

HELEN OF TROY LTD
Form 10-Q
January 09, 2017
Table of Contents

@mer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2016

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

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

(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 2 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

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Non-accelerated filer 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	Outstanding at January 3, 2017
Common Shares, \$0.10 par value, per share	26,987,316 shares

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

FORM 10 Q

TABLE OF CONTENTS

PAGE

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements 2

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 27

Item 3. Quantitative and Qualitative Disclosures about Market Risk 54

Item 4. Controls and Procedures 59

PART 2. OTHER INFORMATION

Item 1. Legal Proceedings 60

Item 1A. Risk Factors 60

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 61

Item 6. Exhibits 62

SIGNATURES 63

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, 2016	February 29, 2016
Assets		
Assets, current:		
Cash and cash equivalents	\$ 16,780	\$ 225,800
Receivables - principally trade, less allowances of \$6,637 and \$5,898	289,943	217,543
Inventory	301,088	301,609
Prepaid expenses and other current assets	12,251	9,780
Income taxes receivable	-	356
Total assets, current	620,062	755,088
Property and equipment, net of accumulated depreciation of \$103,780 and \$93,926	133,879	130,465
Goodwill	698,938	583,005
Other intangible assets, net of accumulated amortization of \$158,713 and \$137,174	430,902	375,751
Deferred tax assets, net	2,713	2,484
Other assets, net of accumulated amortization of \$1,907 and \$1,828	2,583	2,101
Total assets	\$ 1,889,077	\$ 1,848,894
Liabilities and Stockholders' Equity		
Liabilities, current:		
Accounts payable, principally trade	\$ 134,935	\$ 103,713
Accrued expenses and other current liabilities	165,423	141,245
Income taxes payable	2,617	-
Long-term debt, current maturities	24,528	22,644
Total liabilities, current	327,503	267,602
Long-term debt, excluding current maturities	540,374	597,270
Deferred tax liabilities, net	19,484	27,364
Other liabilities, noncurrent	21,838	26,615
Total liabilities	909,199	918,851

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; 26,987,316 and 27,735,034 shares issued and outstanding	2,699	2,774
Additional paid in capital	212,770	198,077
Accumulated other comprehensive income (loss)	2,087	665
Retained earnings	762,322	728,527
Total stockholders' equity	979,878	930,043
Total liabilities and stockholders' equity	\$ 1,889,077	\$ 1,848,894

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		Nine Months Ended	
	November 30,		November 30,	
	2016	2015	2016	2015
Sales revenue, net	\$ 444,414	\$ 445,503	\$ 1,160,522	\$ 1,159,977
Cost of goods sold	250,199	262,979	650,912	686,129
Gross profit	194,215	182,524	509,610	473,848
Selling, general and administrative expense ("SG&A")	130,896	126,891	378,506	356,240
Asset impairment charges	-	-	7,400	3,000
Operating income	63,319	55,633	123,704	114,608
Nonoperating income, net	106	142	343	233
Interest expense	(3,625)	(2,741)	(11,142)	(8,135)
Income before income taxes	59,800	53,034	112,905	106,706
Income tax expense (benefit):				
Current	4,928	3,842	16,625	17,564
Deferred	(2,740)	2,414	(8,713)	(2,498)
Net income	\$ 57,612	\$ 46,778	\$ 104,993	\$ 91,640
Earnings per share:				
Basic	\$ 2.10	\$ 1.66	\$ 3.79	\$ 3.23
Diluted	\$ 2.07	\$ 1.63	\$ 3.74	\$ 3.17
Weighted average shares of common stock used in computing net earnings per share:				
Basic	27,484	28,129	27,700	28,361
Diluted	27,802	28,634	28,058	28,903

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,					
	2016		2015		Net of	
	Before	Net of	Before	Net of	Before	Net of
	Tax	Tax	Tax	Tax	Tax	Tax
Income	\$ 59,800	\$ (2,188)	\$ 57,612	\$ 53,034	\$ (6,256)	\$ 46,778
Cash flow hedge activity - foreign currency contracts						
Changes in fair market value	2,049	(370)	1,679	1,841	(270)	1,571
Settlements reclassified to income	(522)	73	(449)	(263)	100	(163)
Total other comprehensive income	1,527	(297)	1,230	1,578	(170)	1,408
Comprehensive income	\$ 61,327	\$ (2,485)	\$ 58,842	\$ 54,612	\$ (6,426)	\$ 48,186
	Nine Months Ended November 30,					
	2016		2015		Net of	
	Before	Net of	Before	Net of	Before	Net of
	Tax	Tax	Tax	Tax	Tax	Tax
Income	\$ 112,905	\$ (7,912)	\$ 104,993	\$ 106,706	\$ (15,066)	\$ 91,640
Cash flow hedge activity - foreign currency contracts						
Changes in fair market value	2,319	(412)	1,907	2,653	(480)	2,173
Settlements reclassified to income	(505)	20	(485)	(503)	135	(368)
Total other comprehensive income	1,814	(392)	1,422	2,150	(345)	1,805
Comprehensive income	\$ 114,719	\$ (8,304)	\$ 106,415	\$ 108,856	\$ (15,411)	\$ 93,445

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,	
	2016	2015
Cash provided (used) by operating activities:		
Net income	\$ 104,993	\$ 91,640
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,323	31,946
Amortization of financing costs	876	869
Provision for doubtful receivables	1,489	501
Non-cash share-based compensation	11,661	6,146
Non-cash intangible asset impairment charges	7,400	3,000
Loss on the sale or disposal of property and equipment	167	66
Deferred income taxes and tax credits	(8,769)	(3,833)
Changes in operating capital, net of effects of acquisition of businesses:		
Receivables	(66,005)	(66,981)
Inventories	7,001	(46,316)
Prepaid expenses and other current assets	(2,134)	(361)
Other assets and liabilities, net	(3,772)	8,251
Accounts payable	29,004	24,020
Accrued expenses and other current liabilities	22,410	22,892
Accrued income taxes	1,496	1,908
Net cash provided by operating activities	139,140	73,748
Cash provided (used) by investing activities:		
Capital and intangible asset expenditures	(14,989)	(12,418)
Proceeds from the sale of property and equipment	32	7
Payments to acquire businesses	(209,258)	(42,750)
Net cash used by investing activities	(224,215)	(55,161)
Cash provided (used) by financing activities:		
Proceeds from line of credit	328,600	415,200
Repayment of line of credit	(380,600)	(371,800)
Repayment of long-term debt	(3,800)	(1,900)
Payment of financing costs	(89)	(19)
Proceeds from share issuances under share-based compensation plans	7,451	10,778
Payment of tax obligations resulting from cashless share award settlements	(507)	-
Payment of tax obligations resulting from cashless share settlement of severance obligation	-	(12,000)

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Payments for repurchases of common stock	(75,000)	(50,000)
Net cash used by financing activities	(123,945)	(9,741)
Net increase (decrease) in cash and cash equivalents	(209,020)	8,846
Cash and cash equivalents, beginning balance	225,800	12,295
Cash and cash equivalents, ending balance	\$ 16,780	\$ 21,141

See accompanying notes to consolidated condensed financial statements.

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

November 30, 2016

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, 2016 and February 29, 2016, and the results of our consolidated operations for the interim periods presented. 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 29, 2016, and our other reports on file with the Securities and Exchange Commission (the "SEC").

In this report and the accompanying consolidated condensed financial statements and notes, unless otherwise indicated or the context suggests otherwise, 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." References to "OXO" and "Hydro Flask" refer to businesses that operate together under the Housewares segment. The Hydro Flask business refers to the operations of Steel Technology, LLC, acquired on March 18, 2016. References to "Kaz" refer to the operations of Kaz, Inc. and its subsidiaries that comprise our Health & Home segment. References to "Healthy Directions" refer to the operations of Healthy Directions, LLC and its subsidiaries that comprise our Nutritional Supplements segment. References to "EMEA" refer to the combined geographic markets of Europe, the Middle East and Africa. We use product and service names in this report for identification purposes only and they may be protected in the United States and other jurisdictions by trademarks, trade names, service marks, and other intellectual property rights of the Company and other parties. 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. References to "the FASB" refer to the Financial Accounting Standards Board. References to "GAAP" refer to U.S. generally accepted accounting principles. References to "ASU" refer to the codification of GAAP in the Accounting Standards Updates issued by the FASB. References to "ASC" refer to the codification of GAAP in the Accounting Standards Codification issued by the FASB.

We incorporated as Helen of Troy Corporation in Texas in 1968 and were reorganized as Helen of Troy Limited in Bermuda in 1994. We are a global designer, developer, importer, marketer, and distributor of an expanding portfolio of brand-name consumer products. We have four segments: Housewares, Health & Home, Nutritional Supplements, and Beauty. Our Housewares segment provides a broad range of innovative consumer products for the home. Product offerings include food preparation tools and appliances, insulated stainless steel food and beverage containers, gadgets and storage containers, cleaning, organization, and baby and toddler care products. The Health & Home segment

focuses on healthcare devices such as thermometers, humidifiers, blood pressure monitors, and heating pads; water filtration systems; and small home appliances such as portable heaters, fans, air purifiers, and insect control devices. Our Nutritional Supplements segment is a leading provider of premium branded vitamins, minerals and supplements, as well as other health products sold directly to consumers. Our Beauty segment products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid-, solid- and powder-based personal care and grooming products.

Our 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.

Our consolidated condensed financial statements are prepared in U.S. Dollars and 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

Table of Contents

consolidated condensed financial statements and accompanying footnotes to conform to the current period's presentation.

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 below, 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.

Not yet adopted:

In October 2016, the FASB issued ASU 2016-16, "Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other Than Inventory." ASU 2016-16 amends accounting guidance for intra-entity transfer of assets other than inventory to require the recognition of taxes when the transfer occurs. The amendment will be effective for the Company in fiscal year 2019 with early adoption permitted as of the beginning of an annual reporting period for which financial statements have not been issued or made available for issuance. A modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment consisting of the net impact from (1) the write-off of any unamortized expense previously deferred and (2) recognition of any previously unrecognized deferred tax assets, net of any valuation allowance. The new guidance does not include any specific new disclosure requirements. The new guidance may impact the Company's effective tax rate, after adoption. The Company is currently evaluating the impact this guidance may have on our consolidated financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU 2016-02, "Leases." ASU 2016-02 will require lessees to recognize on their balance sheets "right-of-use assets" and corresponding lease liabilities, measured on a discounted basis over the lease term. Virtually all leases will be subject to this treatment except leases that meet the definition of a "short-term lease." For expense recognition, the dual model requiring leases to be classified as either operating or finance leases has been retained from the prior standard. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. Classification will use criteria very similar to those applied in current lease accounting, but without explicit bright lines. The new lease guidance will essentially eliminate off-balance sheet financing. The guidance is effective for fiscal years beginning after December 15, 2019. The new standard must be adopted using a modified retrospective transition that provides for certain practical expedients and requires the new guidance to be applied at the beginning of the earliest comparative period presented. We are currently evaluating the effect this new accounting guidance may have on our consolidated financial position, results of operations and cash flows.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", issued as a new Topic, ASC Topic 606. The new revenue recognition standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The core principle of the guidance is that a Company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB affirmed its proposal to defer the effective date of the standard to annual reporting periods beginning after December 15, 2017 (and interim reporting periods within those years). Accordingly, we will be required to adopt the new standard in our fiscal year 2019 and can adopt either retrospectively or as a cumulative effect adjustment as of the date of adoption. We are currently evaluating the effect of this new accounting guidance. Therefore, we have not yet selected a transition method nor have we determined the impact that the new standard may have on our consolidated financial position, results of operations and cash flows.

New pronouncements adopted:

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which changes the accounting for certain aspects of share-based payments to employees. The provisions of the new guidance affecting the Company require excess tax benefits and tax deficiencies to be recorded in the income

Table of Contents

statement when the awards vest or are settled; remove the requirement to include hypothetical excess tax benefits in the application of the treasury stock method when computing earnings per share; and provided for a new policy election to either: (1) continue applying forfeiture rate estimates in the determination of compensation cost, or (2) account for forfeitures as a reduction of share-based compensation cost as they occur. The new guidance also requires cash flows related to excess tax benefits to be classified as an operating activity in the cash flow statement and now requires shares withheld for tax withholding purposes to be classified as a financing activity.

We elected to early adopt the new guidance in the first quarter of fiscal year 2017. This required us to reflect any adjustments as of March 1, 2016. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes rather than additional paid-in capital for all periods after fiscal year 2016. We elected to change our accounting policy regarding forfeitures. Previously, we estimated forfeitures expected to occur in the determination of compensation costs. Going forward we will now recognize forfeitures in the period they occur. The cumulative effect adjustments made upon adoption were not material. For the three- and nine-months ended November 30, 2016, we recognized additional share-based compensation expense of \$0.44 and \$1.13 million, respectively, from the change in accounting for forfeitures of share-based awards, and we recognized \$0.29 and \$1.64 million, respectively, of excess tax benefits in income tax expense rather than additional paid-in capital. The excess tax benefits were reported as an increase to cash provided by operations in the statement of cash flows.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes”, which eliminates the requirement for companies to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, upon adoption, companies are required to classify all deferred tax assets and liabilities as non-current. We elected to early adopt the new guidance in the first quarter of fiscal year 2017 and have made the necessary conforming reclassifications to the accompanying February 29, 2016 consolidated condensed balance sheet. The application of the provisions of ASU 2015-17 did not have a material effect on our consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs”. ASU 2015-03 changes the presentation of debt issuance costs in financial statements. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than as an asset. We adopted the new guidance in the first quarter of fiscal year 2017 and have made the necessary conforming reclassifications to the accompanying February 29, 2016 consolidated condensed balance sheet and related footnote disclosures. The application of the provisions of ASU 2015-03 did not have a material effect on our consolidated financial position, results of operations or cash flows.

We have provided the table below, which summarizes the impact of each of the adopted accounting changes to the accompanying consolidated condensed financial statements.

IMPACT OF RECENT ACCOUNTING CHANGES

(in thousands)

	Standard	Transition Method	Increase (Decrease)	
			November 30, 2015	February 29, 2016
Consolidated Balance Sheets				
Current deferred tax assets, net	ASU 2015-17	Retrospective	\$ (23,303)	\$ (17,636)
Long-term deferred tax assets, net	ASU 2015-17	Retrospective	\$ 1,207	\$ 879
Long-term deferred tax assets, net	ASU-2016-09	Modified retrospective	\$ (232)	\$ -
Other assets - debt issuance costs	ASU 2015-03	Retrospective	\$ (12,706)	\$ (12,618)
Other assets - accumulated amortization	ASU 2015-03	Retrospective	\$ (9,500)	\$ (8,625)
Long-term debt, current maturities	ASU 2015-03	Retrospective	\$ (1,172)	\$ (1,156)
Long-term deferred tax liabilities, net	ASU 2015-17	Retrospective	\$ (22,096)	\$ (16,757)
Long-term debt, excluding current maturities	ASU 2015-03	Retrospective	\$ (2,033)	\$ (2,837)
Additional paid-in capital	ASU-2016-09	Modified retrospective	\$ 588	\$ -
Retained earnings	ASU-2016-09	Modified retrospective	\$ (820)	\$ -

8

Table of Contents

IMPACT OF RECENT ACCOUNTING CHANGES

(in thousands)

	Standard	Transition Method	Increase (Decrease) Three Months Ended November 30,	
			2016	2015
Consolidated Statements of Income				
Share-based compensation expense	ASU-2016-09	Modified retrospective	\$ 435	\$ -
Current income tax expense	ASU-2016-09	Modified retrospective	\$ (294)	\$ -
Consolidated Statements of Cash Flows				
Cash provided by operating activities:				
Accrued income taxes	ASU-2016-09	Retrospective	\$ 294	\$ 396
Cash provided by financing activities:				
Share-based compensation tax benefit	ASU-2016-09	Retrospective	\$ (294)	\$ (396)
			Increase (Decrease) Nine Months Ended November 30,	
	Standard	Transition Method	2016	2015
Consolidated Statements of Income				
Share-based compensation expense	ASU-2016-09	Modified retrospective	\$ 1,126	\$ -
Current income tax expense	ASU-2016-09	Modified retrospective	\$ (1,638)	\$ -
Consolidated Statements of Cash Flows				
Cash provided by operating activities:				
Accrued income taxes	ASU-2016-09	Retrospective	\$ 1,638	\$ 989
Cash provided by financing activities:				
Share-based compensation tax benefit	ASU-2016-09	Retrospective	\$ (1,638)	\$ (989)

Note 3 – Commitments and Contingencies

On January 22, 2016, a jury ruled against the Company in a case that involved claims by Exergen Corporation. The case involved the alleged patent infringement related to two forehead thermometer models sold by our subsidiary, Kaz USA, Inc., in the United States. As a result of the jury verdict, the Company recorded a charge in the fiscal quarter

ended February 29, 2016, including legal fees and other related expenses, of \$17.83 million (\$17.79 million, after tax). On June 8, 2016, certain post-trial motions were concluded with Exergen Corporation being awarded an additional \$1.47 million of pre-judgment compensation. We accrued this additional amount in the fiscal quarter ended May 31, 2016. On July 6, 2016, the Company appealed the judgment to the United States Court of Appeals for the Federal Circuit. The Company intends to vigorously pursue its appellate rights and defend against the underlying judgment.

We are involved in various other 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.

Most of 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.

