

HELEN OF TROY LTD  
Form 10-Q  
October 10, 2013  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended August 31, 2013**

**or**

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

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

**Commission file number: 001-14669**

**HELEN OF TROY LIMITED**

(Exact name of registrant as specified in its charter)

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**Bermuda**

(State or other jurisdiction of  
incorporation or organization)

**74-2692550**

(I.R.S. Employer  
Identification No.)

**Clarendon House**

**Church Street**

**Hamilton, Bermuda**

(Address of principal executive offices)

**1 Helen of Troy Plaza**

**El Paso, Texas**

(Registrant's United States Mailing Address)

**79912**

(Zip Code)

**(915) 225-8000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☒ (Do not check if a smaller reporting company)

Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

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

**Outstanding at October 7, 2013**  
32,045,496 shares



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**HELEN OF TROY LIMITED AND SUBSIDIARIES**

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|                                                                                              | August 31,<br><br>2013 | February 28,<br><br>2013 |
|----------------------------------------------------------------------------------------------|------------------------|--------------------------|
| <b>Assets</b>                                                                                |                        |                          |
| Assets, current:                                                                             |                        |                          |
| Cash and cash equivalents                                                                    | \$ 10,097              | \$ 12,842                |
| Receivables - principally trade, less allowances of \$3,610 and \$5,031                      | 231,309                | 219,719                  |
| Inventory, net                                                                               | 306,854                | 280,872                  |
| Prepaid expenses and other current assets                                                    | 13,715                 | 8,442                    |
| Income taxes receivable                                                                      | 1,919                  | 1,800                    |
| Deferred tax assets, net                                                                     | 24,009                 | 21,530                   |
| Total assets, current                                                                        | 587,903                | 545,205                  |
| Property and equipment, net of accumulated depreciation of \$75,860 and \$74,775             | 130,450                | 101,716                  |
| Goodwill                                                                                     | 453,241                | 453,241                  |
| Other intangible assets, net of accumulated amortization of \$84,097 and \$73,344            | 332,918                | 355,628                  |
| Deferred tax assets, net                                                                     | 2,726                  | 2,401                    |
| Other assets, net of accumulated amortization of \$5,948 and \$5,403                         | 10,933                 | 15,813                   |
| Total assets                                                                                 | \$ 1,518,171           | \$ 1,474,004             |
| <b>Liabilities and Stockholders' Equity</b>                                                  |                        |                          |
| Liabilities, current:                                                                        |                        |                          |
| Revolving line of credit                                                                     | \$ 23,500              | \$ 82,000                |
| Accounts payable, principally trade                                                          | 109,067                | 72,263                   |
| Accrued expenses and other current liabilities                                               | 130,982                | 134,063                  |
| Deferred tax liabilities, net                                                                | 224                    | 339                      |
| Long-term debt, current maturities                                                           | 96,900                 | 20,000                   |
| Total liabilities, current                                                                   | 360,673                | 308,665                  |
| Long-term debt, excluding current maturities                                                 | 107,247                | 155,000                  |
| Deferred tax liabilities, net                                                                | 55,889                 | 57,991                   |
| Other liabilities, non-current                                                               | 23,639                 | 25,742                   |
| Total liabilities                                                                            | 547,448                | 547,398                  |
| Commitments and contingencies                                                                |                        |                          |
| Stockholders' equity:                                                                        |                        |                          |
| Cumulative preferred stock, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued | -                      | -                        |

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|                                                                                                                 |              |              |
|-----------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Common stock, \$0.10 par. Authorized 50,000,000 shares; 32,033,505 and 31,868,416 shares issued and outstanding | 3,203        | 3,187        |
| Additional paid in capital                                                                                      | 171,264      | 164,471      |
| Accumulated other comprehensive loss                                                                            | (1,843)      | (2,729)      |
| Retained earnings                                                                                               | 798,099      | 761,677      |
| Total stockholders' equity                                                                                      | 970,723      | 926,606      |
| Total liabilities and stockholders' equity                                                                      | \$ 1,518,171 | \$ 1,474,004 |

