and small home appliances such as air purifiers, portable heaters, fans, and insect control devices (bug zappers). Our Personal Care segment 's products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid, solid- and powder-based personal care and grooming products. All three segments sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores, and specialty stores. In addition, the Healthcare / Home Environment segment sells certain of its product lines through medical distributors and other products through home improvement stores, and the Personal Care segment sells extensively through beauty supply retailers and wholesalers. Our business is seasonal due to different calendar events, holidays, and seasonal weather patterns. Historically, our highest sales volume and operating income occur in our third fiscal quarter ending November 30th. We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

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Our consolidated condensed financial statements are prepared in accordance with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. We have reclassified, combined or separately disclosed certain amounts in the prior period's consolidated condensed financial statements and accompanying footnotes to conform to the current period's presentation.

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Note 2 *New Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt according to the various timetables the FASB specifies. Unless otherwise discussed, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial position, results of operations and cash flows upon adoption.

Note 3 *Commitments and Contingencies*

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.

Notes 7, 9, 11, 12, and 14 provide additional information regarding certain of our significant commitments and certain significant contingencies we have provided for in the accompanying consolidated condensed financial statements.

Our products are under warranty against defects in material and workmanship for periods ranging from two to five years. We estimate our warranty accrual using historical trends and believe that these trends are the most reliable method by which we can estimate our warranty liability. The following table summarizes the activity in our warranty accrual for the periods covered in the accompanying consolidated condensed statements of income:

ACCRUAL FOR WARRANTY RETURNS

(in thousands)

	2013	2013
	\$ 21,357	\$ 23,150
	6,504	25,280
	(5,770)	(26,339)
	\$ 22,091	\$ 22,091

Note 4 *Earnings per Share*

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during the period and diluted earnings per share using basic earnings per share plus the effect of dilutive securities. Our securities that can have dilutive effects consist of

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outstanding options to purchase common stock and issued and contingently issuable unvested restricted share units and awards. See Note 14 to these consolidated condensed financial statements for more information regarding these restricted share units and awards. Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive.

For the periods covered in the accompanying consolidated condensed statements of income, the basic and diluted shares are as follows:

WEIGHTED AVERAGE DILUTED SECURITIES

(in thousands)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2013	2012	2013	2012
Weighted average shares outstanding, basic	32,047	31,775	31,982	31,739
Incremental shares from share-based payment arrangements	435	195	329	146
Weighted average shares outstanding, diluted	32,482	31,970	32,311	31,885
Dilutive securities, as a result of in-the-money options	574	354	373	348
Dilutive securities, as a result of unvested restricted shares	408	143	298	143
Antidilutive securities, as a result of out-of-the-money options	358	612	586	618

Table of Contents**Note 5 Segment Information**

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

THREE MONTHS ENDED NOVEMBER 30, 2013 AND 2012*(in thousands)*

November 30, 2013	Healthcare /		Personal	Total
	Housewares	Home Environment	Care	
Sales revenue, net	\$ 74,776	\$ 165,752	\$ 140,202	\$ 380,730
Asset impairment charges	-	-	-	-
Operating income	15,278	10,665	23,450	49,393
Capital and intangible asset expenditures	193	3,207	585	3,985
Depreciation and amortization	897	5,349	2,726	8,972

November 30, 2012	Healthcare /		Personal	Total
	Housewares	Home Environment	Care	
Sales revenue, net	\$ 67,787	\$ 158,174	\$ 148,638	\$ 374,599
Operating income	13,927	11,323	21,802	47,052
Capital and intangible asset expenditures	118	230	297	645
Depreciation and amortization	1,177	4,376	3,243	8,796