Table of Contents

The following table summarizes the activity in our warranty accrual for the periods covered below:

ACCRUAL FOR WARRANTY RETURNS

(in thousands)

	Three Months Ended		Nine Months Ended	
	November 30,		November 30,	
	2016	2015	2016	2015
Beginning balance	\$ 19,459	\$ 20,797	\$ 20,622	\$ 23,553
Additions to the accrual	14,858	17,127	43,052	43,885
Reductions of the accrual - payments and credits issued	(12,457)	(14,386)	(41,814)	(43,900)
Ending balance	\$ 21,860	\$ 23,538	\$ 21,860	\$ 23,538

Notes 7, 10, 12, 13 and 16 to these consolidated condensed financial statements provide additional information regarding certain of our significant commitments and contingencies.

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. We compute diluted earnings per share using the weighted average number of shares of common stock outstanding plus the effect of dilutive securities. Dilutive securities at any given point in time may consist of outstanding stock options, issued and contingently issuable unvested restricted share units (“RSUs”), and performance-based restricted share units (“PSUs”). Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive. See Note 15 to these consolidated condensed financial statements for more information regarding share-based payment awards.

For the periods covered below, the basic and diluted shares are as follows:

WEIGHTED AVERAGE DILUTED SECURITIES

(in thousands)

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2016	2015	2016	2015
Weighted average shares outstanding, basic	27,484	28,129	27,700	28,361
Incremental shares from share-based payment arrangements	318	505	358	542
Weighted average shares outstanding, diluted	27,802	28,634	28,058	28,903
Dilutive securities, stock options	325	505	401	553
Dilutive securities, unvested or unsettled stock awards	163	269	163	292
Antidilutive securities, stock options	149	139	142	162

Table of Contents

Note 5 – Segment Information

The following tables contain segment information for the periods covered below:

THREE MONTHS ENDED

(in thousands)

	Housewares	Health &	Nutritional		Total
November 30, 2016	(1)	Home	Supplements	Beauty	
Sales revenue, net	\$ 124,723	\$ 179,842	\$ 32,163	\$ 107,686	\$ 444,414
Asset impairment charges	-	-	-	-	-
Operating income (loss)	29,223	20,155	(80)	14,021	63,319
Capital and intangible asset expenditures	1,100	1,492	1,558	624	4,774
Depreciation and amortization	1,429	5,221	2,108	2,467	11,225

	Housewares	Health &	Nutritional		Total
November 30, 2015		Home	Supplements	Beauty	
Sales revenue, net	\$ 87,816	\$ 186,418	\$ 37,492	\$ 133,777	\$ 445,503
Asset impairment charges	-	-	-	-	-
Operating income	15,536	18,072	3,034	18,991	55,633
Capital and intangible asset expenditures	406	4,734	865	467	6,472
Depreciation and amortization	1,065	5,281	1,956	2,417	10,719

(1) The three months ended November 30, 2016 includes three months of operating results of Hydro Flask, which was acquired on March 18, 2016. There were no comparable results in the same period last year. See Notes 8 and 9 to these consolidated condensed financial statements for further information regarding the acquisition.

NINE MONTHS ENDED

(in thousands)

	Housewares	Health &	Nutritional		Total
November 30, 2016	(1)	Home	Supplements	Beauty	
Sales revenue, net	\$ 315,302	\$ 470,650	\$ 101,215	\$ 273,355	\$ 1,160,522

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Asset impairment charges	-	-	5,000	2,400	7,400
Operating income (loss)	68,956	39,156	(6,581)	22,173	123,704
Capital and intangible asset expenditures	3,938	3,526	3,665	3,860	14,989
Depreciation and amortization	4,200	15,738	6,242	7,143	33,323

			Nutritional		
November 30, 2015	Housewares	Health & Home	Supplements	Beauty	Total
Sales revenue, net	\$ 231,850	\$ 472,714	\$ 114,980	\$ 340,433	\$ 1,159,977
Asset impairment charges	-	-	-	3,000	3,000
Operating income	41,861	31,298	8,623	32,826	114,608
Capital and intangible asset expenditures	1,022	6,258	2,771	2,367	12,418
Depreciation and amortization	3,148	15,858	5,889	7,051	31,946

- (1) The nine months ended November 30, 2016 includes approximately eight and a half months of operating results of Hydro Flask, which was acquired on March 18, 2016. There were no comparable results in the same period last year. See Notes 8 and 9 to these consolidated condensed financial statements for further information regarding the acquisition.

We compute segment operating income based on net sales revenue, less cost of goods sold, 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 shared service and corporate overhead expenses that are allocable to the segment. We do not allocate nonoperating income and expense, including interest or income taxes, to operating segments.

Table of Contents

Note 6 – Comprehensive Income (Loss)

The table below presents the changes in accumulated other comprehensive income (loss) by component and the amounts reclassified out of accumulated other comprehensive income (loss) for the 2017 fiscal year-to-date:

CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT

(in thousands)

	Unrealized Holding Gains (Losses) on Cash Flow Hedges (1)
Balance at February 29, 2016	\$ 665
Other comprehensive income before reclassification	2,319
Amounts reclassified out of accumulated other comprehensive income	(505)
Tax effects	(392)
Other comprehensive income (loss)	1,422
Balance at November 30, 2016	\$ 2,087

(1) Represents activity associated with certain foreign currency contracts. Balances at November 30, 2016 and February 29, 2016 include net deferred tax benefits (expense) of (\$0.39) and \$0.00 million, respectively.

Note 7 – Supplemental Balance Sheet Information

PROPERTY AND EQUIPMENT

(in thousands)

	Estimated Useful Lives (Years)	November 30, 2016	February 29, 2016
Land	-	\$ 12,800	\$ 12,800
Building and improvements	3 - 40	108,971	108,509
Computer, furniture and other equipment	3 - 15	74,946	70,778
Tools, molds and other production equipment	1 - 10	30,870	28,254
Construction in progress	-	10,072	4,050

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Property and equipment, gross	237,659	224,391
Less accumulated depreciation	(103,780)	(93,926)
Property and equipment, net	\$ 133,879	\$ 130,465

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)

	November 30, 2016	February 29, 2016
Accrued compensation, benefits and payroll taxes	\$ 31,358	\$ 28,912
Accrued sales returns, discounts and allowances	31,823	27,530
Accrued warranty returns	21,860	20,622
Accrued advertising	27,849	22,087
Accrued legal fees and settlements	17,173	16,699
Accrued royalties	10,864	7,961
Accrued property, sales and other taxes	8,917	6,938
Accrued freight and duty	4,872	2,043
Accrued product liability	1,814	2,098
Derivative liabilities, current	169	495
Liability for uncertain tax positions	-	536
Other	8,724	5,324
Total accrued expenses and other current liabilities	\$ 165,423	\$ 141,245

12

Table of Contents

OTHER LIABILITIES, NONCURRENT

(in thousands)

	November 30, 2016	February 29, 2016
Deferred compensation liability	\$ 6,340	\$ 8,298
Liability for uncertain tax positions	6,724	8,201
Other liabilities	8,774	10,116
Total other liabilities, noncurrent	\$ 21,838	\$ 26,615

Note 8 – Goodwill and Intangible Assets

Our annual impairment testing for goodwill and indefinite lived intangible assets has historically occurred in the first quarter of our fiscal year. In December 2016, we elected to change our annual impairment testing to the fourth quarter of our fiscal year. Accordingly, we will perform annual impairment testing and report the results concurrent with the reporting of our fiscal year 2017 results, which will be in addition to the impairment tests described below.

Annual Impairment Testing in the First Quarter of Fiscal Year 2017 - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2017. As a result of our testing of indefinite-lived trademarks, we recorded non-cash asset impairment charges of \$7.40 million (\$5.10 million after tax). The charges were related to certain brand assets and trademarks in our Beauty and Nutritional Supplements segments, which were written down to their estimated fair values, determined on the basis of our estimated future discounted cash flows using the relief from royalty valuation method.

Impairments in the Fourth Quarter of Fiscal Year 2016 – We performed certain interim impairment testing in the fourth quarter of fiscal year 2016 for certain of our brands as a result of revised growth outlooks. As a result of our testing, we recorded a non-cash impairment charge of \$3.00 million (\$2.66 million after tax). The charge was related to a trademark in our Beauty segment, which was written down to fair value, determined on the basis of our estimated future discounted cash flows using the relief from royalty valuation method.

Annual Impairment Testing in the First Quarter of Fiscal Year 2016 - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2016. As a result of our testing of indefinite-lived trademarks, we recorded a non-cash asset impairment charge of \$3.00 million (\$2.66 million after tax). The charge was related to a trademark in our Beauty segment, which was written down to its

estimated fair value, determined on the basis of our estimated future discounted cash flows using the relief from royalty valuation method.

13

Table of Contents

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

GOODWILL AND INTANGIBLE ASSETS

(in thousands)

	November 30, 2016				February 29, 2016			
	Gross Carrying Amount	Cumulative Goodwill Impairments	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Cumulative Goodwill Impairments	Accumulated Amortization	Net Book Value
Housewares:								
Goodwill (1)	\$ 282,065	\$ -	\$ -	\$ 282,065	\$ 166,132	\$ -	\$ -	\$ 166,132
Trademarks - indefinite (1)	134,200	-	-	134,200	75,200	-	-	75,200
Other intangibles - finite (1)	40,251	-	(14,826)	25,425	15,448	-	(12,916)	2,532
Total Housewares	456,516	-	(14,826)	441,690	256,780	-	(12,916)	243,864
Health & Home:								
Goodwill	284,913	-	-	284,913	284,913	-	-	284,913
Trademarks - indefinite	54,000	-	-	54,000	54,000	-	-	54,000
Licenses - finite	15,300	-	(15,045)	255	15,300	-	(12,750)	2,550
Licenses - indefinite	7,400	-	-	7,400	7,400	-	-	7,400
Other intangibles - finite	116,862	-	(63,244)	53,618	116,575	-	(54,913)	61,662
Total Health & Home	478,475	-	(78,289)	400,186	478,188	-	(67,663)	410,525
Nutritional Supplements:								
Goodwill	96,609	-	-	96,609	96,609	-	-	96,609
Brand assets - indefinite	60,520	-	-	60,520	65,520	-	-	65,520
Other intangibles - finite	44,180	-	(15,144)	29,036	44,180	-	(10,431)	33,749

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Total Nutritional Supplements	201,309	-	(15,144)	186,165	206,309	-	(10,431)	195,878
Beauty:								
Goodwill	81,841	(46,490)	-	35,351	81,841	(46,490)	-	35,351
Trademarks - indefinite	46,354	-	-	46,354	48,754	-	-	48,754
Trademarks - finite	150	-	(91)	59	150	-	(87)	63
Licenses - finite	13,696	-	(11,770)	1,926	13,696	-	(11,532)	2,164
Licenses - indefinite	10,300	-	-	10,300	10,300	-	-	10,300
Other intangibles - finite	46,402	-	(38,593)	7,809	46,402	-	(34,545)	11,857
Total Beauty	198,743	(46,490)	(50,454)	101,799	201,143	(46,490)	(46,164)	108,489
Total goodwill and intangible assets	\$ 1,335,043	\$ (46,490)	\$ (158,713)	\$ 1,129,840	\$ 1,142,420	\$ (46,490)	\$ (137,174)	\$ 958,756

(1) Includes goodwill of \$115.93 million, trade names of \$59.00 million, and other finite lived intangible assets totaling \$24.50 million from the acquisition of Hydro Flask on March 18, 2016. See Note 9 to these consolidated condensed financial statements for further information regarding the acquisition.

Table of Contents

The following table summarizes the amortization expense attributable to intangible assets for the periods covered in this quarterly report, as well as our estimated amortization expense for the fiscal years 2017 through 2022.

AMORTIZATION OF INTANGIBLE ASSETS

(in thousands)

Aggregate Amortization Expense	
For the three months ended	
November 30, 2016	\$ 7,199
November 30, 2015	\$ 6,861
Aggregate Amortization Expense	
For the nine months ended	
November 30, 2016	\$ 21,625
November 30, 2015	\$ 20,883
Estimated Amortization Expense	
For the fiscal years ended	
February 2017	\$ 28,289
February 2018	\$ 24,972
February 2019	\$ 20,398
February 2020	\$ 19,083
February 2021	\$ 16,501
February 2022	\$ 6,007

Note 9 – Acquisitions

Hydro Flask Acquisition - On March 18, 2016, the Company completed its acquisition of all membership units of Steel Technology, LLC, doing business as Hydro Flask. Hydro Flask is a leading designer, distributor and marketer of high performance insulated stainless steel food and beverage containers for active lifestyles. Hydro Flask adds a fast growing brand that has built equity among outdoor and active lifestyle enthusiasts with a product lineup, innovation pipeline and margin profile that complements, and will operate in, our Housewares segment. The acquisition extends the segment's reach into the outdoor and athletic specialty, natural foods and e-commerce channels. The aggregate purchase price for the transaction was approximately \$209.26 million in cash. Significant assets acquired include

receivables, inventory, prepaid expenses, property and equipment, trade names, technology assets, customer relationships, and goodwill. Acquisition-related expenses, incurred during fiscal year 2016, were approximately \$0.70 million (before and after after tax).

We accounted for the acquisition as the purchase of a business and recorded the excess purchase price as goodwill, which is not expected to be deductible for income tax purposes. As of May 31, 2016, we completed our analysis of the economic lives of all the assets acquired and determined the appropriate initial allocation of the purchase price; however, allocated balances are preliminary and may be subject to additional adjustment as we continue to integrate the acquisition. We assigned \$59.00 million to trade names with indefinite economic lives. We assigned \$10.30 million to technology assets and \$14.20 million to customer relationships and are amortizing these assets over expected lives of 10 and 24 years, respectively. For technology assets, we considered the average life cycle of the underlying products, which range from 7 - 15 years, and the overall average life of the associated patent portfolio. For the customer relationships, we used historical attrition rates to assign an expected life.

Table of Contents

The following schedule presents the net assets of Hydro Flask as recognized at the acquisition date:

HYDRO FLASK - NET ASSETS RECORDED UPON ACQUISITION AT MARCH 18, 2016

(in thousands)

Assets:	
Receivables	\$ 7,955
Inventory	6,243
Prepaid expenses and other current assets	336
Property and equipment	1,108
Goodwill	116,053
Trade names - indefinite	59,000
Technology assets - definite	10,300
Customer relationships - definite	14,200
Subtotal - assets	215,195
Liabilities:	
Accounts payable	2,275
Accrued expenses	3,662
Subtotal - liabilities	5,937
Net assets recorded	\$ 209,258

The fair values of the above assets acquired and liabilities assumed were estimated by applying income and market approaches. These fair value measurements are based on significant inputs that are not observable in the market. Therefore, they represent Level 3 measurements. Key assumptions include various discount rates based upon a 12.3 percent weighted average cost of capital; royalty rates used in the determination of trade names and technology asset values of 6 and 2 percent, respectively; and a customer attrition rate used in the determination of customer relationship values of approximately 4 percent per year.

The impact of the Hydro Flask acquisition on the Company's consolidated condensed statements of income for the three- and nine-months ended November 30, 2016 is as follows:

HYDRO FLASK - IMPACT ON CONSOLIDATED CONDENSED STATEMENTS OF INCOME

March 18, 2016 (Acquisition Date) through November 30, 2016

(in thousands, except earnings per share data)

	November 30, 2016	
	Three	Nine
	Months	Months
	Ended	Ended
Sales revenue, net	\$ 34,349	\$ 77,777
Net income	10,684	22,428
Earnings per share:		
Basic	\$ 0.39	\$ 0.81
Diluted	\$ 0.38	\$ 0.80

16

Table of Contents

The following supplemental pro forma information presents the Company's financial results as if the Hydro Flask acquisition had occurred as of the beginning of the fiscal periods presented. This supplemental pro forma information has been prepared for comparative purposes and would not necessarily indicate what may have occurred if the acquisition had been completed on March 1, 2015, and this information is not intended to be indicative of future results.

HYDRO FLASK

PRO FORMA IMPACT ON CONSOLIDATED CONDENSED STATEMENTS OF INCOME

As if the Acquisition had been completed at the beginning of March 1, 2015

(in thousands, except earnings per share data)

	Three Months Ended November 30,	
	2016	2015
Sales revenue, net	\$ 444,414	\$ 464,158
Net income	57,612	51,259
Earnings per share:		
Basic	\$ 2.10	\$ 1.82
Diluted	\$ 2.07	\$ 1.79
	Nine Months Ended November 30,	
	2016	2015
Sales revenue, net	\$ 1,164,017	\$ 1,201,647
Net income	105,630	101,139
Earnings per share:		
Basic	\$ 3.81	\$ 3.57
Diluted	\$ 3.76	\$ 3.50

Vicks VapoSteam Acquisition - On March 31, 2015, the Company completed the acquisition of the Vicks VapoSteam U.S. liquid inhalant business from The Procter & Gamble Company ("P&G"), which includes a fully paid-up license of P&G's Vicks VapoSteam inhalant trademarks. In a related transaction, the Company acquired a fully paid-up U.S. license of P&G's Vicks VapoPad trademarks for scent pads. The vast majority of Vicks VapoSteam and VapoPads are used in Vicks humidifiers, vaporizers and other health care devices already marketed by the Company. The aggregate purchase price for the two transactions was approximately \$42.75 million financed primarily with borrowings under the Credit Agreement, as defined in Note 10 to these consolidated condensed financial statements. VapoSteam operations are reported in the Health & Home segment.