*See accompanying notes to consolidated condensed financial statements.*

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

|                                                                                   | Three Months Ended August 31, |            | Six Months Ended August 31, |            |
|-----------------------------------------------------------------------------------|-------------------------------|------------|-----------------------------|------------|
|                                                                                   | 2013                          | 2012       | 2013                        | 2012       |
| Sales revenue, net                                                                | \$ 319,387                    | \$ 287,411 | \$ 623,903                  | \$ 587,622 |
| Cost of goods sold                                                                | 196,132                       | 170,381    | 380,484                     | 349,444    |
| Gross profit                                                                      | 123,255                       | 117,030    | 243,419                     | 238,178    |
| Selling, general and administrative expense                                       | 92,899                        | 86,189     | 180,389                     | 176,189    |
| Asset impairment charges                                                          | -                             | -          | 12,049                      | -          |
| Operating income                                                                  | 30,356                        | 30,841     | 50,981                      | 61,989     |
| Nonoperating income (expense), net                                                | 56                            | 31         | 140                         | 54         |
| Interest expense                                                                  | (2,192)                       | (3,130)    | (5,134)                     | (6,442)    |
| Income before income taxes                                                        | 28,220                        | 27,742     | 45,987                      | 55,601     |
| Income tax expense:                                                               |                               |            |                             |            |
| Current                                                                           | 9,973                         | 8,487      | 13,869                      | 14,388     |
| Deferred                                                                          | (5,071)                       | (3,713)    | (5,591)                     | (5,227)    |
| Net income                                                                        | \$ 23,318                     | \$ 22,968  | \$ 37,709                   | \$ 46,440  |
| Earnings per share:                                                               |                               |            |                             |            |
| Basic                                                                             | \$ 0.73                       | \$ 0.72    | \$ 1.18                     | \$ 1.46    |
| Diluted                                                                           | \$ 0.72                       | \$ 0.72    | \$ 1.17                     | \$ 1.46    |
| Weighted average shares of common stock used in computing net earnings per share: |                               |            |                             |            |
| Basic                                                                             | 31,993                        | 31,743     | 31,951                      | 31,721     |
| Diluted                                                                           | 32,272                        | 31,846     | 32,226                      | 31,843     |

*See accompanying notes to consolidated condensed financial statements.*

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**HELEN OF TROY LIMITED AND SUBSIDIARIES**
**Consolidated Condensed Statements of Comprehensive Income (Unaudited)**
*(in thousands)*

|                                                        | Three Months Ended August 31, |            |               |               |            |               |
|--------------------------------------------------------|-------------------------------|------------|---------------|---------------|------------|---------------|
|                                                        | 2013                          |            |               | 2012          |            |               |
|                                                        | Before<br>Tax                 | Tax        | Net of<br>Tax | Before<br>Tax | Tax        | Net of<br>Tax |
| Income                                                 | \$ 28,220                     | \$ (4,902) | \$ 23,318     | \$ 27,742     | \$ (4,774) | \$ 22,968     |
| Other comprehensive income                             |                               |            |               |               |            |               |
| Cash flow hedge activity - interest rate swaps:        |                               |            |               |               |            |               |
| Changes in fair market value                           | (24)                          | 9          | (15)          | (457)         | 160        | (297)         |
| Interest rate settlements reclassified to income       | 925                           | (325)      | 600           | 980           | (343)      | 637           |
| Subtotal                                               | 901                           | (316)      | 585           | 523           | (183)      | 340           |
| Cash flow hedge activity - foreign currency contracts: |                               |            |               |               |            |               |
| Changes in fair market value                           | (68)                          | 18         | (50)          | (933)         | 327        | (606)         |
| Ineffectiveness recorded in income                     | -                             | -          | -             | (14)          | 5          | (9)           |
| Settlements reclassified to income                     | (108)                         | 13         | (95)          | (11)          | 3          | (8)           |
| Subtotal                                               | (176)                         | 31         | (145)         | (958)         | 335        | (623)         |
| Total other comprehensive income (loss)                | 725                           | (285)      | 440           | (435)         | 152        | (283)         |
| Comprehensive income                                   | \$ 28,945                     | \$ (5,187) | \$ 23,758     | \$ 27,307     | \$ (4,622) | \$ 22,685     |