NINE MONTHS ENDED NOVEMBER 30, 2013 AND 2012*(in thousands)*

November 30, 2013	Healthcare /		Personal	Total
	Housewares	Home Environment	Care	
Sales revenue, net	\$ 208,471	\$ 424,398	\$ 371,764	\$ 1,004,633
Asset impairment charges	-	-	12,049	12,049
Operating income	41,506	22,175	36,693	100,374
Capital and intangible asset expenditures	574	36,321	1,668	38,563
Depreciation and amortization	2,946	14,897	8,018	25,861

November 30, 2012	Healthcare /		Personal	Total
	Housewares	Home Environment	Care	
Sales revenue, net	\$ 192,606	\$ 391,061	\$ 378,554	\$ 962,221
Operating income	37,282	26,197	45,562	109,041
Capital and intangible asset expenditures	635	2,354	3,416	6,405
Depreciation and amortization	3,753	13,086	9,752	26,591

We compute operating income for each segment based on net sales revenue, less cost of goods sold, selling, general and administrative expense (SG&A), and any asset impairment charges associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment, plus overhead expenses that are allocable to the segment. We make allocations of overhead between

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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 facility square footage. We do not allocate nonoperating income and expense, including interest or income taxes to operating segments.

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The components of accumulated other comprehensive loss, net of tax, are as follows:

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(in thousands)

	November 30, 2013		February 28, 2013
Unrealized holding losses on cash flow hedges - interest rate swap, net of tax (1)	\$ (1,388)	\$	(3,135)
Unrealized holding gains (losses) on cash flow hedges - foreign currency contracts, net of tax (2)	(338)		406
Total accumulated other comprehensive loss	\$ (1,726)	\$	(2,729)

(1) Includes net deferred tax benefits of \$0.75 and \$1.69 million at November 30, 2013 and February 28, 2013, respectively.

(2) Includes net deferred tax benefits (expense) of \$0.09 and (\$0.09) million at November 30, 2013 and February 28, 2013, respectively.

Note 7 Supplemental Balance Sheet Information**PROPERTY AND EQUIPMENT**

(in thousands)

	Estimated Useful Lives (Years)	November 30, 2013		February 28, 2013
Land	-	\$ 12,800	\$	12,800
Building and improvements	3 - 40	98,469		66,994
Computer, furniture and other equipment	3 - 15	60,002		58,284
Tools, molds and other production equipment	1 - 10	28,738		29,264
Construction in progress	-	5,144		9,149
Property and equipment, gross		205,153		176,491
Less accumulated depreciation		(74,576)		(74,775)
Property and equipment, net		\$ 130,577	\$	101,716

Property and equipment includes cumulative capital expenditures of \$35.22 and \$4.03 million as of November 30, 2013 and February 28, 2013, respectively, in connection with our new 1.3 million square foot distribution facility on approximately 84 acres of land in Olive Branch, Mississippi. The new facility will consolidate the operations of our U.S. based Personal Care and Healthcare / Home Environment appliance businesses. The new facility became operational for the Healthcare / Home Environment segment during the first week of September 2013. We expect to complete the transition of our domestic Personal Care appliance distribution to the new facility in the first quarter of fiscal year 2015.

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Remaining capital expenditure commitments in connection with the Personal Care appliance move are not expected to be material. See Note 9 to these consolidated condensed financial statements for related information regarding the debt incurred to fund the construction of the new distribution facility.

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ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)

	November 30, 2013		February 28, 2013
Accrued compensation, benefits and payroll taxes	\$ 44,478	\$	34,265
Accrued sales returns, discounts and allowances	35,096		22,561
Accrued warranty returns	22,091		23,150
Accrued advertising	23,561		14,554
Accrued product liability, legal and professional fees	6,384		9,061
Accrued royalties	7,639		7,731
Accrued property, sales and other taxes	8,083		5,729
Derivative liabilities, current	2,559		3,044
Other	8,645		13,968
Total accrued expenses and other current liabilities	\$ 158,536	\$	134,063

OTHER LIABILITIES, NON-CURRENT

(in thousands)

	November 30, 2013		February 28, 2013
Deferred compensation liability	\$ 7,908	\$	6,443