We have completed our analysis of the economic lives of the assets acquired and determined the appropriate fair values of the acquired assets. We assigned \$7.40 million to trademarks with indefinite economic lives. We assigned \$1.04 million to customer relationships and \$1.20 million to product formulations and will amortize these assets over expected lives of 19.5 and 20.0 years, respectively. For the customer relationships, we used historical attrition rates to assign an expected life. For product formulations, we used our best estimate of the remaining product life. The trademarks are considered to have indefinite lives that are not subject to amortization. We assigned \$32.96 million to goodwill, which is deductible for income tax purposes. The fair values of the intangible assets were estimated by applying income and market approaches. These fair value measurements were based on significant inputs that are not observable in the market. Therefore, they represent Level 3 measurements.

Table of Contents

Note 10 – Long-Term Debt

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provided for an unsecured total revolving commitment of \$650 million as of November 30, 2016. On December 7, 2016, the Credit Agreement was amended to increase the unsecured revolving commitment of the Credit Agreement from \$650 million to \$1 billion. The amendment also extended the maturity date of the Credit Agreement from January 16, 2020 to December 7, 2021. Borrowings accrue interest under one of two alternative methods as described in the Credit Agreement. With each borrowing against our credit line, we can elect the interest rate method based on our funding needs at the time. We also incur loan commitment fees and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of November 30, 2016, the outstanding revolving loan principal balance was \$498.10 million and the face amount of outstanding letters of credit was \$1.50 million. For the three- and nine-months ended November 30, 2016, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.02 to 4.25 percent and 1.93 to 4.25 percent, respectively. For the three- and nine-months ended November 30, 2015, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.44 to 3.75 percent and 1.43 to 4.00 percent, respectively. As of November 30, 2016, the amount available for borrowings under the Credit Agreement was \$150.40 million.

Additional information regarding a subsequent amendment to our Credit Agreement is provided in Note 16 to these consolidated condensed financial statements.

A summary of our long-term debt is as follows:

LONG-TERM DEBT

(in thousands)

	Original Date Borrowed	Interest Rates	Matures	November 30, 2016	February 29, 2016
\$37.61 million unsecured loan with the Mississippi Business Finance Corporation (the "MBFC Loan"), interest is set and payable quarterly at a Base Rate, plus a margin of up to 1.00%, or applicable LIBOR plus a margin of up to 2.00%, as determined by the interest rate elected and the Leverage Ratio. Loan subject to holder's call on or after March 1, 2018. Loan can be prepaid without penalty. (1)	03/13	Floating	03/23	\$ 29,917	\$ 33,706

\$100 million unsecured Senior Notes payable at a fixed interest rate of 3.90%. Interest payable semi-annually. Annual principal payments of \$20 million began in January 2014. Prepayment of notes are subject to a "make whole" premium.

	01/11	3.90	%	01/18	39,692	39,496
Credit Agreement	01/15	Floating		01/20	495,293	546,712
Total long-term debt					564,902	619,914
Less current maturities of long-term debt					(24,528)	(22,644)
Long-term debt, excluding current maturities					\$ 540,374	\$ 597,270

(1) A \$3.80 million principal payment was made on March 1, 2016. The remaining principal balance of the MBFC loan is payable as follows: \$5.70 million on March 1, 2017; \$1.90 million annually on March 1, 2018 through 2022; and \$14.81 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023.

The fair market value of the fixed rate debt at November 30, 2016, computed using a discounted cash flow analysis and comparable market rates was \$40.31 million, compared to the \$39.69 million book value and represents a Level 2 liability. Our other long-term debt has floating interest rates, and its book value approximates its fair value at November 30, 2016.

Table of Contents

At the beginning of fiscal year 2017, we adopted ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs”, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than an asset. We have made the necessary conforming reclassifications to the February 29, 2016 consolidated condensed balance sheet and related footnote disclosures. Note 2 to these consolidated condensed financial statements provides further information regarding the impact of this recent accounting change.

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 maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms is defined in the various agreements). Our debt agreements also contain other customary covenants, including among other things, covenants restricting or limiting the Company, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) repurchasing shares of our common stock and paying dividends. As of November 30, 2016, our debt agreements effectively limited our ability to incur more than \$180.77 million of additional debt from all sources, including the Credit Agreement. We were in compliance with the terms of these agreements as of November 30,

2016.

Note 11 – Income Taxes

Income tax expense for the three- and nine-months ended November 30, 2016 was 3.7 and 7.0 percent of income before income taxes, respectively, compared to 11.8 and 14.1 percent, respectively, for the same periods last year. The year-over-year decrease in our effective tax rate for both periods was primarily due to:

- a \$1.40 million tax benefit recorded in the fiscal quarter ended May 31, 2016 related to the resolution of uncertain tax positions;
- \$0.29 and \$1.64 million in tax benefits, respectively, for the three- and nine-months ended November 30, 2016, resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital due to our adoption of ASU 2016-09;
- \$1.18 million in tax benefits recorded in the fiscal quarter ended November 30, 2016 due to the finalization of certain tax returns; and

- shifts in the mix of taxable income in our various tax jurisdictions.

Due to the Company's organization in Bermuda and the ownership structure of its foreign subsidiaries, many of which are not owned directly or indirectly by a U.S. parent company, an immaterial amount of the Company's foreign income is subject to U.S. taxation on a permanent basis under current law. Additionally, the Company's intellectual property is largely owned by foreign subsidiaries of the Company, resulting in proportionally higher earnings in jurisdictions with lower statutory tax rates, which decreases the Company's overall effective tax rate.

Table of Contents

Note 12 – Fair Value

The fair value hierarchy of our financial assets and liabilities are presented below at fair value and measured on a recurring basis is as follows:

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

(in thousands)

Fair Values at
November 30, 2016
(Level 2) (1)

Assets:

Money market accounts	\$ 985
Foreign currency contracts	3,381
Total assets	\$ 4,366

Liabilities:

Fixed rate debt (2)	\$ 40,309
Floating rate debt	525,210
Foreign currency contracts	169
Total liabilities	\$ 565,688

Fair Values at
February 29, 2016
(Level 2) (1)

Assets:

Money market accounts	\$ 211,964
Foreign currency contracts	1,372
Total assets	\$ 213,336

Liabilities:

Fixed rate debt (2)	\$ 40,281
Floating rate debt	580,418
Foreign currency contracts	502
Total liabilities	\$ 621,201

(1) Our financial assets and liabilities are classified as Level 2 because their valuation is dependent on observable inputs and other quoted prices for similar assets or liabilities, or model-derived valuations whose significant value drivers are observable.

(2) Debt values are reported at estimated fair value in these tables, but are recorded in the accompanying consolidated condensed balance sheets at the undiscounted value of the remaining principal payments due, less related unamortized debt issuance costs.

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of the short maturity of these items. Money market accounts are included in cash and cash equivalents in the accompanying consolidated condensed balance sheets and are classified as Level 2 items.

We classify our fixed and floating rate debt as Level 2 liabilities because the estimation of their fair market value requires the use of discount rates based upon current market rates of interest for debt with comparable terms. These discount rates are 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 of 1.27 percent at November 30, 2016 and 2.39 percent at February 29, 2016. All other long-term debt has floating interest rates, and its book value approximates its fair value as of the reporting date.

Table of Contents

We use derivatives for hedging purposes. As of November 30, 2016, our derivatives consist of foreign currency contracts. We determine the fair value of our derivative instruments based on Level 2 inputs in the fair value hierarchy. See Notes 6, 7 and 13 to these consolidated condensed financial statements for more information on our hedging activities.

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 non-recurring basis as part of the Company's impairment assessments and as circumstances require. As discussed in Note 8 to these consolidated condensed financial statements, in connection with our annual impairment testing during the fiscal quarter ended May 31, 2016, we recorded a non-cash asset impairment charge of \$7.40 million (\$5.10 million after tax). The charge related to brand assets and trademarks in our Beauty and Nutritional Supplements segments, which were written down to their estimated fair values, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

Note 13 – 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 both the three- and nine-months ended November 30, 2016, approximately 12 percent of our net sales revenue was in foreign currencies. During the three- and nine-months ended November 30,

2015, approximately 16 and 15 percent, respectively, of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. We make most of our inventory purchases from the Far East and primarily 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 from remeasurement of the balance sheet are recognized in SG&A. For the three- and nine-months ended November 30, 2016, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of (\$0.11) and (\$0.60) million, respectively, in SG&A, and (\$0.16) and (\$0.09) million, respectively, in income tax expense. For the three- and nine-months ended November 30, 2015, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of (\$0.44) and (\$2.54) million, respectively, in SG&A, and \$0.27 and \$0.33 million, respectively, in income tax expense.

We hedge against certain foreign currency exchange rate risk by using a series of forward contracts designated as cash flow hedges and mark-to-market derivatives 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.

Chinese Renminbi Currency Exchange Uncertainties - A significant portion of the products we sell are purchased from third-party manufacturers in China. The Chinese Renminbi has fluctuated against the U.S. Dollar in recent years, devaluing by approximately 6.0 percent against the U.S. Dollar during fiscal year 2016, and by approximately 5.5 percent during the nine months ended November 30, 2016. If China's currency fluctuates against the U.S. Dollar in the short-to-intermediate term, we cannot accurately predict the impact of those fluctuations on our results of operations. There can be no assurance that foreign exchange rates will be stable in the future or that fluctuations in Chinese foreign currency markets will not have a material adverse effect on our business, financial condition and results of operations.

21

Table of Contents

Venezuelan Bolivar Currency Exchange Uncertainties - In February 2016, the Venezuelan government announced changes to its foreign currency exchange system. These changes included an immediate devaluation of its official exchange rate, now known as DIPRO, from 6.30 Bolivars per U.S. Dollar to 10.00 Bolivars per U.S. Dollar. The changes also included the dissolution of its previous alternative exchange rate systems, and the institution of a new alternative exchange system known as DICOM governing all other transactions not covered by DIPRO. DICOM replaced SIMADI, which closed at February 29, 2016 at approximately 205 Bolivars per U.S. Dollar. DICOM opened in early March 2016 at approximately 207 Bolivars per U.S. Dollar.

As a result of the further devaluation of the official exchange rate, continued economic instability from declines in oil prices and the declaration of an economic emergency, among other factors, we determined that SIMADI was the most appropriate rate to use to re-measure our financial statements as of February 29, 2016. The determination was further substantiated by Venezuela's announcement of DICOM as an intended market-based rate, which opened at approximately the same rate as SIMADI shortly after the end of our fiscal year. As a result of the adoption of SIMADI, we recorded Venezuelan re-measurement related charges totaling \$18.73 million in the fourth quarter of fiscal year 2016.

The Company adopted DICOM in the first quarter of fiscal year 2017. Absent further changes in the exchange system, or unless future developments call for further changes, we intend to use DICOM to re-measure our financial statements going forward. At the current DICOM exchange rate, we expect that U.S. Dollar reported operating results from Venezuela will no longer be meaningful to the Company. Net sales revenue from Venezuela for the three- and nine-months ended November 30, 2016 was \$0.16 and \$0.53 million, respectively, compared to \$7.20 and \$17.24 million, respectively, for same periods last year. Operating income (loss) from Venezuela for the three- and nine-months ended November 30, 2016 was \$0.05 and \$(0.06) million, respectively, compared to \$3.12 and \$6.44 million, respectively, for same periods last year. Developments within the Venezuelan economy, including any future governmental interventions, are beyond our ability to control or predict, and we cannot assess the impact, if any, such events may have on our Venezuelan business.

Interest Rate Risk – Interest on our outstanding debt as of November 30, 2016 is both floating and fixed. Fixed rates are in place on \$40 million of Senior Notes at 3.90% and floating rates are in place on the balance of all other debt outstanding, which totaled \$528.11 million as of November 30, 2016. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under our Credit Agreement and the MBFC Loan.

Table of Contents

The fair values of our derivative instruments are as follows:

FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

		November 30, 2016					
		Final Settlement	Notional	Prepaid Expenses and Other Current	Other	Accrued Expenses and Other Current	Other Liabilities,
Derivatives designated as hedging instruments	Hedge Type	Date	Amount	Assets	Assets	Liabilities	Non-current
Foreign currency contracts - sell Euro	Cash flow	2/2018	€ 15,750	\$ 1,186	\$ 140	\$ -	\$ -
Foreign currency contracts - sell Canadian Dollars	Cash flow	12/2017	\$ 19,000	48	1	164	-
Foreign currency contracts - sell Pounds	Cash flow	8/2017	£ 6,150	1,224	-	-	-
Foreign currency contracts - sell Mexican Pesos	Cash flow	5/2017	\$ 9,600	48	-	-	-
Foreign currency contracts - sell Australian Dollars	Cash flow	2/2017	\$ 250	-	-	5	-
Subtotal				2,506	141	169	-
Derivatives not designated under hedge accounting							
Foreign currency contracts - cross-currency debt swaps	(1)	1/2018	\$ 10,000	-	734	-	-
Total fair value				\$ 2,506	\$ 875	\$ 169	\$ -

February 29, 2016

Final	Prepaid Expenses and Other	Accrued Expenses and Other	Other
-------	----------------------------------	----------------------------------	-------

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

		Settlement	Notional	Current	Other	Current	Liabilities,
Derivatives designated as hedging instruments	Hedge Type	Date	Amount	Assets	Assets	Liabilities	Non-current
Foreign currency contracts - sell Euro	Cash flow	2/2017	€ 27,000	\$ 1,066	\$ -	\$ -	\$ -
Foreign currency contracts - sell Canadian Dollars	Cash flow	6/2017	\$ 28,000	-	-	495	7
Foreign currency contracts - sell Pounds	Cash flow	2/2017	£ 3,450	94	-	-	-
Foreign currency contracts - sell Australian Dollars	Cash flow	8/2016	\$ 1,650	6	-	-	-
Subtotal				1,166	-	495	7
Derivatives not designated under hedge accounting							
Foreign currency contracts - cross-currency debt swap	(1)	1/2018	\$ 5,000	-	206	-	-
Total fair value				\$ 1,166	\$ 206	\$ 495	\$ 7

(1) We have entered into foreign currency contracts referred to as “cross-currency debt swaps”, which in effect adjusts the currency denomination of our 3.90% Senior Notes due January 2018 to the Euro for the notional amounts reported, creating an economic hedge against currency movements. On these contracts, we have not elected hedge accounting.

Table of Contents

The pre-tax effect of derivative instruments for the periods covered in this quarterly report are as follows:

PRE-TAX EFFECT OF DERIVATIVE INSTRUMENTS

(in thousands)

	Three Months Ended November 30,								
	Gain / (Loss)		Gain / (Loss) Reclassified from			Gain / (Loss) Recognized			
	Recognized in OCI (effective portion)		Accumulated Other Comprehensive Income (Loss) into Income			As Income			
	2016	2015	Location	2016	2015	Location	2016	2015	
Currency contracts - cash flow hedges	\$ 2,049	\$ 1,841	SG&A	\$ 522	\$ 263		\$ -	\$ -	
Cross-currency debt swaps - principal	-	-		-	-	SG&A	493	324	
Cross-currency debt swaps - interest	-	-		-	-	Interest Expense	-	-	
Total	\$ 2,049	\$ 1,841		\$ 522	\$ 263		\$ 493	\$ 324	
	Nine Months Ended November 30,								
	Gain / (Loss)		Gain / (Loss) Reclassified from			Gain / (Loss) Recognized			
	Recognized in OCI (effective portion)		Accumulated Other Comprehensive Income (Loss) into Income			As Income			
	2016	2015	Location	2016	2015	Location	2016	2015	
Currency contracts - cash flow hedges	\$ 2,319	\$ 2,653	SG&A	\$ 505	\$ 503		\$ -	\$ -	
Cross-currency debt swaps - principal	-	-		-	-	SG&A	528	324	
Cross-currency debt swaps - interest	-	-		-	-	Interest Expense	35	-	
Total	\$ 2,319	\$ 2,653		\$ 505	\$ 503		\$ 563	\$ 324	

We expect pre-tax net gains of \$2.34 million associated with foreign currency contracts currently reported in accumulated other comprehensive income, 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, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk by 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 losses is remote.

Note 14 – Repurchase of Helen of Troy Common Stock

As of November 30, 2016, we were authorized by our Board of Directors to purchase up to \$83.43 million of common stock in the open market or through private transactions. Our current equity-based compensation plans include provisions that allow for the “net exercise” of share settled awards by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares and are included in the table below as common stock received in connection with share-based compensation.

Table of Contents

The following table summarizes our share repurchase activity for the periods covered below:

SHARE REPURCHASES

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2016	2015	2016	2015
Common stock repurchased on the open market or through tender offer:				
Number of shares	922,731	-	922,731	556,591
Aggregate value of shares (in thousands)	\$ 75,000	\$-	\$ 75,000	\$ 50,000
Average price per share	\$ 81.28	\$-	\$ 81.28	\$ 89.83
Common stock received in connection with share-based compensation:				
Number of shares	961	116,012 ⁽¹⁾	6,235	117,294
Aggregate value of shares (in thousands)	\$ 83	\$6,292 (1)	\$ 590	\$ 6,411
Average price per share	\$ 85.97	\$54.24 (1)	\$ 94.60	\$ 54.66

(1) On November 17, 2015, in connection with the settlement of a dispute with our former CEO, the Company issued 276,548 shares of common stock as payment of separation compensation due to our former CEO under his employment and separation agreements. Our former CEO tendered 116,012 shares back to the Company as payment for related federal tax obligations. Under the terms of the settlement, employment and separation agreements, the number of shares issued and tendered were computed based upon a value of \$54.24 per share. This was the fair value of the shares on September 4, 2014, the date the compensation payment would have settled, if settlement had not been delayed by the associated dispute. The Company previously accrued and disclosed the separation compensation in fiscal year 2014.