|                                                        | Six Months Ended August 31, |             |               |               |             |               |
|--------------------------------------------------------|-----------------------------|-------------|---------------|---------------|-------------|---------------|
|                                                        | Before<br>Tax               | 2013<br>Tax | Net of<br>Tax | Before<br>Tax | 2012<br>Tax | Net of<br>Tax |
| Income                                                 | \$ 45,987                   | \$ (8,278)  | \$ 37,709     | \$ 55,601     | \$ (9,161)  | \$ 46,440     |
| Other comprehensive income                             |                             |             |               |               |             |               |
| Cash flow hedge activity - interest rate swaps:        |                             |             |               |               |             |               |
| Changes in fair market value                           | (27)                        | 10          | (17)          | (501)         | 175         | (326)         |
| Interest rate settlements reclassified to income       | 1,839                       | (645)       | 1,194         | 1,906         | (667)       | 1,239         |
| Subtotal                                               | 1,812                       | (635)       | 1,177         | 1,405         | (492)       | 913           |
| Cash flow hedge activity - foreign currency contracts: |                             |             |               |               |             |               |
| Changes in fair market value                           | (32)                        | 11          | (21)          | (23)          | 9           | (14)          |
| Ineffectiveness recorded in income                     | -                           | -           | -             | (49)          | 17          | (32)          |
| Settlements reclassified to income                     | (324)                       | 54          | (270)         | (37)          | 12          | (25)          |
| Subtotal                                               | (356)                       | 65          | (291)         | (109)         | 38          | (71)          |
| Total other comprehensive income                       | 1,456                       | (570)       | 886           | 1,296         | (454)       | 842           |
| Comprehensive income                                   | \$ 47,443                   | \$ (8,848)  | \$ 38,595     | \$ 56,897     | \$ (9,615)  | \$ 47,282     |

See accompanying notes to consolidated condensed financial statements.



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|                                                                                            | <b>Six Months Ended August 31,</b> |             |
|--------------------------------------------------------------------------------------------|------------------------------------|-------------|
|                                                                                            | <b>2013</b>                        | <b>2012</b> |
| Cash provided (used) by operating activities:                                              |                                    |             |
| Net income                                                                                 | \$ 37,709                          | \$ 46,440   |
| Adjustments to reconcile net income to net cash provided by operating activities           |                                    |             |
| Depreciation and amortization                                                              | 16,889                             | 17,795      |
| Provision for doubtful receivables                                                         | 316                                | (54)        |
| Non-cash share-based compensation                                                          | 6,797                              | 3,057       |
| Intangible asset impairment charges                                                        | 12,049                             | -           |
| (Gain) loss on the sale of property and equipment                                          | 63                                 | (15)        |
| Deferred income taxes and tax credits                                                      | (5,592)                            | (5,231)     |
| Changes in operating capital:                                                              |                                    |             |
| Receivables                                                                                | (11,906)                           | (12,947)    |
| Inventories                                                                                | (25,982)                           | (72,450)    |
| Prepaid expenses and other current assets                                                  | (1,991)                            | (674)       |
| Other assets and liabilities, net                                                          | (3,232)                            | (390)       |
| Accounts payable                                                                           | 36,807                             | 36,611      |
| Accrued expenses and other current liabilities                                             | (3,401)                            | (8,472)     |
| Accrued income taxes                                                                       | (1,386)                            | 7,083       |
| Net cash provided by operating activities                                                  | 57,140                             | 10,753      |
| Cash provided (used) by investing activities:                                              |                                    |             |
| Capital and intangible asset expenditures                                                  | (34,578)                           | (5,760)     |
| Proceeds from the sale or disposal of property and equipment                               | -                                  | 20          |
| Note receivable from land sale                                                             | -                                  | 737         |
| Net cash used by investing activities                                                      | (34,578)                           | (5,003)     |
| Cash provided (used) by financing activities:                                              |                                    |             |
| Proceeds from line of credit                                                               | 76,800                             | 114,950     |
| Repayment of line of credit                                                                | (135,300)                          | (125,050)   |
| Proceeds (repayments) of long-term debt                                                    | 29,147                             | (3,000)     |
| Payments of financing costs                                                                | (127)                              | (28)        |
| Proceeds from share issuances under share-based compensation plans, including tax benefits | 4,511                              | 6,913       |
| Payment of tax obligations resulting from issuance of restricted shares                    | (438)                              | (72)        |
| Payments for repurchases of common stock                                                   | (1,311)                            | -           |
| Share-based compensation tax benefit                                                       | 1,411                              | 458         |
| Net cash used by financing activities                                                      | (25,307)                           | (5,829)     |
| Net decrease in cash and cash equivalents                                                  | (2,745)                            | (79)        |
| Cash and cash equivalents, beginning balance                                               | 12,842                             | 21,846      |
| Cash and cash equivalents, ending balance                                                  | \$ 10,097                          | \$ 21,767   |

