

HELEN OF TROY LTD
Form 10-Q
July 09, 2010
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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, 2010

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)

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(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.

<u>Class</u>	<u>Outstanding at July 6, 2010</u>
Common Shares, \$0.10 par value, per share	30,675,286 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)*

	May 31, 2010	February 28, 2010
Assets		
Asset, current:		
Cash and cash equivalents	\$ 47,604	\$ 110,208
Derivative assets, current	1,997	795
Receivables - principally trade, less allowances of \$3,524 and \$3,346	115,369	109,722
Inventory, net	135,018	124,021
Prepaid expenses	4,721	2,485
Income taxes receivable	-	597
Deferred tax assets, net	10,516	11,526
Total assets, current	315,225	359,354
Property and equipment, net of accumulated depreciation of \$59,960 and \$58,464	81,243	82,113
Goodwill	201,557	185,937
Other intangible assets, net of accumulated amortization of \$34,665 and \$33,449	222,356	177,124
Other assets, net of accumulated amortization of \$3,882 and \$3,825	30,944	30,205
Total assets	\$ 851,325	\$ 834,733
Liabilities and Stockholders Equity		
Liabilities, current:		
Accounts payable, principally trade	\$ 38,663	\$ 35,005
Accrued expenses and other current liabilities	58,993	67,289
Income taxes payable	161	-
Long-term debt, current maturities	3,000	3,000
Total liabilities, current	100,817	105,294
Deferred compensation liability	2,916	3,833
Deferred tax liabilities, net	1,548	1,202
Long-term debt, excluding current maturities	131,000	131,000
Liability for uncertain tax positions	1,791	2,562
Derivative liabilities, noncurrent	6,928	7,070
Total liabilities	245,000	250,961
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; 30,671,286 and 30,571,813 shares		

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issued and outstanding		3,067		3,057
Additional paid in capital		123,490		120,761
Accumulated other comprehensive loss		(7,147)		(8,574)
Retained earnings		486,915		468,528
Total stockholders' equity		606,325		583,772
Total liabilities and stockholders' equity	\$	851,325	\$	834,733

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 May 31,	
	2010	2009
Sales revenue, net	\$ 160,153	\$ 143,873
Cost of goods sold	87,726	85,364
Gross profit	72,427	58,509
Selling, general, and administrative expense	49,194	39,322
Operating income before impairment	23,233	19,187
Asset impairment charges	501	-
Operating income	22,732	19,187
Nonoperating income (expense), net	170	442
Interest expense	(2,160)	(3,460)
Income before income taxes	20,742	16,169
Income tax expense (benefit):		
Current	1,689	(560)
Deferred	666	2,220
Net income	\$ 18,387	\$ 14,509
Earnings per share:		
Basic	\$ 0.60	\$ 0.49
Diluted	\$ 0.59	\$ 0.47
Weighted average shares of common stock used in computing net earnings per share:		
Basic	30,632	29,879
Diluted	31,353	30,578

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)*

	Three Months Ended May 31,	
	2010	2009
Net cash provided by operating activities:		
Net income	\$ 18,387	\$ 14,509
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,083	3,878
Provision for doubtful receivables	(83)	187
Share-based compensation	407	117
Intangible asset impairment charges	501	-
(Gains) loss on the sale of property and equipment	36	(14)
Realized and unrealized gain on investments	-	(214)
Deferred income taxes and tax credits	640	2,212
Changes in operating assets and liabilities, net of effects of acquisition of businesses:		
Receivables	3,025	(1,859)
Inventories	(6,110)	1,475
Prepaid expenses	(1,844)	(1,069)
Other assets	(660)	(220)
Accounts payable	(1,622)	(4,019)
Accrued expenses and other current liabilities	(12,055)	(3,525)
Accrued income taxes	149	(1,098)
Net cash provided by operating activities	4,854	10,360
Net cash used in investing activities:		
Capital, license, trademark, and other intangible expenditures	(786)	(651)
Proceeds from the sale of property and equipment	32	30
Proceeds from sale of investments	100	-
Payments to acquire businesses	(69,000)	(60,000)
Net cash used in investing activities	(69,654)	(60,621)
Net cash provided by (used in) financing activities:		
Proceeds from exercise of stock options and excess tax benefits	2,196	21
Payment of tax obligations resulting from cashless option exercise	-	(2,712)
Payments for repurchases of common stock	-	(419)
Net cash provided by (used in) financing activities	2,196	(3,110)
Net decrease in cash and cash equivalents	(62,604)	(53,371)
Cash and cash equivalents, beginning balance	110,208	102,675
Cash and cash equivalents, ending balance	\$ 47,604	\$ 49,304
Supplemental cash flow information:		
Interest paid	\$ 2,057	\$ 3,235
Income taxes paid, net of refunds	\$ 1,486	\$ 643
Value of common stock received as exercise price of options	\$ -	\$ 11,992