Note 15 – Share-Based Compensation Plans

We have share-based awards outstanding under several share-based compensation plans. During the periods reported, the Company had the following share-based compensation activity:

- During the three months ended May 31, 2016, we granted options to purchase 1,500 shares of common stock to employees. The fair value of these options were estimated using the Black-Scholes option pricing model to estimate fair value of \$28.74 for a grant with a term of four years. The following assumptions were used for the grant: expected life of 4.05 years; risk-free interest rate of 1.22 percent; zero dividend yield; and an expected volatility of 33.40 percent.
- During the three- and nine-months ended November 30, 2016, we issued 1,358 and 3,829 restricted shares, respectively, to non-employee Board members with a total grant date fair value of \$0.12 and \$0.37 million, respectively, and average share prices of \$90.31 and \$96.27, respectively.
- During the three- and nine-months ended November 30, 2016, we granted time-vested restricted stock units (“RSUs”) that may be settled for 306 and 83,888 shares of common stock, respectively, with average fair values at the grant dates of \$88.18 and \$97.60 per unit, respectively.
- During the three months ended May 31, 2016, we granted performance-based restricted stock units (“PSUs”) for 69,728 shares of common stock, with an average fair value of \$97.12 per unit.
- During the three- and nine-months ended November 30, 2016, employee RSUs for 2,265 and 15,496 shares, respectively, vested and settled with total grant date fair values of \$0.19 and \$1.46 million, respectively, and average share prices of \$85.97 and \$94.47, respectively.
- During the three- and nine-months ended November 30, 2016, employees exercised stock options to purchase 35,675 and 147,342 shares of common stock, respectively.
- During the fiscal quarter ended August 31, 2016, employees purchased 14,580 shares of common stock for \$1.12 million through our employee stock purchase plan.

Table of Contents

We recorded the following share-based compensation expense in SG&A for the periods covered below:

SHARE-BASED PAYMENT EXPENSE

(in thousands, except per share data)

	Three Months		Nine Months Ended	
	Ended November 30,		November 30,	
	2016	2015	2016	2015
Stock options	\$ 629	\$ 718	\$ 2,036	\$ 2,055
Directors stock compensation	175	175	525	525
Performance based and other stock awards	2,151	1,368	8,998	3,500
Employee stock purchase plan	-	-	258	223
Share-based payment expense	2,955	2,261	11,817	6,303
Less income tax benefits	(706)	(396)	(2,920)	(989)
Share-based payment expense, net of income tax benefits	\$ 2,249	\$ 1,865	\$ 8,897	\$ 5,314
Earnings per share impact of share based payment expense:				
Basic	\$ 0.08	\$ 0.07	\$ 0.32	\$ 0.19
Diluted	\$ 0.08	\$ 0.07	\$ 0.32	\$ 0.18

Note 16 – Subsequent Event

On December 7, 2016, the Company entered into a First Amendment to the Credit Agreement (the “Amendment”) with Bank of America, N.A., as administrative agent and the other lenders party thereto. The Amendment increases the unsecured revolving commitment of the Credit Agreement from \$650 million to \$1 billion, subject to the terms and limitations described in the Credit Agreement. The maturity of the commitment under the Credit Agreement was extended from January 16, 2020 to December 7, 2021. The Credit Agreement was also amended to permit Qualified Acquisitions (as described in the Credit Agreement), provided that the Leverage Ratio (as defined in the Credit Agreement) immediately prior to a Qualified Acquisition is not greater than 3.50 to 1.00 and subject to certain other terms and limitations set forth in the Credit Agreement. If a Qualified Acquisition is consummated, the Leverage Ratio cannot be greater than: (1) 4.25 to 1.00 at any time during the fiscal quarter in which a Qualified Acquisition is

consummated; (2) 4.00 to 1.00 at any time during the first, second and third fiscal quarters immediately following the fiscal quarter in which a Qualified Acquisition is consummated; and (3) 3.75 to 1.00 at any time during the fourth fiscal quarter immediately following the fiscal quarter in which a Qualified Acquisition is consummated. In addition, the amount the Company may request to increase the aggregate revolving loan commitment under the accordion provision in the Credit Agreement, was increased from \$150 million to \$200 million, subject to lender approval and the satisfaction of certain other conditions.

Table of Contents

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management’s discussion and analysis (“MD&A”) 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.

Throughout this MD&A, we refer to certain measures used by management to evaluate financial performance. We also may refer to a number of financial measures that are not defined under GAAP, but have corresponding GAAP-based measures. Where non-GAAP measures appear, we provide tables reconciling these to their corresponding GAAP-based measures and make reference to a discussion of their use. We believe these measures provide investors with important information that is useful in understanding our business results and trends. Please see “Explanation of Certain Terms and Measures Used in MD&A” beginning on page 52 for more information on the use and calculation of certain GAAP-based and non-GAAP financial measures.

OVERVIEW

We incorporated as Helen of Troy Corporation in Texas in 1968 and were reorganized as Helen of Troy Limited in Bermuda in 1994. We are a global designer, developer, importer, marketer, and distributor of an expanding portfolio of brand-name consumer products. We have four segments: Housewares, Health & Home, Nutritional Supplements, and Beauty. Our Housewares segment provides a broad range of innovative consumer products for the home and includes the “Hydro Flask” business acquired on March 18, 2016. Product offerings include food preparation tools and appliances, insulated stainless steel food and beverage containers, gadgets and storage containers, cleaning, organization, and baby and toddler care products. The Health & Home segment focuses on healthcare devices such as thermometers, humidifiers, blood pressure monitors, and heating pads; water filtration systems; and small home appliances such as portable heaters, fans, air purifiers, and insect control devices. Our Nutritional Supplements segment is a leading provider of premium branded vitamins, minerals and supplements, as well as other health products sold directly to consumers. Our Beauty segment 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.

The Nutritional Supplements segment primarily sells directly to consumers. Our other segments primarily sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores, and specialty stores. In addition, the Beauty segment sells extensively through beauty supply retailers and wholesalers, and

the Health & Home 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.

The overall sales pattern for the Nutritional Supplements segment is not highly seasonal. Our other segments are seasonal due to the different calendar events, holidays and seasonal weather patterns. Historically, the third fiscal quarter produces the highest net sales revenue and operating income during the fiscal year.

During the fiscal quarter and year-to-date periods ended November 30, 2016, sales to internet-based customers comprised approximately 15.0 and 13.3 percent, respectively, of our total consolidated net sales revenue compared to approximately 10.3 and 10.0 percent, respectively, for the same periods last year. As a result, we continue to refine our domestic distribution capabilities to adjust to this form of demand and meet the logistical challenge of higher frequency, smaller order size shipments.

Table of Contents

With the continued growth in internet sales, we believe there are certain trends emerging in the retail environment. Many brick and mortar retailers are aggressively looking to their suppliers for gross margin improvement to make up the sales volume lost to the internet. In addition, retailers are rationalizing their product offerings with weaker brands being de-emphasized or replaced with private label. Major internet retailers are also becoming increasingly efficient with respect to inventory management and are able to operate with lower shelf stock and tighter safety stock. These conditions present continued risks, particularly in our Beauty segment. In addition, the direction of U.S. tax, international trade, and other economic policies, and the impending exit of the U.K. from the European Union (“Brexit”), has created additional uncertainty for our business.

Our business is dependent upon discretionary consumer demand for most of our products and primarily operates within mature and highly developed consumer markets. The principal driver of our operating performance is the strength of the U.S. retail economy, as approximately 80 percent of our fiscal year 2016 net sales revenue was from U.S. shipments. We believe U.S. consumer sentiment continues to remain cautious and uncertain.

The outlook for our international operations continues to remain uncertain due to currency weakness and inconsistent economic environments. During the fiscal quarter and year-to-date periods ended November 30, 2016, foreign currency fluctuations, particularly in Great Britain and Latin America, exposed our international operating results to significant variability and uncertainty, which was compounded by weakness in the retail environments throughout these markets.

We adopted the Venezuela DICOM exchange rate at the beginning of the first quarter of fiscal year 2017. At this time, we intend to continue to use DICOM to re-measure our financial statements. At the current DICOM exchange rate, we expect that U.S. Dollar reported operating results from Venezuela will no longer be meaningful to the Company. Developments within the Venezuelan economy, including any future governmental interventions, are beyond our ability to control or predict, and we cannot assess the impact, if any, such events may have on our Venezuelan business. For additional information, see Part I. Item 3. “Qualitative and Qualitative Disclosures about Market Risk – Foreign Currency Risk – Venezuelan Bolivar Currency Exchange Uncertainties.”

Table of Contents

Financial Performance Highlights

Consolidated net sales revenue for the fiscal quarter ended November 30, 2016 decreased \$1.09 million, or 0.2 percent, to \$444.41 million, compared to \$445.50 million for the same period last year. Consolidated net sales revenue for the fiscal year-to-date period ended November 30, 2016 increased \$0.55 million to \$1,160.52 million, compared to \$1,159.98 million for the same period last year. Core business net sales revenue decreased \$35.44 and \$77.94 million, or 8.0 and 6.7 percent, for the fiscal quarter and year-to-date periods ended November 30, 2016, respectively, compared to the same periods last year.

Net sales revenue for the fiscal quarter and year-to-date periods ended November 30, 2016 includes the unfavorable impact of net foreign exchange fluctuations of \$3.77 and \$7.91 million, respectively, compared to the same periods last year. In addition to the impact from foreign currency fluctuations, the year-over-year comparisons of net sales revenue were unfavorably impacted by the Company's transition from the official exchange rate in Venezuela to the market rate of DICOM, which is the lowest rate in the current exchange rate system. Net sales revenue from our Venezuelan operations decreased by \$7.04 and \$16.71 million to \$0.16 and \$0.53 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$7.20 and \$17.24 million in the same periods last year, primarily due to the adoption of the DICOM exchange rate. This impact is reported in the Beauty segment.

Net sales revenue in our Housewares segment increased \$36.91 and \$83.45 million for the fiscal quarter and year-to-date periods ended November 30, 2016, or 42.0 and 36.0 percent, respectively, compared to the same period last year. The year-over-year increases include \$34.35 and \$77.78 million of net sales from the Hydro Flask acquisition. For the fiscal quarter and year-to-date periods ended November 30, 2016, Housewares core business increased \$2.56 million and \$5.67 million, respectively, compared to the same periods last year. Net sales revenue in our Health & Home segment decreased \$6.58 and \$2.06 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, or 3.5 and 0.4 percent, respectively, compared to the same periods last year. Net sales revenue in our Nutritional Supplements segment decreased \$5.33 and \$13.77 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, or 14.2 and 12.0 percent, respectively, compared to the same periods last year. Net sales revenue in our Beauty segment decreased \$26.09 and \$67.08 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, or 19.5 and 19.7 percent, respectively, compared to the same periods last year. The declines in the Beauty segment's net sales revenue for the fiscal quarter and year-to-date periods ended November 30, 2016 include the net unfavorable impacts of \$1.94 and \$4.62 million, respectively, from foreign currency exchange fluctuations and \$7.04 and \$16.71 million in declines, respectively, from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate discussed above.

In addition to our net sales revenue performance discussed above, key results for the fiscal quarter and year-to-date periods ended November 30, 2016 include the following:

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

- Consolidated gross profit margin increased 2.7 percentage points to 43.7 percent for the fiscal quarter ended November 30, 2016, compared to 41.0 percent for the same period last year. Consolidated gross profit margin increased 3.1 percentage points to 43.9 percent for the fiscal year-to-date ended November 30, 2016, compared to 40.8 percent for the same period last year.
- Our SG&A ratio increased 1.0 percentage point to 29.5 percent for the fiscal quarter ended November 30, 2016, compared to 28.5 percent for the same period last year. Our SG&A ratio increased 1.9 percentage points to 32.6 percent for the fiscal year-to-date ended November 30, 2016, compared to 30.7 percent for the same period last year.

29

Table of Contents

- Operating income was \$63.32 and \$123.70 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$55.63 and \$114.61 million for the same periods last year. Operating income for the fiscal year-to-date period ended November 30, 2016 includes non-cash intangible asset impairment charges of \$7.40 million, compared to \$3.00 million for the same period last year. Operating income for the fiscal year-to-date period ended November 30, 2016 also includes a patent litigation charge of \$1.47 million for which there were no comparable charges in the same period last year. Operating income for the three- and nine-months ended November 30, 2015 includes a CEO succession charge of \$6.71 million.
- Adjusted operating margin was 16.5 percent for the fiscal quarter ended November 30, 2016, compared to 16.0 percent for the same period last year. Adjusted operating margin was 14.3 percent for the fiscal year-to-date ended November 30, 2016, compared to 13.0 percent for the same period last year.
- Income tax expense was \$2.19 and \$7.91 million, or 3.7 and 7.0 percent of income before taxes, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$6.26 and \$15.07 million, or 11.8 and 14.1 percent of income before taxes, respectively, for the same periods last year.
- Net income was \$57.61 and \$104.99 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$46.78 and \$91.64 million, respectively, for the same periods last year. Diluted earnings per share was \$2.07 and \$3.74, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$1.63 and \$3.17, respectively, for the same periods last year.
- Adjusted income was \$66.00 and \$138.92 million, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$59.17 and \$122.21 million, respectively, for the same periods last year. Adjusted diluted EPS was \$2.37 and \$4.95, respectively, for the fiscal quarter and year-to-date periods ended November 30, 2016, compared to \$2.07 and \$4.23, respectively, for the same periods last year.

Adjusted operating income, adjusted operating margin, adjusted income, and adjusted diluted EPS are non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further, and reconciled to their applicable GAAP-based measures on pages 36 through 37 for the fiscal quarter and 43 and 45 for the fiscal year-to-date period.

Table of Contents

RESULTS OF OPERATIONS

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. We will refer to this table in the discussion of results of operations which follows:

SELECTED OPERATING DATA (1)

(in thousands)

	Three Months Ended November 30,				% of Sales Revenue, net		
	2016	2015	\$ Change	% Change	2016	2015	
Sales revenue by segment, net							
Housewares	\$ 124,723	\$ 87,816	\$ 36,907	42.0	% 28.1	% 19.7	%
Health & Home	179,842	186,418	(6,576)	(3.5)	% 40.5	% 41.8	%
Nutritional Supplements	32,163	37,492	(5,329)	(14.2)	% 7.2	% 8.4	%
Beauty	107,686	133,777	(26,091)	(19.5)	% 24.2	% 30.0	%
Total sales revenue, net	444,414	445,503	(1,089)	(0.2)	% 100.0	% 100.0	%
Cost of goods sold	250,199	262,979	(12,780)	(4.9)	% 56.3	% 59.0	%
Gross profit	194,215	182,524	11,691	6.4	% 43.7	% 41.0	%
Selling, general and administrative expense	130,896	126,891	4,005	3.2	% 29.5	% 28.5	%
Asset impairment charges	-	-	-	-	% -	% -	%
Operating income	63,319	55,633	7,686	13.8	% 14.2	% 12.5	%
Nonoperating income, net	106	142	(36)	*	% -	% -	%
Interest expense	(3,625)	(2,741)	(884)	32.3	% (0.8)	% (0.6)	%
Total other expense	(3,519)	(2,599)	(920)	35.4	% (0.8)	% (0.6)	%
Income before income taxes	59,800	53,034	6,766	12.8	% 13.5	% 11.9	%
Income tax expense	2,188	6,256	(4,068)	(65.0)	% 0.5	% 1.4	%
Net income	\$ 57,612	\$ 46,778	\$ 10,834	23.2	% 13.0	% 10.5	%

	Nine Months Ended November 30,				% of Sales Revenue, net		
	2016	2015	\$ Change	% Change	2016	2015	
Sales revenue by segment, net							
Housewares	\$ 315,302	\$ 231,850	\$ 83,452	36.0	% 27.2	% 20.0	%
Health & Home	470,650	472,714	(2,064)	(0.4)	% 40.6	% 40.8	%

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Nutritional Supplements	101,215	114,980	(13,765)	(12.0)	%	8.7	%	9.9	%
Beauty	273,355	340,433	(67,078)	(19.7)	%	23.6	%	29.3	%
Total sales revenue, net	1,160,522	1,159,977	545	0.0	%	100.0	%	100.0	%
Cost of goods sold	650,912	686,129	(35,217)	(5.1)	%	56.1	%	59.2	%
Gross profit	509,610	473,848	35,762	7.5	%	43.9	%	40.8	%
Selling, general and administrative expense	378,506	356,240	22,266	6.3	%	32.6	%	30.7	%
Asset impairment charges	7,400	3,000	4,400	146.7	%	0.6	%	0.3	%
Operating income	123,704	114,608	9,096	7.9	%	10.7	%	9.9	%
Nonoperating income, net	343	233	110	*	%	-	%	-	%
Interest expense	(11,142)	(8,135)	(3,007)	37.0	%	(1.0)	%	(0.7)	%
Total other expense	(10,799)	(7,902)	(2,897)	36.7	%	(0.9)	%	(0.7)	%
Income before income taxes	112,905	106,706	6,199	5.8	%	9.7	%	9.2	%
Income tax expense	7,912	15,066	(7,154)	(47.5)	%	0.7	%	1.3	%
Net income	\$ 104,993	\$ 91,640	\$ 13,353	14.6	%	9.0	%	7.9	%

* Calculation is not meaningful

(1) Includes three and approximately eight and a half months, respectively, of operating results of Hydro Flask for the fiscal quarter and year-to-date periods ended November 30, 2016, with no comparable results in the same periods last year. Hydro Flask operating results are reported in the Housewares segment.