See accompanying notes to consolidated condensed financial statements.

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**HELEN OF TROY LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)**

**August 31, 2013**

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

The accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of August 31, 2013 and February 28, 2013, and the results of our consolidated operations for the three- and six-month periods ended August 31, 2013 and 2012. We follow the same accounting policies when preparing quarterly financial data as we use for preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K for the fiscal year ended February 28, 2013, and our other reports on file with the Securities and Exchange Commission ( SEC ).

In this report and the accompanying consolidated condensed financial statements and notes, unless the context suggests otherwise or otherwise indicated, references to the Company , our Company , Helen of Troy , we , us , or our refer to Helen of Troy Limited and its subsidiaries, and amounts are expressed in thousands of U.S. Dollars. We refer to the Company 's common shares, par value \$0.10 per share, as common stock. References to Kaz refer to the operations of Kaz, Inc. and its subsidiaries. References to PUR refer to the PUR brand of water filtration products that we acquired, along with certain other assets and liabilities, from The Procter & Gamble Company and certain of its affiliates. Kaz and PUR comprise a segment within the Company referred to as the Healthcare / Home Environment segment. References to OXO refer to the operations of OXO International and certain of its affiliated subsidiaries that comprise our Housewares segment. Product and service names mentioned in this report are used for identification purposes only and may be protected by trademarks, trade names, service marks, and/or other intellectual property rights of the Company and/or other parties in the United States and/or other jurisdictions. The absence of a specific attribution in connection with any such mark does not constitute a waiver of any such right. All trademarks, trade names, service marks, and logos referenced herein belong to their owners. References to the FASB refer to the Financial Accounting Standards Board. References to GAAP refer to U.S. generally accepted accounting principles. References to ASC refer to the codification of GAAP in the Accounting Standards Codification issued by the FASB.

We are a global designer, developer, importer, marketer and distributor of an expanding portfolio of brand-name consumer products. We have three segments: Housewares, Healthcare / Home Environment and Personal Care. Our Housewares segment provides a broad range of innovative consumer products for the home. Product offerings include food preparation and storage, cleaning, organization, and baby and toddler care products. The Healthcare / Home Environment segment focuses on health care devices such as thermometers, blood pressure monitors, humidifiers, and heating pads; water filtration systems; and small home appliances such as air purifiers, portable heaters, fans, and insect control devices (bug zappers). Our Personal Care segment 's products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid, solid- and powder-based personal care and grooming products. All three segments sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores, and specialty stores. In addition, the Healthcare / Home Environment segment sells certain of its product lines through medical distributors and other products through home improvement stores, and the Personal Care segment sells extensively through beauty supply retailers and wholesalers. 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 accordance with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. We have reclassified, combined or separately disclosed certain amounts in the prior period 's consolidated