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)

May 31, 2010

Note 1 - *Basis of Presentation*

In our opinion, the accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of May 31, 2010 and February 28, 2010, and the results of our consolidated operations for the three month periods ended May 31, 2010 and 2009. The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K, and our other reports on file with the Securities and Exchange Commission (SEC). In some cases, we have provided additional information for prior periods in the accompanying notes to consolidated condensed financial statements to conform to the current period's presentation. In this report and the accompanying consolidated condensed financial statements and notes, unless the context suggests otherwise or otherwise indicated, references to the Company, our Company, Helen of Troy, we, us or our refer to Helen of Troy Limited and its subsidiaries. We refer to the Company's common shares, par value \$0.10 per share, as common stock.

Product and service names mentioned in this Form 10-Q are used for identification purposes only and may be protected by trademarks, trade names, services marks and/or other intellectual property rights of the Company and/or other parties in the United States and/or other jurisdictions. The absence of a specific attribution in connection with any such mark does not constitute a waiver of any such right. All trademarks, trade names, service marks and logos referenced herein belong to their respective companies.

Note 2 *New Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (the FASB) or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, the Company's management believes that the impact of recently issued standards that are not yet effective will not have a material impact on its consolidated financial position, results of operations and cash flows upon adoption.

Note 3 *Litigation*

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

Note 4 *Earnings per Share*

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 721,000 and 699,000 shares of common stock for the three month periods ended May 31, 2010 and 2009, respectively. Options for common stock that were antidilutive totaled approximately 481,000 and 1,752,000 at May 31, 2010 and 2009, respectively.

Table of Contents**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,	
	2010	2009
Net income	\$ 18,387	\$ 14,509
Other comprehensive income (loss), net of tax:		
Cash flow hedges - interest rate swaps, net of tax (1)	399	790
Cash flow hedges - foreign currency, net of tax (2)	872	(714)
Unrealized gain (loss) - auction rate securities, net of tax (3)	156	(454)
Comprehensive income, net of tax	\$ 19,814	\$ 14,131

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,	February 28,
	2010	2010
Unrealized holding losses on cash flow hedges - interest rate swaps, net of tax (1)	\$ (7,535)	\$ (7,934)
Unrealized holding gains on cash flow hedges - foreign currency, net of tax (2)	1,464	592
Temporary impairment loss on auction rate securities, net of tax (3)	(1,076)	(1,232)
Total accumulated other comprehensive loss	\$ (7,147)	\$ (8,574)

- (1) The change in unrealized loss on interest rate swap cash flow hedges is recorded net of tax expense of \$0.21 and \$0.41 million for the three month periods ended May 31, 2010 and 2009, respectively. The unrealized holding loss on interest rate swap cash flow hedges included in accumulated other comprehensive loss includes net deferred tax benefits of \$3.88 and \$4.09 million at May 31, 2010 and February 28, 2010, respectively.
- (2) The change in unrealized gain (loss) on foreign currency cash flow and ordinary hedges is recorded net of tax benefits (expense) of \$0.41 and \$(0.31) million for the three month periods ended May 31, 2010 and 2009, respectively. The unrealized holding gain on foreign currency cash flow hedges included in accumulated other comprehensive loss, includes net deferred tax expense of \$0.65 and \$0.24 million at May 31, 2010 and February 28, 2010, respectively.
- (3) The change in temporary impairment loss on auction rate securities is recorded net of tax benefits (expense) of (\$0.08) and \$0.23 million for the three month periods ended May 31, 2010 and 2009, respectively. The temporary impairment loss on auction rate securities