Table of Contents

Third Quarter of Fiscal Year 2017 Compared to Third Quarter of Fiscal Year 2016

Consolidated net sales revenue:

Consolidated net sales revenue for the fiscal quarter ended November 30, 2016 decreased \$1.09 million to \$444.41 million, compared to \$445.50 million for the same period last year, a decrease of 0.2 percent. Net sales revenue in our Housewares segment increased \$36.91 million, or 42.0 percent, compared to the same period last year. The year-over-year increase was comprised of \$34.35 million of net sales from the Hydro Flask acquisition, and a \$2.56 million increase in Housewares' core business net sales revenue. Net sales revenue in our Health & Home segment decreased \$6.58 million, or 3.5 percent, compared to the same period last year. Net sales revenue in our Nutritional Supplements segment decreased \$5.33 million, or 14.2 percent, compared to the same period last year. Net sales revenue in our Beauty segment decreased \$26.09 million, or 19.5 percent, compared to the same period last year. The decline in the Beauty segment includes the net unfavorable impact of \$1.94 million of foreign currency exchange fluctuations and a \$7.04 million decline from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate described previously.

Impact of acquisitions on net sales revenue:

Because we are an acquisition-oriented company, we provide an analysis of our net sales revenue in terms of growth from our core business and growth from acquisitions. Our most recent acquisition of Hydro Flask occurred on March 18, 2016. Hydro Flask reports its operating results in the Housewares segment. For further information about this acquisition, see Note 9 to the accompanying consolidated condensed financial statements.

IMPACT OF ACQUISITIONS ON NET SALES REVENUE

(in thousands)

	Three Months Ended November 30,	
	2016	2015
Prior year's sales revenue, net	\$ 445,503	\$ 435,674
Components of sales revenue change, net		
Core business	(35,438)	6,905
Incremental net sales revenue from acquisitions (non-core business):		
Vicks VapoSteam (three months in fiscal year 2016)	-	2,924
Hydro Flask (three months in fiscal year 2017)	34,349	-

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Change in sales revenue, net	(1,089)		9,829	
Total sales revenue, net	\$ 444,414		\$ 445,503	
Total net sales revenue growth	(0.2)	%	2.3	%
Core business	(8.0)	%	1.6	%
Acquisitions	7.7	%	0.7	%

Core business net sales revenue includes the unfavorable impact of \$3.77 million, or 0.8 percent, from foreign currency fluctuations and a decline of \$7.04 million, or 1.6 percent, from our Venezuela operations, primarily due to the adoption of a new exchange rate.

Impact of foreign currencies on net sales revenue:

During the fiscal quarters ended November 30, 2016 and 2015, approximately 12 and 16 percent, respectively, of our net sales revenue was denominated in foreign currencies. These transactions were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. For the fiscal quarter ended November 30, 2016, the impact of net foreign currency exchange rate fluctuations negatively impacted our consolidated U.S. Dollar reported net sales revenue by approximately \$3.77 million, or 0.8 percent. In our Beauty segment, foreign exchange fluctuations had a \$1.94 million, or 1.5 percent, unfavorable impact on U.S. Dollar reported net sales revenue. In our Housewares and Health & Home segments, foreign exchange fluctuations had unfavorable impacts of \$0.77 and \$1.06 million, respectively, on U.S. Dollar reported net sales revenue.

Table of Contents

In addition to the impact from foreign currency fluctuations, the year-over-year comparison of net sales revenue was unfavorably impacted by the Company's transition to the Venezuelan exchange rate of DICOM. Net sales revenue from our Venezuelan operations decreased by \$7.04 million to \$0.16 million for the fiscal quarter ended November 30, 2016, compared to \$7.20 million in the same period last year, primarily due to the adoption of the DICOM exchange rate. This impact reduced year-over-year net sales in the Beauty Segment by 5.3 percent.

Segment net sales revenue:

Housewares Segment - Net sales revenue in the Housewares segment for the fiscal quarter ended November 30, 2016 increased \$36.91 million, or 42.0 percent, to \$124.72 million, compared to \$87.82 million for the same period last year. The year-over-year increase was comprised of \$34.35 million of net sales from the Hydro Flask acquisition and an increase of \$2.56 million, or 2.9 percent, in Housewares' core business net sales revenue. Hydro Flask sales continue to be strong, fueled by new product introductions, expanded color assortments, increased shelf and display space, and new distribution gains. In the segment's core business, a 4.2 percent increase in unit volume was partially offset by a 1.3 percent decrease in average unit selling prices. The increase in Housewares core net sales revenue occurred principally in the U.S., and was partially offset by a small decline in sales in EMEA due to the unfavorable impact of the weakened British Pound. Growth was primarily due to new promotional programs in the club channel and continued year over year growth from new products such as our multi-blade hand-held and table-top spiralizers and metal and glass bakeware. The decline in average unit selling price was primarily due to channel and product mix shifts. Growth in the internet channel exceeded growth at traditional brick and mortar retailers. We expect the segment's long-term growth to continue to be driven by new products, category expansion, expanded shelf space and assortments at key traditional and internet retailers, and new distribution gains in international markets.

Health & Home Segment - Net sales revenue in the Health & Home segment for the fiscal quarter ended November 30, 2016 decreased \$6.58 million, or 3.5 percent, to \$179.84 million, compared to \$186.42 million for the same period last year. Unit volume and average unit selling price decreases contributed 1.6 and 1.9 percent, respectively, to the comparative net sales decline. Unit volume declines were driven primarily by our de-emphasis of lower margin hot/cold therapy business and declines in humidifier shipments due to carryover inventory at certain key retailers from the weak cold/cough/flu season last year. These declines were partially offset by strong sales gains in our PUR water filtration business, early seasonal shipments of thermometry products, and growth in air purification. In the water filtration category, we believe consumer awareness of municipal water quality issues across the U.S. continues to drive more frequent consumer filter replacement, growth in household penetration and incremental gains in product placement with key retailers. The average unit selling price decline in the segment was principally due to a shift in sales mix, which included growth in sales of lower priced, but higher margin, consumables such as PUR water filters, VapoSteam and VapoPads. Foreign currency fluctuations reduced U.S. Dollar reported net sales revenue by \$1.06 million, or 0.6 percent. Early season reports of cough/cold/flu incidence indicate the 2016-2017 season is below the 2015-2016 season, which was a below average season. If the trend continues, replenishment orders in the fourth quarter of fiscal year 2017 and the first quarter of fiscal year 2018 could be negatively impacted.

Nutritional Supplements Segment - Net sales revenue for the fiscal quarter ended November 30, 2016 decreased \$5.33 million, or 14.2 percent, to \$32.16 million, compared to \$37.49 million for the same period last year. Lower unit volumes and a decrease in average unit selling price contributed approximately 8.9 and 5.3 percent, respectively, to the decline in the segment's net sales revenue. The decline in average selling price continues to be primarily driven by lower average order values and an increase in promotional pricing to develop new buyer growth in selected categories. Approximately \$3.75 million of the segment's net sales declines occurred in its offline and legacy print newsletter subscription businesses, which are being strategically re-positioned in the segment's business model. The segment continues with the process of implementing a multi-year strategic transition from offline to online channels and is dedicating resources to its online interface and e-commerce platforms in an effort to improve order conversion and average order values.

Table of Contents

Beauty Segment - Net sales revenue in the Beauty segment for the fiscal quarter ended November 30, 2016 decreased \$26.09 million, or 19.5 percent, to \$107.69 million, compared to \$133.78 million for the same period last year. Lower unit volumes accounted for almost all of the decline in the segment's net sales revenue. Improvement in product mix allowed the segment to maintain its overall average selling price with a better appliance category average unit price offsetting unfavorable mix shifts in the personal care and accessories categories. The decline in Beauty segment net sales revenue includes a \$7.04 million decline from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate, and the net unfavorable impact of \$1.94 million from foreign currency exchange fluctuations. The decrease in sales also includes a \$2.61 million decline in foot care sales due to our de-emphasis of the category, as it has become commoditized. Product and channel rationalization, lower store traffic counts and soft consumer spending at traditional brick and mortar retailers, continued retail inventory rationalization within the segment's product categories, and competitive pressures accounted for the remainder of the decline. We continue to expect challenging conditions for the segment for the balance of fiscal year 2017.

Consolidated gross profit margin:

Consolidated gross profit as a percentage of net sales revenue for the fiscal quarter ended November 30, 2016 increased 2.7 percentage points to 43.7 percent, compared to 41.0 percent for the same period last year. The increase in consolidated gross profit margin is primarily due to favorable shifts in product mix, product rationalization efforts, accretion from the Hydro Flask acquisition, and reductions in product costs, partially offset by the unfavorable impact of foreign currency fluctuations.

A significant portion of the products we sell are purchased from third-party manufacturers in China. The Chinese Renminbi has fluctuated against the U.S. Dollar in recent years, devaluing by approximately 6.0 percent against the U.S. Dollar during fiscal year 2016, and by approximately 5.5 percent during the nine months ended November 30, 2016. If China's currency fluctuates against the U.S. Dollar in the short-to-intermediate term, we cannot accurately predict the impact of those fluctuations on our results of operations. There can be no assurance that foreign exchange rates will be stable in the future or that fluctuations in Chinese foreign currency markets will not have a material adverse effect on our business, financial condition and results of operations.

Selling, general and administrative expense ("SG&A"):

Our consolidated SG&A ratio increased 1.0 percentage point to 29.5 percent for fiscal quarter ended November 30, 2016, compared to 28.5 percent for the same period last year. The increase was primarily due to:

the impact of higher compensation costs due to hourly wage increases and increases in share-based compensation as new three-year performance based incentives enter their third year of existence and estimated performance factors are adjusted;

- higher advertising expense; and
- the impact within our core business that lower overall net sales had on operating leverage.

These factors were partially offset by improved distribution and logistics efficiency and lower outbound freight costs within our core business and the comparative impact of \$6.71 million of CEO succession costs recorded in the same period last year.

Table of Contents

Operating income by segment:

The following table sets forth segment operating income, for the periods covered below:

OPERATING INCOME BY SEGMENT

(in thousands)

	Three Months Ended November 30,				% of Sales Revenue, net		
	2016	2015	\$ Change	% Change	2016	2015	
Housewares (1)	\$ 29,223	\$ 15,536	\$ 13,687	88.1	% 23.4	% 17.7	%
Health & Home	20,155	18,072	2,083	11.5	% 11.2	% 9.7	%
Nutritional Supplements	(80)	3,034	(3,114)	(102.6)	% (0.2)	% 8.1	%
Beauty	14,021	18,991	(4,970)	(26.2)	% 13.0	% 14.2	%
Total operating income	\$ 63,319	\$ 55,633	\$ 7,686	13.8	% 14.2	% 12.5	%

(1) Includes three months of operating results from Hydro Flask, with no comparable results in the same period last year.

In the discussion that follows, our usage of the terms operating margin, operating expense ratio and operating leverage are further described and explained beginning on page 52.

Housewares Segment - Operating income for the fiscal quarter ended November 30, 2016 increased \$13.69 million, or 88.1 percent, compared to the same period last year. Operating margin increased 5.7 percentage points to 23.4 percent, compared to 17.7 percent for the same period last year. The increase in operating margin was primarily due to the accretive impact of the Hydro Flask acquisition, which increased the segment operating margin by 3.9 percentage points. The improvement in the core business operating margin was primarily due to an increase in net sales revenue and its favorable impact on operating leverage, improvements in product sales mix, lower distribution, logistics and outbound freight costs and the comparative impact of CEO succession costs recorded in the same period last year.

Health & Home Segment - Operating income for the fiscal quarter ended November 30, 2016 increased \$2.08 million, or 11.5 percent, compared to the same period last year. Operating margin increased 1.5 percentage points to 11.2 percent, compared to 9.7 percent for the same period last year. The increase in operating margin is primarily due to improved gross margin as a result of product cost reductions, improvement in product sales mix, lower outbound freight costs and the comparative impact of CEO succession costs recorded in the same period last year, partially offset by higher advertising expense primarily associated with media campaigns in support of new product

introductions.

Nutritional Supplements Segment - Operating income for the fiscal quarter ended November 30, 2016 decreased \$3.11 million compared to the same period last year. Operating margin was (0.2) percent, compared to 8.1 percent for the same period last year. The primary drivers of the operating margin decline were:

- the net sales revenue decline and its unfavorable impact on operating leverage; and
- increased investments in promotions, advertising, customer acquisition, and online sales channel development.

These factors were partially offset by lower incentive compensation expense and the comparative impact of CEO succession costs recorded in the same period last year.

35

Table of Contents

Beauty Segment - Operating income for the fiscal quarter ended November 30, 2016 decreased \$4.97 million to \$14.02 million, compared to \$18.99 million for the same period last year. Operating margin decreased 1.2 percentage points to 13.0 percent, compared to 14.2 percent for the same period last year. The primary drivers of the operating margin decline were:

- the impact of a change in the rate used to re-measure our Venezuelan financial statements, which reduced operating income by approximately \$3.07 million and operating margin by approximately 1.9 percentage points;
 - foreign currency exchange rate fluctuations, which reduced segment net sales revenue by \$1.94 million; and
- the net sales revenue decline and its unfavorable impact on operating leverage.

These factors were partially offset by lower incentive compensation expense, the comparative impact of CEO succession costs recorded in the same period last year and an increase in the segment's gross profit margin primarily due to product rationalization, reduced product costs and improvement in product sales mix.

ADJUSTED OPERATING INCOME AND OPERATING MARGIN

(in thousands)

	Three Months Ended November 30, 2016									
	Housewares		Health & Home		Nutritional Supplements		Beauty		Total	
Operating income, as reported (GAAP)	\$ 29,223	23.4%	\$ 20,155	11.2%	\$ (80)	(0.2)%	\$ 14,021	13.0%	\$ 63,319	14.2%
Amortization of intangible assets (2)	658	0.5 %	3,546	2.0 %	1,571	4.9 %	1,424	1.3 %	7,199	1.6 %
Non-cash share-based compensation (3)	671	0.5 %	872	0.5 %	369	1.1 %	991	0.9 %	2,903	0.7 %
Adjusted operating income	\$ 30,552	24.5%	\$ 24,573	13.7%	\$ 1,860	5.8 %	\$ 16,436	15.3%	\$ 73,421	16.5%

(non-GAAP)

	Three Months Ended November 30, 2015									
	Housewares		Health & Home		Nutritional Supplements		Beauty		Total	
Operating income, as reported (GAAP)	\$ 15,536	17.7 %	\$ 18,072	9.7 %	\$ 3,034	8.1 %	\$ 18,991	14.2 %	\$ 55,633	12.5 %
CEO succession costs (1)	1,348	1.5 %	2,722	1.5 %	704	1.9 %	1,933	1.4 %	6,707	1.5 %
Subtotal	16,884	19.2 %	20,794	11.2 %	3,738	10.0 %	20,924	15.6 %	62,340	14.0 %
Amortization of intangible assets (2)	326	0.4 %	3,532	1.9 %	1,564	4.2 %	1,439	1.1 %	6,861	1.5 %
Non-cash share-based compensation (3)	303	0.3 %	657	0.4 %	398	1.1 %	851	0.6 %	2,209	0.5 %
Adjusted operating income (non-GAAP)	\$ 17,513	19.9 %	\$ 24,983	13.4 %	\$ 5,700	15.2 %	\$ 23,214	17.4 %	\$ 71,410	16.0 %

In the tables above, footnote references (1) to (3) correspond to the notes beginning on page 37 under the table entitled "Adjusted Income and EPS".

Adjusted operating income and adjusted operating margin, as discussed in the preceding tables, may be considered non-GAAP financial measures as set forth in SEC Regulation G, Rule 100. An explanation of the reasons why the Company believes the non-GAAP financial information is useful and the nature and limitations of the non-GAAP financial measures is furnished on page 46.

Interest expense:

Interest expense for the fiscal quarter ended November 30, 2016 was \$3.63 million, compared to \$2.74 million for the same period last year. The increase in interest expense is due to higher levels of debt and a higher average interest rate during the fiscal quarter ended November 30, 2016, when compared to the same period last year.

Table of Contents

Income tax expense:

Income tax expense for the fiscal quarter ended November 30, 2016 was 3.7 percent of income before income taxes, compared to 11.8 percent for the same period last year. The year-over-year decrease in our effective tax rate was due to:

- \$0.29 million in tax benefits for the fiscal quarter ended November 30, 2016, resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital due to our adoption of ASU 2016-09;
- \$1.18 million in tax benefits recorded in the fiscal quarter ended November 30, 2016 due to the finalization of certain tax returns; and
- shifts in the mix of taxable income in our various tax jurisdictions.

Net income:

Net income for the fiscal quarter ended November 30, 2016 increased by \$10.83 million, compared to the same period last year. Our diluted earnings per share increased \$0.44 to \$2.07 compared to \$1.63 for the same period last year.

Adjusted income and EPS:

In order to provide a better understanding of the impact of certain items on our net income and EPS, the analysis that follows reports the comparative after tax impact of CEO succession costs, amortization of intangible assets and non-cash share-based compensation on our net income and basic and diluted EPS for the periods covered below, as applicable.