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

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

**Note 3   *Commitments and Contingencies***

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

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

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

**ACCRUAL FOR WARRANTY RETURNS**

*(in thousands)*

|                                                         | <b>Three Months Ended August 31,</b> |             | <b>Six Months Ended August 31,</b> |             |
|---------------------------------------------------------|--------------------------------------|-------------|------------------------------------|-------------|
|                                                         | <b>2013</b>                          | <b>2012</b> | <b>2013</b>                        | <b>2012</b> |
| Beginning balance                                       | \$ 20,782                            | \$ 23,313   | \$ 23,150                          | \$ 26,665   |
| Additions to the accrual                                | 9,578                                | 7,899       | 18,776                             | 14,773      |
| Reductions of the accrual - payments and credits issued | (9,003)                              | (9,352)     | (20,569)                           | (19,578)    |
| Ending balance                                          | \$ 21,357                            | \$ 21,860   | \$ 21,357                          | \$ 21,860   |

**Note 4   *Earnings per Share***

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We compute basic earnings per share using the weighted average number of shares of common stock outstanding during the period and diluted earnings per share using basic earnings per share plus the effect of dilutive securities. Our securities that can have dilutive effects consist of outstanding options to purchase common stock and issued and contingently issuable unvested restricted share units and awards. See Note 14 to these consolidated condensed financial statements for more information regarding these restricted share units and awards. Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive.

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

### WEIGHTED AVERAGE DILUTED SECURITIES

*(in thousands)*

|                                                                  | Three Months Ended August 31, |        | Six Months Ended August 31, |        |
|------------------------------------------------------------------|-------------------------------|--------|-----------------------------|--------|
|                                                                  | 2013                          | 2012   | 2013                        | 2012   |
| Weighted average shares outstanding, basic                       | <b>31,993</b>                 | 31,743 | <b>31,951</b>               | 31,721 |
| Incremental shares from share-based payment arrangements         | <b>279</b>                    | 103    | <b>275</b>                  | 122    |
| Weighted average shares outstanding, diluted                     | <b>32,272</b>                 | 31,846 | <b>32,226</b>               | 31,843 |
| Dilutive securities, as a result of in-the-money options         | <b>347</b>                    | 380    | <b>273</b>                  | 376    |
| Dilutive securities, as a result of unvested restricted shares   | <b>251</b>                    | -      | <b>242</b>                  | -      |
| Antidilutive securities, as a result of out-of-the-money options | <b>603</b>                    | 617    | <b>700</b>                  | 621    |

Table of Contents**Note 5 Segment Information**

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

**THREE MONTHS ENDED AUGUST 31, 2013 AND 2012**

(in thousands)

| August 31, 2013                           | Healthcare / |                  | Personal   |    | Total   |
|-------------------------------------------|--------------|------------------|------------|----|---------|
|                                           | Housewares   | Home Environment | Care       |    |         |
| Sales revenue, net                        | \$ 70,165    | \$ 133,044       | \$ 116,178 | \$ | 319,387 |
| Asset impairment charges                  | -            | -                | -          |    | -       |
| Operating income                          | 13,772       | 4,974            | 11,610     |    | 30,356  |
| Capital and intangible asset expenditures | 167          | 17,009           | 402        |    | 17,578  |
| Depreciation and amortization             | 1,030        | 4,767            | 2,645      |    | 8,442   |

| August 31, 2012                           | Healthcare / |                  | Personal   |    | Total   |
|-------------------------------------------|--------------|------------------|------------|----|---------|
|                                           | Housewares   | Home Environment | Care       |    |         |
| Sales revenue, net                        | \$ 64,570    | \$ 110,477       | \$ 112,364 | \$ | 287,411 |
| Operating income                          | 12,078       | 6,883            | 11,880     |    | 30,841  |
| Capital and intangible asset expenditures | 326          | 1,202            | 864        |    | 2,392   |
| Depreciation and amortization             | 1,278        | 4,175            | 3,242      |    | 8,695   |