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included in accumulated other comprehensive loss, includes net deferred tax benefits of \$0.55 and \$0.63 million at May 31, 2010 and February 28, 2010, respectively.

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In the tables that follow, we present two segments: Personal Care and Housewares. Our Personal Care segment's products include hair dryers, straighteners, curling irons, hairsetters, shavers, mirrors, hot air brushes, home hair clippers and trimmers, paraffin baths, massage cushions, footbaths, body massagers, brushes, combs, hair accessories, liquid and aerosol hair styling products, men's fragrances, men's and women's antiperspirants and deodorants, liquid and bar soaps, shampoos, 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 rechargeable lighting products. We use third-party manufacturers to produce our goods. Both our Personal Care and Housewares segments sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores and specialty stores. In addition, the Personal Care segment sells through beauty supply retailers and wholesalers.

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

THREE MONTHS ENDED MAY 31, 2010 AND 2009

(in thousands)

	Personal Care		Housewares		Total
May 31, 2010					
Net sales	\$ 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
May 31, 2009					
Sales revenue, net	\$ 101,185	\$	42,688	\$	143,873
Operating income before impairment	10,593		8,594		19,187
Asset impairment charges	-		-		-
Operating income	10,593		8,594		19,187
Capital, license, trademark and other intangible expenditures	119		532		651
Depreciation and amortization	2,503		1,375		3,878

We compute operating income for each segment based on net sales revenue, less cost of goods sold, selling, general, and administrative expense (SG&A), and any impairment charges associated with the segment. The SG&A used to compute each segment's operating income includes SG&A directly associated with the segment, plus overhead expenses that are allocable to the segment. We do not allocate nonoperating income (expense), interest expense, or income taxes to operating segments. The following tables contain identifiable assets allocable to each segment for the periods covered by our consolidated condensed balance sheets:

IDENTIFIABLE ASSETS AT MAY 31, 2010 AND FEBRUARY 28, 2010

(in thousands)

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	Personal Care		Housewares		Total	
May 31, 2010	\$	496,864	\$	354,461	\$	851,325
February 28, 2010		483,106		351,627		834,733

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A summary of property and equipment is as follows:

PROPERTY AND EQUIPMENT

(in thousands)

	Estimated Useful Lives (Years)		May 31, 2010		February 28, 2010
Land	-	\$	9,073	\$	9,073
Building and improvements	10 - 40		65,136		65,117
Computer and other equipment	3 - 10		45,804		46,088
Tools, dies and molds	1 - 3		10,683		9,573
Transportation equipment	3 - 5		153		240
Furniture and fixtures	5 - 15		8,541		8,532
Construction in process	-		1,813		1,954
Property and equipment, gross			141,203		140,577
Less accumulated depreciation			(59,960)		(58,464)
Property and equipment, net		\$	81,243	\$	82,113

Depreciation expense was \$2.06 and \$2.46 million for the three month periods ended May 31, 2010 and 2009, 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 \$0.57 million for each of the three month periods ended May 31, 2010 and 2009.

Note 8 Intangible Assets

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.

Annual Impairment Testing in the First Quarter of Fiscal 2010 - The Company performed its annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal 2010. As a result of its testing, the Company concluded no further impairments had occurred since the fourth quarter of fiscal 2009, when interim testing was performed and a total non-cash impairment

charge of \$99.51 million (\$99.06 million after tax) was recorded.

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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)

	May 31, 2010		February 28, 2010	
	Gross Carrying	Cumulative Goodwill	Gross	Cumulative