ADJUSTED INCOME AND EPS

(in thousands, except per share data)

	Three Months Ended		Basic EPS		Diluted EPS	
	November 30,		2016	2015	2016	2015
Net income as reported (GAAP)	\$ 57,612	\$ 46,778	\$ 2.10	\$ 1.66	\$ 2.07	\$ 1.63
CEO succession costs, net of tax (1)	-	4,645	-	0.17	-	0.16
Subtotal	57,612	51,423	2.10	1.83	2.07	1.80
Amortization of intangible assets, net of tax (2)	6,190	5,936	0.23	0.22	0.22	0.21
Non-cash share-based compensation, net of tax (3)	2,197	1,813	0.08	0.06	0.08	0.06
Adjusted income (non-GAAP)	\$ 65,999	\$ 59,172	\$ 2.40	\$ 2.10	\$ 2.37	\$ 2.07
Weighted average shares of common stock used in						
computing basic and diluted EPS			27,484	28,129	27,802	28,634

(1) The fiscal quarter ended November 30, 2015 included CEO succession costs of \$6.71 million (\$4.64 million after tax) incurred in connection with the settlement of a lawsuit with our former CEO.

(2) For the fiscal quarters ended November 30, 2016 and 2015, amortization of intangible assets was \$7.20 million (\$6.19 million after tax) and \$6.86 million (\$5.94 million after tax), respectively.

(3) For the fiscal quarters ended November 30, 2016 and 2015, non-cash share based compensation was \$2.90 million (\$2.12 million after tax) and \$2.21 million (\$1.81 million after tax), respectively.

Adjusted income for the fiscal quarter ended November 30, 2016 increased \$6.83 million compared to the same period last year. The increase in adjusted income was primarily due to:

- the overall improvement in core business gross profit margin;
- the accretive impact of the Hydro Flask acquisition;

Table of Contents

- improved distribution and logistics efficiency and lower outbound freight costs within our core business; and
- lower tax expense.

These factors were partially offset by:

- a decline in net income of \$2.83 million from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate;
- the unfavorable impact of net foreign currency exchange rate fluctuations, which reduced our reported consolidated net sales revenue by \$3.77 million year-over-year;
- higher cash-based compensation costs;
- higher advertising expense within our core business;
- higher interest expense; and
- the impact within our core business that lower net sales had on operating leverage.

Adjusted diluted EPS was \$2.37 for the fiscal quarter ended November 30, 2016, compared to \$2.07 for the same period last year. Adjusted diluted EPS increased due to the impact of higher earnings and lower weighted average diluted shares outstanding for the fiscal quarter ended November 30, 2016 compared to the same period last year.

Adjusted income and EPS, as discussed in the preceding tables, may be considered non-GAAP financial measures as set forth in SEC Regulation G, Rule 100. An explanation of the reasons why the Company believes the non-GAAP financial information is useful and the nature and limitations of the non-GAAP financial measures, is furnished on page 46.

First Nine Months of Fiscal Year 2017 Compared to First Nine Months of Fiscal Year 2016

Consolidated net sales revenue:

Consolidated net sales revenue for the nine months ended November 30, 2016 increased \$0.55 million to \$1,160.52 million, compared to \$1,159.98 million for the same period last year. Net sales revenue in our Housewares segment increased \$83.45 million, or 36.0 percent, compared to the same period last year. The year-over-year increase includes \$77.78 million of net sales from the Hydro Flask acquisition and a \$5.67 million increase in Housewares' core business net sales revenue. Net sales revenue in our Health & Home segment decreased \$2.06 million, or 0.4 percent, compared to the same period last year. Net sales revenue in our Nutritional Supplements segment decreased \$13.77 million, or 12.0 percent, compared to the same period last year. Net sales revenue in our Beauty segment decreased \$67.08 million, or 19.7 percent, compared to the same period last year. The decline in the Beauty segment includes the net unfavorable impact of \$4.62 million from foreign currency exchange fluctuations and a \$16.71 million decline from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate described previously.

Impact of acquisitions on net sales revenue:

Because we are an acquisition-oriented company, we provide an analysis of our net sales revenue in terms of growth from our core business and growth from acquisitions. Our most recent acquisition of Hydro Flask occurred on March 18, 2016. Hydro Flask reports its operating results in the Housewares segment. Our preceding acquisitions of Healthy Directions and Vicks VapoSteam occurred on June 30, 2014 and March 31, 2015, respectively. For further information about the Hydro Flask and Vicks VapoSteam acquisitions, see Note 9 to the accompanying consolidated condensed financial statements.

Table of Contents

IMPACT OF ACQUISITIONS ON NET SALES REVENUE

(in thousands)

	Nine Months Ended November 30,			
	2016	2015		
Prior year's sales revenue, net	\$ 1,159,977	\$ 1,067,401		
Components of sales revenue change, net				
Core business	(77,944)	35,317		
Incremental net sales revenue from acquisitions (non-core business):				
Healthy Directions (four months in fiscal year 2016)	-	52,885		
Vicks VapoSteam (one and eight months in fiscal years 2017 and 2016, respectively)	712	4,374		
Hydro Flask (eight and a half months in fiscal year 2017)	77,777	-		
Change in sales revenue, net	545	92,576		
Total sales revenue, net	\$ 1,160,522	\$ 1,159,977		
Total net sales revenue growth	0.0	%	8.7	%
Core business	(6.7)	%	3.3	%
Acquisitions	6.8	%	5.4	%

Impact of foreign currencies on net sales revenue:

During the nine months ended November 30, 2016 and 2015, approximately 12 and 15 percent, respectively, of our net sales revenue was denominated in foreign currencies. These transactions were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. For the nine months ended November 30, 2016, the impact of net foreign currency exchange rate fluctuations decreased our consolidated U.S. Dollar reported net sales revenue by approximately \$7.91 million. In our Beauty segment, foreign exchange fluctuations had an unfavorable impact of \$4.62 million, or 1.4 percent, on U.S. Dollar reported net sales revenue. In our Housewares and Health & Home segments, foreign exchange fluctuations had unfavorable impacts of \$1.45 and \$1.84 million, respectively, on U.S. Dollar reported net sales revenue.

In addition to the impact from foreign currency fluctuations, the year-over-year comparison of net sales revenue was unfavorably impacted by the Company's transition to the Venezuelan DICOM exchange rate. Net sales revenue from our Venezuelan operations decreased by \$16.71 million to \$0.53 million for the nine months ended November 30, 2016, compared to \$17.24 million in the same period last year, primarily due to the adoption of the DICOM exchange rate. This impact reduced year-over-year net sales revenue in the Beauty Segment by 4.9 percent.

Segment net sales revenue:

Housewares Segment - Net sales revenue in the Housewares segment for the nine months ended November 30, 2016 increased \$83.45 million, or 36.0 percent, to \$315.30 million, compared to \$231.85 million for the same period last year. The year-over-year increase was comprised of \$77.78 million of net sales from the Hydro Flask acquisition and core business growth of \$5.67 million, or 2.4 percent. Hydro Flask sales continue to be strong, fueled by new product introductions, expanded color assortments, increased shelf and display space, and new distribution gains. In the segment's core business, a 3.2 percent increase in average unit selling price was partially offset by a 0.7 percent decline in unit volume. The overall increase in core business net sales revenue occurred equally in the U.S. and EMEA. Growth continues to be primarily driven by internet channel growth and new product and category introductions. We expect the segment's long-term growth to continue to be driven by new products, category expansion, expanded shelf space and assortments at key traditional and internet retailers, and new distribution gains in international markets.

Health & Home Segment - Net sales revenue in the Health & Home segment for the nine months ended November 30, 2016 decreased \$2.06 million, or 0.4 percent, to \$470.65 million, compared to \$472.71 million for the same period last year. Year-to-date unit volume gains contributed 1.1 percent to the segment's growth, offset by a 1.5 percent decline in average unit selling price. The unit volume increase was driven by growth in our PUR water filtration business, strong sell-in and in-season replenishment orders of seasonal fans due to high summer

Table of Contents

temperatures, growth in air purification and growth with key traditional brick and mortar retailers. In the water filtration category, we believe consumer awareness of municipal water quality issues across the U.S. continues to drive more frequent consumer filter replacement, growth in household penetration and incremental gains in product placement with key retailers. Unit volume growth was partially offset by our de-emphasis of lower margin hot/cold therapy business and declines in early season humidification shipments due to carryover inventory at certain key retailers from the weak cold/cough/flu season last year. The average unit selling price decline was principally due to a shift in sales mix, which included growth in sales of lower priced, but higher margin, consumables such as PUR water filters, VapoSteam and VapoPads. Foreign currency fluctuations reduced U.S. Dollar reported net sales revenue by \$1.84 million, or 0.4 percent, which contributed to the decline in average unit selling price. Sales in several of the segment's categories are highly correlated to the severity of winter weather and cough/cold/flu incidence. Fall and winter season weather has been mild and early season reports of cough/cold/flu incidence indicate the 2016-2017 season is below the 2015-2016 season, which was a below average season.

Nutritional Supplements Segment - Net sales revenue for the nine months ended November 30, 2016 decreased \$13.77 million, or 12.0 percent, to \$101.22 million, compared to \$114.98 million for the same period last year. Lower unit volume and a decrease in average unit selling price contributed approximately 8.7 and 3.3 percent, respectively, to the decline in the segment's net sales revenue. The decline in average unit selling price continues to be primarily driven by lower average order values and an increase in promotional pricing to develop new buyer growth in selected categories. Approximately \$8.21 million of the segment's net sales declines occurred in its offline and legacy print newsletter subscription businesses, which are being strategically re-positioned in the segment's business model. The segment continues with the process of implementing a multi-year strategic transition from offline to online channels and is dedicating resources to its online interface and e-commerce platforms in an effort to improve order conversion and average order values.

Beauty Segment - Net sales revenue in the Beauty segment for the nine months ended November 30, 2016 decreased \$67.08 million, or 19.7 percent, to \$273.36 million, compared to \$340.43 million for the same period last year. Lower unit volume and a lower average unit selling price contributed approximately 17.7 and 2.0 percent, respectively, to the decline in the segment's net sales revenue. The decrease in the Beauty segment net sales revenue includes a \$16.71 million, or 4.9 percent, net sales decline from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate, and the net unfavorable impact of \$4.62 million, or 1.4 percent, from foreign currency exchange fluctuations. The decrease in sales also includes a \$10.80 million decline in foot care sales due to our de-emphasis of the category, as it has become commoditized. Product and channel rationalization, lower store traffic counts and soft consumer spending at traditional brick and mortar retailers, continued retail inventory rationalization within the segment's product categories, and competitive pressures accounted for the remainder of the decline. We continue to expect challenging conditions for the segment for the balance of fiscal year 2017.

Consolidated gross profit margin:

Consolidated gross profit as a percentage of net sales revenue for the nine months ended November 30, 2016 increased 3.1 percentage points to 43.9 percent, compared to 40.8 percent for the same period last year. The increase in consolidated gross profit margin is primarily due to favorable shifts in product mix, product rationalization efforts, accretion from the Hydro Flask acquisition, and reductions in product costs, partially offset by the unfavorable impact of foreign currency fluctuations.

A significant portion of the products we sell are purchased from third-party manufacturers in China. The Chinese Renminbi has fluctuated against the U.S. Dollar in recent years, devaluing by approximately 6 percent against the U.S. Dollar during fiscal year 2016, and by approximately 5.5 percent during the nine months ended November 30, 2016. If China's currency fluctuates against the U.S. Dollar in the short-to-intermediate term, we cannot accurately predict the impact of those fluctuations on our results of operations. There can be no assurance that foreign exchange rates will be stable in the future or that fluctuations in Chinese foreign currency markets will not have a material adverse effect on our business, financial condition and results of operations.

Table of Contents

Selling, general and administrative expense:

Our consolidated SG&A ratio increased 1.9 percentage points to 32.6 percent for the nine months ended November 30, 2016, compared to 30.7 percent for the same period last year. The increase was primarily due to:

- the impact of higher compensation costs due to hourly wage increases, increases in share-based compensation as new three-year performance based incentives enter their third year of existence and estimated performance factors are adjusted and higher severance costs;
- higher advertising expense;
- the impact of patent litigation charges; and
- the impact within our core business that lower overall net sales had on operating leverage.

These factors were partially offset by:

- the comparative impact of \$6.71 million of CEO succession costs recorded in the same period last year;
 - improved distribution and logistics efficiency and lower outbound freight costs; and
- lower year-over-year foreign currency revaluation losses, partially due to cash flow hedges and \$10 million of U.S. Dollar to Euro cross-currency debt swaps.

Asset impairment charges:

Our annual impairment testing for goodwill and indefinite lived intangible assets has historically occurred in the first quarter of our fiscal year. In December 2016, we elected to change our annual impairment testing to the fourth quarter of our fiscal year. Accordingly, we will perform annual impairment testing and report the results concurrent with the reporting of our fiscal year 2017 results, which will be in addition to the impairment tests described below.

We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2017. As a result of our testing of indefinite-lived trademarks, we recorded non-cash asset impairment charges of \$7.40 million (\$5.10 million after tax). The charges were related to certain brand assets and trademarks in our Beauty and Nutritional Supplements segments, which were written down to their estimated fair values, determined on the basis of our estimated future discounted cash flows using the relief from royalty valuation method. We recorded a similar charge of \$3.00 million (\$2.66 million after tax) during the first quarter of fiscal year 2016.

Table of Contents

Operating income by segment:

The following table sets forth segment operating income for the periods covered below:

OPERATING INCOME BY SEGMENT

(in thousands)

	Nine Months Ended November 30,				% of Sales Revenue, net		
	2016	2015	\$ Change	% Change	2016	2015	
Housewares (1)	\$ 68,956	\$ 41,861	\$ 27,095	64.7	% 21.9	% 18.1	%
Health & Home	39,156	31,298	7,858	25.1	% 8.3	% 6.6	%
Nutritional Supplements	(6,581)	8,623	(15,204)	*	(6.5)	% 7.5	%
Beauty	22,173	32,826	(10,653)	(32.5)	% 8.1	% 9.6	%
Total operating income	\$ 123,704	\$ 114,608	\$ 9,096	7.9	% 10.7	% 9.9	%

* Calculation is not meaningful

(1) Includes eight and a half months of operating results from Hydro Flask, with no comparable results in the same period last year.

In the discussion that follows, our usage of the terms operating margin, operating expense ratio and operating leverage are further described and explained beginning on page 52.

Housewares Segment - Operating income for the nine months ended November 30, 2016 increased \$27.10 million, or 64.7 percent, compared to the same period last year. Operating margin increased 3.8 percentage points to 21.9 percent, compared to 18.1 percent for the same period last year. The increase in operating margin was primarily due to the accretive impact of the Hydro Flask acquisition, which increased the segment operating margin by 3.5 percentage points. The improvement in the core business operating margin was primarily due to an increase in net sales revenue and its favorable impact on operating leverage, improved gross margin as a result of improved product sales mix and lower product costs, and the comparative impact of CEO succession costs recorded in the same period last year, partially offset by higher incentive compensation and advertising costs.

Health & Home Segment - Operating income for the nine months ended November 30, 2016 increased \$7.86 million, or 25.1 percent, compared to the same period last year. Operating margin increased 1.7 percentage points to 8.3 percent, compared to 6.6 percent for the same period last year. The increase in operating margin is due to improved gross margin as a result of product cost reductions, improvement in product sales mix and lower outbound freight costs, and the comparative impact of CEO succession costs recorded in the same period last year, partially offset by higher advertising expense and the impact of patent litigation charges.

Nutritional Supplements Segment - Operating income for the nine months ended November 30, 2016 decreased \$15.20 million compared to the same period last year. Operating margin was (6.5) percent, compared to 7.5 percent for the same period last year. Operating income for the nine months ended November 30, 2016 includes a non-cash intangible asset impairment charge of \$5.00 million, for which there was no comparable charge in the same period last year. This charge accounted for 4.9 percentage points of operating margin decline. Additional drivers of the operating margin decline were:

- the net sales decline and its unfavorable impact on operating leverage; and
- increased investments in promotions, advertising, customer acquisition, and online sales channel development.

These factors were partially offset by the comparative impact of CEO succession costs recorded in the same period last year.

Table of Contents

Beauty Segment - Operating income for the nine months ended November 30, 2016 decreased \$10.65 million to \$22.17 million, compared to \$32.83 million for the same period last year. Operating margin decreased 1.5 percentage points to 8.1 percent, compared to 9.6 percent for the same period last year. Operating income included non-cash intangible asset impairment charges of \$2.40 and \$3.00 million for the fiscal quarters ended May 31, 2016 and 2015, respectively. Additional drivers of the operating margin decline were:

- the impact of a change in the rate used to re-measure our Venezuelan financial statements, which reduced operating income by approximately \$6.50 million and operating margin by approximately 1.8 percentage points;
- foreign currency exchange rate fluctuations, which reduced segment net sales revenue by \$4.62 million, or 1.7 percent; and
- the net sales decline and its unfavorable impact on operating leverage.

These factors were partially offset by an improvement in the segment's gross profit margin primarily due to reduced product costs, a higher margin sales mix, lower incentive compensation expense and the comparative impact of CEO succession costs recorded in the same period last year.

ADJUSTED OPERATING INCOME AND OPERATING MARGIN

(in thousands)

	Nine Months Ended November 30, 2016									
	Housewares		Health & Home		Nutritional Supplements		Beauty		Total	
Operating income, as reported (GAAP)	\$ 68,956	21.9 %	\$ 39,156	8.3 %	\$ (6,581)	(6.5) %	\$ 22,173	8.1 %	\$ 23,704	10.7 %
Asset impairment charges (1)	-	- %	-	- %	5,000	4.9 %	2,400	0.9 %	7,400	0.6 %
Patent litigation charge (2)	-	- %	1,468	0.3 %	-	- %	-	- %	1,468	0.1 %
Subtotal	68,956	21.9 %	40,624	8.6 %	(1,581)	(1.6) %	24,573	9.0 %	132,577	11.4 %
Amortization of intangible assets (4)	1,986	0.6 %	10,626	2.3 %	4,713	4.7 %	4,300	1.6 %	21,625	1.9 %

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

Non-cash share-based compensation (5)	2,404	0.8 %	3,787	0.8 %	1,734	1.7 %	3,736	1.4 %	11,661	1.0 %
Adjusted operating income (non-GAAP)	\$ 73,346	23.3 %	\$ 55,037	11.7 %	\$ 4,866	4.8 %	\$ 32,609	1.9 %	\$ 65,854	4.3 %

Nine Months Ended November 30, 2015

	Housewares		Health & Home		Nutritional Supplements		Beauty		Total	
Operating income, as reported (GAAP)	\$ 41,861	18.1 %	\$ 31,298	6.6 %	\$ 8,623	7.5 %	\$ 32,826	9.6 %	\$ 114,608	9.9 %
Asset impairment charges (1)	-	- %	-	- %	-	- %	3,000	0.9 %	3,000	0.3 %
CEO succession costs (3)	1,348	0.6 %	2,722	0.6 %	704	0.6 %	1,933	0.6 %	6,707	0.6 %
Subtotal	43,209	18.6 %	34,020	7.2 %	9,327	8.1 %	37,759	11.1 %	124,315	10.7 %
Amortization of intangible assets (4)	976	0.4 %	10,900	2.3 %	4,692	4.1 %	4,315	1.3 %	20,883	1.8 %
Non-cash share-based compensation (5)	934	0.4 %	1,785	0.4 %	974	0.8 %	2,454	0.7 %	6,147	0.5 %
Adjusted operating income (non-GAAP)	\$ 45,119	19.5 %	\$ 46,705	9.9 %	\$ 14,993	13.0 %	\$ 44,528	13.1 %	\$ 151,345	13.0 %

In the tables above, footnote references (1) to (5) correspond to the notes beginning on page 45 under the table entitled "Adjusted income and EPS".

Adjusted operating income and adjusted operating margin, as discussed in the preceding tables, may be considered non-GAAP financial measures as set forth in SEC Regulation G, Rule 100. An explanation of the reasons why the Company believes the non-GAAP financial information is useful and the nature and limitations of the non-GAAP financial measures, is furnished on page 46.

Table of Contents

Interest expense:

Interest expense for the nine months ended November 30, 2016 was \$11.14 million, compared to \$8.14 million for the same period last year. The increase in interest expense is due to higher levels of debt and higher average interest rates during the nine months ended November 30, 2016, when compared to the same period last year.

Income tax expense:

Income tax expense for the nine months ended November 30, 2016 was 7.0 percent of income before income taxes, compared to 14.1 percent for the same period last year. The year-over-year decrease in our effective tax rate was primarily due to:

- a \$1.40 million tax benefit recorded in the fiscal quarter ended May 31, 2016 related to the resolution of uncertain tax positions;
- \$1.64 million in tax benefits for the nine months ended November 30, 2016, resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital due to our adoption of ASU 2016-09;
- \$1.18 million in tax benefits recorded in the fiscal quarter ended November 30, 2016 due to the finalization of certain tax returns; and
- shifts in the mix of taxable income in our various tax jurisdictions.

Net income:

Net income for the nine months ended November 30, 2016 increased by \$13.35 million, compared to the same period last year. Our diluted earnings per share increased \$0.57 to \$3.74 compared to \$3.17 for the same period last year.

Table of Contents

Adjusted income and EPS:

In order to provide a better understanding of the impact of certain items on our net income and EPS, the analysis that follows reports the comparative after tax impact of asset impairment charges, patent litigation charges, CEO succession costs, amortization of intangible assets, and non-cash share-based compensation on our net income, and basic and diluted EPS for the periods covered below.

ADJUSTED INCOME AND EPS

(in thousands, except per share data)

	Nine Months Ended		Basic EPS		Diluted EPS	
	November 30, 2016	2015	2016	2015	2016	2015
Net income as reported (GAAP)	\$ 104,993	\$ 91,640	\$ 3.79	\$ 3.23	\$ 3.74	\$ 3.17
Asset impairment charges, net of tax (1)	5,097	2,656	0.18	0.09	0.18	0.09
Patent litigation charge, net of tax (2)	1,464	-	0.05	-	0.05	-
CEO succession costs, net of tax (3)	-	4,645	-	0.16	-	0.16
Subtotal	111,554	98,941	4.03	3.49	3.98	3.42
Amortization of intangible assets, net of tax (4)	18,620	18,108	0.67	0.64	0.66	0.63
Non-cash share-based compensation, net of tax (5)	8,741	5,158	0.32	0.18	0.31	0.18
Adjusted income (non-GAAP)	\$ 138,915	\$ 122,207	\$ 5.01	\$ 4.31	\$ 4.95	\$ 4.23
Weighted average shares of common stock used in						
computing basic and diluted EPS			27,700	28,361	28,058	28,903

(1) For the nine months ended November 30, 2016 and 2015, non-cash intangible asset impairment charges totaling \$7.40 million (\$5.10 million after tax) and \$3.00 million (\$2.66 million after tax), respectively.

(2) The nine months ended November 30, 2016 includes a patent litigation charge of \$1.47 million (\$1.46 million after tax).

(3) The nine months ended November 30, 2015 included CEO succession costs of \$6.71 million (\$4.64 million after tax) incurred in connection with the settlement of a lawsuit with our former CEO.

- (4) For the nine months ended November 30, 2016 and 2015, amortization of intangible assets was \$21.63 million (\$18.62 million after tax) and \$20.88 million (\$18.11 million after tax), respectively.
- (5) For the nine months ended November 30, 2016 and 2015, non-cash share based compensation was \$11.66 million (\$8.74 million after tax) and \$6.15 million (\$5.16 million after tax), respectively.

Adjusted income for the nine months ended November 30, 2016 increased \$16.71 million compared to the same period last year. The increase in adjusted income was primarily due to:

- the overall improvement in core business gross profit margin;
- the accretive impact of the Hydro Flask acquisition;
 - improved distribution and logistics efficiency and lower outbound freight costs within our core business;
- lower year-over-year foreign currency revaluation losses, partially due to cash flow hedges and \$10 million of U.S. Dollar to Euro cross-currency debt swaps; and
- lower tax expense.

These factors were partially offset by:

- a decline in net income of \$5.64 million from our Venezuelan operations, primarily due to the adoption of the DICOM exchange rate;
- the unfavorable impact of net foreign currency exchange rate fluctuations, which reduced our reported consolidated net sales revenue by \$7.91 million year-over-year;
- higher cash-based compensation costs;

Table of Contents

- higher interest expense; and
- the impact within our core business that lower net sales had on operating leverage.

Adjusted diluted EPS was \$4.95 for the nine months ended November 30, 2016, compared to \$4.23 for the same period last year. Adjusted diluted EPS increased due to the combined impacts of higher earnings and lower weighted average diluted shares outstanding for the nine months ended November 30, 2016, compared to the same period last year.

The tables referred to on pages 36 and 37, and 43 and 45 entitled “Adjusted operating income and operating margin” and “Adjusted income and EPS”, respectively report operating income, operating margin, net income, and EPS without the impact of non-cash asset impairment charges, patent litigation charges, CEO succession costs, amortization of intangible assets, and non-cash share-based compensation for the periods presented, as applicable. For additional information on these adjusted measures, see “Explanation of Certain Terms and Measures Used in MD&A” on page 52. These measures may be considered non-GAAP financial information as set forth in SEC Regulation G, Rule 100. The preceding tables reconcile these measures to their corresponding GAAP-based measures presented in our consolidated condensed statements of income. We believe that adjusted operating income, adjusted operating margin, adjusted income and adjusted EPS provide useful information to management and investors regarding financial and business trends relating to the Company’s financial condition and results of operations. We believe that these non-GAAP financial measures, in combination with the Company’s financial results calculated in accordance with GAAP, provide investors with additional perspective regarding the impact of such charges on operating income, operating margin, net income, and earnings per share. We also believe that these non-GAAP measures facilitate a more direct comparison of the Company’s performance with its competitors. We further believe that including the excluded charges would not accurately reflect the underlying performance of the Company’s continuing operations for the period in which the charges are incurred, even though such charges may be incurred and reflected in the Company’s GAAP financial results in the near future. The material limitation associated with the use of the non-GAAP financial measures is that the non-GAAP measures do not reflect the full economic impact of the Company’s activities. The Company’s adjusted operating income, adjusted operating margin, adjusted income and adjusted EPS are not prepared in accordance with GAAP, are not an alternative to GAAP financial information and may be calculated differently than non-GAAP financial information disclosed by other companies. Accordingly, undue reliance should not be placed on non-GAAP information.

Table of Contents

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The following are selected measures of our liquidity and capital resources for the periods covered below:

SELECTED MEASURES OF OUR LIQUIDITY AND CAPITAL UTILIZATION (1)

	Nine Months Ended			
	November 30,			
	2016		2015	
Accounts Receivable Turnover (Days)	57.8		58.8	
Inventory Turnover (Times)	2.8		2.8	
Working Capital (in thousands)	\$ 292,559		\$ 366,870	
Current Ratio	1.9:1		2.3:1	
Ending Debt to Ending Equity Ratio	57.7	%	48.6	%
Return on Average Equity (2)	11.9	%	14.5	%

(1) Our computation and use of the measures in this table are described beginning on page 52.

(2) Net income and average equity reported above include the twelve month trailing impacts, after tax, of non-cash asset impairment charges, acquisition-related expenses, CEO succession costs, Venezuelan currency re-measurement related charges, and patent litigation charges, as applicable to each period. For the periods reported above, these items had an unfavorable impact of 4.2 and 0.7 percentage points, respectively, on the return on average equity.

Operating Activities:

Operating activities provided \$139.14 million of cash during the nine months ended November 30, 2016, compared to \$73.75 million of cash provided during the same period last year. The year-over-year increase in operating cash flow was primarily due to higher non-cash charges, additional cash flow from the acquisition of Hydro Flask and an improvement in working capital utilization.

Accounts receivable increased \$72.40 million, to \$289.94 million as of November 30, 2016, compared to \$217.54 million at the end of fiscal year 2016. Accounts receivable as of November 30, 2016 includes \$19.65 million from the Hydro Flask acquisition. Accounts receivable turnover was 57.8 days at November 30, 2016, compared to 58.8 days for the same period last year. This calculation is based on a rolling five quarter accounts receivable balance.

Inventory decreased \$0.52 million, to \$301.09 million as of November 30, 2016, compared to \$301.61 million at the end of fiscal year 2016. Inventory as of November 30, 2016 includes \$22.97 million from the Hydro Flask acquisition. Inventory turnover was 2.8 times at both November 30, 2016 and 2015.

Working capital was \$292.56 million at November 30, 2016, compared to \$366.87 million at November 30, 2015 and our current ratio was 1.9:1 at November 30, 2016, compared to 2.3:1 as of November 30, 2015. As a result of the adoption of new accounting guidance, we reclassified certain prior period balances affecting the determination of comparative working capital and cash provided by operating activities. These reclassifications had no impact on the reported results of our operations for the nine months ended November 30, 2015. Our prior period working capital, current ratio and debt to equity ratio, without reclassifications, were originally reported at November 30, 2015 as \$386.40 million, 2.3:1 and 49.0 percent, respectively. For more information regarding the impact of these changes in accounting, see Note 2 to the accompanying consolidated condensed financial statements.

Table of Contents

Investing activities:

Investing activities used \$224.22 million of cash during the nine months ended November 30, 2016. Highlights of those activities follow:

- we spent \$0.46 million on building improvements, \$9.28 million on computers, furniture and other equipment, \$4.51 million on tools, molds and other capital asset additions, and \$0.74 million on the development of new patents; and
- we paid \$209.26 million to acquire Hydro Flask.

Financing activities:

Financing activities used \$123.95 million of cash during the nine months ended November 30, 2016. Highlights of those activities follow:

- we had draws of \$328.60 million under our credit agreement;
- we repaid \$380.60 million drawn under our credit agreement;
- we repaid \$3.80 million of our long-term debt;
- employees exercised options to purchase 147,342 shares of common stock, providing \$6.33 million of cash;
- employees purchased 14,580 shares of common stock for \$1.12 million through our employee stock purchase plan; and
- we paid \$0.51 million in tax obligations resulting from cashless share award settlements.

Revolving Credit Agreement:

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provides for an unsecured total revolving commitment of \$650 million as of November 30, 2016. On December 7, 2016, the Company entered into an amendment to the Credit Agreement (the “Amendment”). The Amendment increased the unsecured revolving commitment of the Credit Agreement from \$650 million to \$1 billion and extended the maturity from January 16, 2020 to December 7, 2021. The Credit Agreement was also amended to permit Qualified Acquisitions (as described in the Credit Agreement), provided that the Leverage Ratio (as defined in the Credit Agreement) immediately prior to the Qualified Acquisition is not greater than 3.50 to 1.00 and subject to certain other terms and limitations set forth in the Credit Agreement. If a Qualified Acquisition is consummated, the Leverage Ratio cannot be greater than: (1) 4.25 to 1.00 at any time during the fiscal quarter in which a Qualified Acquisition is consummated; (2) 4.00 to 1.00 at any time during the first, second and third fiscal quarters immediately following the fiscal quarter in which a Qualified Acquisition is consummated; and (3) 3.75 to 1.00 at any time during the fourth fiscal quarter immediately following the fiscal quarter in which a Qualified Acquisition is consummated. In addition, the amount the Company may request to increase the aggregate revolving loan commitment under the accordion provision in the Credit Agreement, was increased from \$150 million to \$200 million, subject to lender approval and the satisfaction of certain other conditions.

Borrowings accrue interest under one of two alternative methods as described in the Credit Agreement. With each borrowing against our credit line, we can elect the interest rate method based on our funding needs at the time. We also incur loan commitment fees and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of November 30, 2016, the outstanding revolving loan principal balance was \$498.10 million and the face amount of outstanding letters of credit was \$1.50 million. For the three- and nine-months ended November 30, 2016, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.02 to 4.25 percent and

Table of Contents

1.93 to 4.25 percent, respectively. For the three- and nine-months ended November 30, 2015, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.44 to 3.75 percent and 1.43 to 4.00 percent, respectively. As of November 30, 2016, the amount available for borrowings under the Credit Agreement was \$150.40 million. Our debt agreements effectively limited our ability to incur more than \$180.77 million of additional debt from all sources, including the Credit Agreement.

Other Debt Agreements:

In addition to the Credit Agreement, at November 30, 2016, we had the following other long term debt outstanding:

- \$40 million aggregate principal amount of 3.90% Senior Notes due January 2018 outstanding with equal annual \$20 million installments in January 2017 and 2018.
- \$30.01 million principal outstanding under a floating rate loan agreement with the Mississippi Business Finance Corporation (the “MBFC Loan”), which funded the original construction of our Olive Branch, Mississippi distribution facility. The remaining principal balance of the MBFC loan is payable as follows: \$5.70 million on March 1, 2017; \$1.90 million annually on March 1, 2018 through 2022; and \$14.81 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023.

Our debt agreements require the maintenance of certain financial covenants, including maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms are defined in the various agreements). Our debt agreements also contain other customary covenants, including, among other things, covenants restricting or limiting the Company, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) repurchasing shares of our common stock and paying dividends. Our debt agreements also contain customary events of default, including failure to pay principal or interest when due, among others. Our debt agreements are cross-defaulted to each other. Upon an event of default under our debt agreements, the holders or lenders may, among other things, accelerate the maturity of any amounts outstanding under our debt agreements. Under the terms of our Credit Agreement, the commitments of the lenders to make loans to us are several and not joint. Accordingly, if any lender fails to make loans to us, our available liquidity could be reduced by an amount up to the aggregate amount of such lender’s commitments under the Credit Agreement.

Table of Contents

The table below provides the formulas in effect for certain key financial covenants as defined in our debt agreements as of November 30, 2016. On December 7, 2016 the Company amended the Credit Agreement modifying certain of the covenant formulas shown below. For a description of the subsequent changes, see page 48 under the heading “Revolving Credit Agreement.”

Applicable Financial Covenant	Credit Agreement and MBFC Loan	3.90% Senior Notes
		\$500 Million
Minimum Consolidated Net Worth	None	+ 25% of Fiscal Quarter Net Earnings After August 31, 2010 (1)
Interest Coverage Ratio	EBIT (2) ÷ Interest Expense (2) Minimum Required: 3.00 to 1.00 Total Current and Long Term Debt (3) ÷	EBIT (2) ÷ Interest Expense (2) Minimum Required: 2.50 to 1.00 Total Current and Long Term Debt (3) ÷
Maximum Leverage Ratio	[EBITDA (2) + Pro Forma Effect of Acquisitions] Maximum Allowed: 3.25 to 1.00	[EBITDA (2) + Pro Forma Effect of Acquisitions] 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.

50

Table of Contents

Contractual obligations and commercial commitments:

Our contractual obligations and commercial commitments at November 30, 2016, were:

PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED THE LAST DAY OF NOVEMBER:

(in thousands)

	Total	2017 1 year	2018 2 years	2019 3 years	2020 4 years	2021 5 years	After 5 years
Fixed rate debt	\$ 40,000	\$ 20,000	\$ 20,000	\$ -	\$ -	\$ -	\$ -
Floating rate debt	528,107	5,700	1,900	1,900	500,000	1,900	16,707
Long-term incentive plan payouts	12,770	6,777	4,004	1,989	-	-	-
Interest on fixed rate debt	962	871	91	-	-	-	-
Interest on floating rate debt (1)	36,327	11,312	11,252	11,212	1,789	362	400
Open purchase orders	216,908	216,908	-	-	-	-	-
Long-term purchase commitments	988	533	455	-	-	-	-
Minimum royalty payments	64,954	13,170	12,991	12,968	10,092	8,978	6,755
Advertising and promotional	49,163	14,526	6,464	6,573	6,660	6,768	8,172
Operating leases	35,309	5,995	5,445	4,112	3,597	3,260	12,900
Capital spending commitments	2,502	2,502	-	-	-	-	-
Total contractual obligations (2)	\$ 987,990	\$ 298,294	\$ 62,602	\$ 38,754	\$ 522,138	\$ 21,268	\$ 44,934

(1) We estimate our future obligations for interest on our floating rate debt by assuming the weighted average interest rates in effect on each floating rate debt obligation at November 30, 2016 remain constant into the future. This is an estimate, as actual rates will vary over time. In addition, for the Credit Agreement, we assume that the balance outstanding as of November 30, 2016 remains the same for the remaining term of the agreement. The actual balance outstanding under our Credit Agreement may fluctuate significantly in future periods, depending on the availability of cash flow from operations and future investing and financing considerations.

(2) In addition to the contractual obligations and commercial commitments in the table above, as of November 30, 2016, we have recorded total provisions for our uncertain tax positions totaling \$6.72 million. We are unable to reliably estimate the timing of most of the 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. We may finance acquisition activity with available cash, the issuance of shares 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 also elect to repurchase additional shares of common stock up to the balance of its current authorization over the next two fiscal years, subject to limitations contained in its debt agreements and based upon its assessment of a number of factors, including share price, trading volume and general market conditions, as well as on working capital requirements, general business conditions, financial conditions, any applicable contractual limitations and other factors, including alternative investment opportunities.

Table of Contents

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 29, 2016. There have been no material changes to the Company's critical accounting policies from the information provided in our annual report on Form 10-K.

NEW ACCOUNTING GUIDANCE

See Note (2) "New Accounting Pronouncements" in the accompanying consolidated condensed financial statements for a discussion of the status and potential impact of any new accounting pronouncements.

EXPLANATION OF CERTAIN TERMS AND MEASURES USED IN MD&A

Accounts receivable turnover: Twelve-month trailing net sales revenue divided by the average of the current and prior four fiscal quarters' ending accounts receivable balances. This result is divided into 365 to express turnover in terms of average days outstanding.

Adjusted diluted EPS (non-GAAP): Adjusted income divided by the weighted average shares of common stock outstanding plus the effect of dilutive securities.

Adjusted income (non-GAAP): Net income as reported under GAAP excluding the following items net of their applicable tax effects: non-cash asset impairment charges, CEO succession costs, acquisition related expenses, Venezuelan re-measurement related charges, patent litigation charges, amortization of intangible assets, and non-cash share-based compensation, as applicable.

Adjusted operating income (non-GAAP): Operating income for the Company or a segment as reported under GAAP excluding pre-tax non-cash asset impairment charges, CEO succession costs, acquisition related expenses, Venezuelan re-measurement related charges, patent litigation charges, amortization of intangible assets, and non-cash share-based compensation, as applicable.

Adjusted operating margin (non-GAAP): Adjusted operating income for the Company or a segment divided by the related net sales revenue for the Company or a segment.

Core business: Core business is net sales revenue and related operations associated with product lines or brands after the first twelve months from the date the product line or brand was acquired. Net sales revenue and related operations from internally developed product lines or brands are always considered core business.

Corporate overhead costs: General corporate managerial and related administrative compensation costs, legal, accounting, and regulatory compliance costs, together with associated operating overhead that is not directly attributable to any one operating segment, but benefits the Company as a whole. These charges are allocated to each operating segment based upon a number of factors depending on the nature of the expense. Such factors include relative revenues, estimates of relative labor expenditures for each segment and certain intangible asset levels held by each segment.

Current ratio: Current assets divided by current liabilities at the end of a reporting period, expressed as a ratio.

Ending debt to ending equity ratio: Total interest bearing short- and long-term debt divided by shareholders' equity. We use this as a leverage metric to indicate what proportion of debt and equity we are using to finance assets.

Growth from acquisitions: Net sales revenue growth associated with product lines or brands that we have acquired and operated for less than twelve months during each period presented.

Table of Contents

Inventory turnover: Twelve-month trailing cost of goods sold divided by the average of the current and prior four fiscal quarters' ending inventory balances.

Operating expense ratio: Total operating expense (SG&A plus asset impairment charges) for the Company or a segment divided by the related net sales revenue for the Company or a segment.

Operating leverage: The improvement in operating margin that the Company or a segment achieves with sales growth, due to the fixed nature of certain operating expenses.

Operating margin: Operating income for the Company or a segment divided by the related net sales revenue for the Company or a segment.

Return on average equity: Twelve month trailing net income divided by the average of the current and prior four fiscal quarters' ending shareholders' equity.

Segment operating income: We compute segment operating income based on net sales revenue, less cost of goods sold, 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. We then deduct allocations for operational shared services and corporate overhead costs. We do not allocate nonoperating income and expense, including interest or income taxes to operating segments.

SG&A ratio: This is total SG&A for the Company or a segment divided by the related net sales revenue for the Company or a segment.

Working capital: Current assets less current liabilities.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in currency exchange rates and interest rates 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 both the three- and nine-months ended November 30, 2016, approximately 12 percent of our net sales revenue in each period was in foreign currencies. During the three- and nine-months ended November 30, 2015, approximately 16 and 15 percent, respectively, of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. We make most of our inventory purchases from the Far East and primarily 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 from remeasurement of the balance sheet 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 hedge against certain foreign currency exchange rate risk by using a series of forward contracts designated as cash flow hedges and mark-to-market derivatives 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. For cash flow hedges, a hedging relationship is created 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. 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 also enter into certain foreign currency contracts we refer to as “cross-currency debt swaps.” Cross-currency debt swaps have been used with respect to \$10 million of our 3.90% Senior Notes, creating an economic hedge against currency movements. We have elected not to designate these contracts as fair value hedges. Accordingly, the net unrealized mark-to-market gain or loss on these derivatives is recognized in SG&A as incurred, and associated net fixed interest payments are recognized as an adjustment to interest expense. 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.

Table of Contents

Chinese Renminbi Currency Exchange Uncertainties - A significant portion of the products we sell are purchased from third-party manufacturers in China. The Chinese Renminbi has fluctuated against the U.S. Dollar in recent years, devaluing by approximately 6.0 percent against the U.S. Dollar during fiscal year 2016, and by approximately 5.5 percent during the nine months ended November 30, 2016. If China's currency fluctuates against the U.S. Dollar in the short-to-intermediate term, we cannot accurately predict the impact of those fluctuations on our results of operations. There can be no assurance that foreign exchange rates will be stable in the future or that fluctuations in Chinese foreign currency markets will not have a material adverse effect on our business, financial condition and results of operations.

Venezuelan Bolivar Currency Exchange Uncertainties - In February 2016, the Venezuelan government announced changes to its foreign currency exchange system. These changes included an immediate devaluation of its official exchange rate, now known as DIPRO, from 6.30 Bolivars per U.S. Dollar to 10.00 Bolivars per U.S. Dollar. The changes also included the dissolution of its previous alternative exchange rate systems, and the institution of a new alternative exchange system known as DICOM governing all other transactions not covered by DIPRO. DICOM replaced SIMADI, which closed at February 29, 2016 at approximately 205 Bolivars per U.S. Dollar. DICOM opened in early March 2016 at approximately 207 Bolivars per U.S. Dollar.

As a result of the further devaluation of the official exchange rate, continued economic instability from declines in oil prices and the declaration of an economic emergency, among other factors, we determined that SIMADI was the most appropriate rate to use to re-measure our financial statements as of February 29, 2016. The determination was further substantiated by Venezuela's announcement of DICOM as an intended market-based rate, which opened at approximately the same rate as SIMADI shortly after the end of our fiscal year. As a result of the adoption of SIMADI, we recorded Venezuelan re-measurement related charges totaling \$18.73 million in the fourth quarter of fiscal year 2016.

The Company adopted DICOM in the first quarter of fiscal year 2017. At this time, we intend to continue to use DICOM to re-measure our financial statements going forward. At the current DICOM exchange rate, we expect that U.S. Dollar reported operating results from Venezuela will no longer be meaningful to the Company. Developments within the Venezuelan economy, including any future governmental interventions, are beyond our ability to control or predict, and we cannot assess the impact, if any, such events may have on our Venezuelan business.

Interest Rate Risk:

Interest on our outstanding debt as of November 30, 2016 is both floating and fixed. Fixed rates are in place on \$40 million of Senior Notes at 3.90% and floating rates are in place on the balance of all other debt outstanding, which totaled \$528.11 million as of November 30, 2016. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under our Credit Agreement and the MBFC Loan.

Table of Contents

The fair values of our derivative instruments are as follows:

FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

		November 30, 2016					
		Final Settlement	Notional	Prepaid Expenses and Other Current	Other	Accrued Expenses and Other Current	Other Liabilities,
Derivatives designated as hedging instruments	Hedge Type	Date	Amount	Assets	Assets	Liabilities	Non-current
Foreign currency contracts - sell Euro	Cash flow	2/2018	€ 15,750	\$ 1,186	\$ 140	\$ -	\$ -
Foreign currency contracts - sell Canadian Dollars	Cash flow	12/2017	\$ 19,000	48	1	164	-
Foreign currency contracts - sell Pounds	Cash flow	8/2017	£ 6,150	1,224	-	-	-
Foreign currency contracts - sell Mexican Pesos	Cash flow	5/2017	\$ 9,600	48	-	-	-
Foreign currency contracts - sell Australian Dollars	Cash flow	2/2017	\$ 250	-	-	5	-
Subtotal				2,506	141	169	-
Derivatives not designated under hedge accounting							
Foreign currency contracts - cross-currency debt swaps	(1)	1/2018	\$ 10,000	-	734	-	-
Total fair value				\$ 2,506	\$ 875	\$ 169	\$ -

Edgar Filing: HELEN OF TROY LTD - Form 10-Q

February 29, 2016

		Final Settlement Date	Notional Amount	Prepaid Expenses and Other Current Assets	Other Assets	Accrued Expenses and Other Current Liabilities	Other Liabilities, Non-current
Derivatives designated as hedging instruments	Hedge Type						
Foreign currency contracts - sell Euro	Cash flow	2/2017	€ 27,000	\$ 1,066	\$ -	\$ -	\$ -
Foreign currency contracts - sell Canadian Dollars	Cash flow	6/2017	\$ 28,000	-	-	495	7
Foreign currency contracts - sell Pounds	Cash flow	2/2017	£ 3,450	94	-	-	-
Foreign currency contracts - sell Australian Dollars	Cash flow	8/2016	\$ 1,650	6	-	-	-
Subtotal				1,166	-	495	7
Derivatives not designated under hedge accounting							
Foreign currency contracts - cross-currency debt swap	(1)	1/2018	\$ 5,000	-	206	-	-
Total fair value				\$ 1,166	\$ 206	\$ 495	\$ 7

(1) We have entered into foreign currency contracts referred to as "cross-currency debt swaps", which in effect adjust the currency denomination of our 3.90% Senior Notes due January 2018 to the Euro for the notional amounts reported, creating an economic hedge against currency movements. On these contracts, we have not elected hedge accounting.

Counterparty Credit Risks:

Financial instruments, including foreign currency contracts, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk by 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.

Table of Contents

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 Securities and Exchange Commission (the "SEC"), in press releases, and in certain other oral and written presentations. Generally, the words "anticipates", "believes", "expects", "plans", "may", "will", "should", "seeks", "estimates", "project", "predict", "potential", "continue", "intends", and other similar words identify forward-looking statements. All statements that 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 our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and assumptions, but there can be no assurance that we will realize our expectations or that our assumptions will prove correct. Forward-looking statements are subject to risks that could cause them to differ materially from actual results. Accordingly, we caution 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 this report under Item 1A., "Risk Factors" and that are otherwise described from time to time in our SEC reports as filed. As described later in this report, such risks, uncertainties and other important factors include, among others:

- our ability to deliver products to our customers in a timely manner and according to their fulfillment standards;
- our relationships with key customers and licensors;
 - the costs of complying with the business demands and requirements of large sophisticated customers;
 - our dependence on the strength of retail economies and vulnerabilities to any prolonged economic downturn;
- the retention and recruitment of key personnel;
 - expectations regarding our recent and future acquisitions, including our ability to realize anticipated cost savings, synergies and other benefits along with our ability to effectively integrate acquired businesses;
- foreign currency exchange rate fluctuations;
- disruptions in U.S., U.K., Euro zone, Venezuela, and other international credit markets;

- risks associated with weather conditions, the duration and severity of the cold and flu season and other related factors;
- 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;
- risks to the Nutritional Supplements segment associated with the availability, purity and integrity of materials used in the manufacture of vitamins, minerals and supplements;
- the impact of changing costs of raw materials, labor and energy on cost of goods sold and certain operating expenses;
- the geographic concentration and peak season capacity of certain U.S. distribution facilities increases our exposure to significant shipping disruptions and added shipping and storage costs;
- our projections of product demand, sales and net income are highly subjective in nature and future sales and net income could vary in a material amount from such projections;
- circumstances which may contribute to future impairment of goodwill, intangible or other long-lived assets;

Table of Contents

- the risks associated with the use of trademarks licensed from and to third parties;
- our ability to develop and introduce a continuing stream of new products to meet changing consumer preferences;
- increased product liability and reputational risks associated with the formulation and distribution of vitamins, minerals and supplements;
- the risks associated with potential adverse publicity and negative public perception regarding the use of vitamins, minerals and supplements;
- trade barriers, exchange controls, expropriations, and other risks associated with foreign operations;
- debt leverage and the constraints it may impose on our cash resources and ability to operate our business;
 - the costs, complexity and challenges of upgrading and managing our global information systems;
- the risks associated with information security breaches;
- the increased complexity of compliance with a number of new government regulations as a result of adding vitamins, minerals and supplements to the Company's portfolio of products;
- risks associated with product recalls, product liability, other claims, and related litigation against us;
- the risks associated with tax audits and related disputes with taxing authorities;
- the risks of potential changes in laws, including tax laws, health insurance laws and regulations related to conflict minerals along with the costs and 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.

Table of Contents

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 November 30, 2016. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of November 30, 2016, 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) of the Exchange Act that occurred during our fiscal quarter ended November 30, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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 1, Item 1A. "Risk Factors" of our annual report on Form 10-K for the fiscal year ended February 29, 2016. 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.

60

Table of Contents

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

Issuer Purchases of Equity Securities

As of November 30, 2016, we were authorized by our Board of Directors to purchase up to \$83.43 million of common stock in the open market or through private transactions. Our current equity-based compensation plans include provisions that allow for the “net exercise” of share settled awards by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares.

The following table summarizes our share repurchase activity for the periods covered below:

ISSUER PURCHASES OF EQUITY SECURITIES FOR THE THREE MONTHS ENDED NOVEMBER 30, 2016

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs (in thousands)
September 1 through September 30, 2016	-	\$ -	-	\$ 158,510
October 1 through October 31, 2016	793,861	81.32	793,861	93,953
November 1 through November 30, 2016	129,831	81.07	129,831	83,427
Total	923,692	\$ 81.29	923,692	

Table of Contents

n

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.

101.INS * XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema

*

101.CAL XBRL Taxonomy Extension Calculation Linkbase

*

101.DEF XBRL Taxonomy Extension Definition Linkbase

*

101.LAB XBRL Taxonomy Extension Label Linkbase

*

101.PRE XBRL Taxonomy Extension Presentation Linkbase

*

* Filed herewith.

** Furnished herewith.

Table of Contents

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: January 9, 2017 /s/ Julien R. Mininberg
Julien R. Mininberg
Chief Executive Officer,

Director and Principal Executive Officer

Date: January 9, 2017 /s/ Brian L. Grass
Brian L. Grass
Chief Financial Officer
and Principal Financial Officer

Date: January 9, 2017 /s/ Richard J. Oppenheim
Richard J. Oppenheim
Vice President
and Principal Accounting Officer

Table of Contents

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.

101.INS XBRL Instance Document

*

101.SCHXBRL Taxonomy Extension Schema

*

101.CALXBRL Taxonomy Extension Calculation Linkbase

*

101.DEF XBRL Taxonomy Extension Definition Linkbase

*

101.LABXBRL Taxonomy Extension Label Linkbase

*

101.PRE XBRL Taxonomy Extension Presentation Linkbase

*

* Filed herewith.

** Furnished herewith.