**SIX MONTHS ENDED AUGUST 31, 2013 AND 2012**

(in thousands)

| August 31, 2013                           | Healthcare / |                  | Personal   |    | Total   |
|-------------------------------------------|--------------|------------------|------------|----|---------|
|                                           | Housewares   | Home Environment | Care       |    |         |
| Sales revenue, net                        | \$ 133,695   | \$ 258,646       | \$ 231,562 | \$ | 623,903 |
| Asset impairment charges                  | -            | -                | 12,049     |    | 12,049  |
| Operating income                          | 26,228       | 11,510           | 13,243     |    | 50,981  |
| Capital and intangible asset expenditures | 381          | 33,114           | 1,083      |    | 34,578  |
| Depreciation and amortization             | 2,049        | 9,548            | 5,292      |    | 16,889  |

| August 31, 2012                           | Healthcare / |                  | Personal   |    | Total   |
|-------------------------------------------|--------------|------------------|------------|----|---------|
|                                           | Housewares   | Home Environment | Care       |    |         |
| Sales revenue, net                        | \$ 124,819   | \$ 232,887       | \$ 229,916 | \$ | 587,622 |
| Operating income                          | 23,355       | 14,874           | 23,760     |    | 61,989  |
| Capital and intangible asset expenditures | 517          | 2,124            | 3,119      |    | 5,760   |
| Depreciation and amortization             | 2,576        | 8,710            | 6,509      |    | 17,795  |

We compute operating income for each segment based on net sales revenue, less cost of goods sold, selling, general and administrative expense ( SG&A ), and any asset impairment charges associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment, plus overhead expenses that are allocable to the segment. We make allocations of overhead between operating segments using a number of relevant allocation criteria, depending on the nature of the expense, the most significant of which are relative revenues, estimates of relative labor expenditures, headcount, and facility square footage. We do not allocate nonoperating income and expense, including interest or income taxes to operating segments.

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**Note 6 Comprehensive Income (Loss)**

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

**COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS**

(in thousands)

|                                                                                           | August 31,<br>2013 | February 28,<br>2013 |
|-------------------------------------------------------------------------------------------|--------------------|----------------------|
| Unrealized holding losses on cash flow hedges - interest rate swap, net of tax (1)        | \$ (1,958)         | \$ (3,135)           |
| Unrealized holding gains on cash flow hedges - foreign currency contracts, net of tax (2) | 115                | 406                  |
| Total accumulated other comprehensive loss                                                | \$ (1,843)         | \$ (2,729)           |

(1) Includes net deferred tax benefits of \$1.05 and \$1.69 million at August 31, 2013 and February 28, 2013, respectively.

(2) Includes net deferred tax expense of \$0.03 and \$0.09 million at August 31, 2013 and February 28, 2013, respectively.

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

(in thousands)

|                                             | Estimated<br>Useful Lives<br>(Years) | August 31,<br>2013 | February 28,<br>2013 |
|---------------------------------------------|--------------------------------------|--------------------|----------------------|
| Land                                        | -                                    | \$ 12,800          | \$ 12,800            |
| Building and improvements                   | 3 - 40                               | 67,494             | 66,994               |
| Computer, furniture and other equipment     | 3 - 15                               | 55,670             | 58,284               |
| Tools, molds and other production equipment | 1 - 10                               | 29,311             | 29,264               |
| Construction in progress                    | -                                    | 41,035             | 9,149                |
| Property and equipment, gross               |                                      | 206,310            | 176,491              |
| Less accumulated depreciation               |                                      | (75,860)           | (74,775)             |
| Property and equipment, net                 |                                      | \$ 130,450         | \$ 101,716           |

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Construction in progress includes expenditures of \$30.94 million at August 31, 2013 for construction costs incurred in connection with our new 1.3 million square foot distribution facility on approximately 84 acres of land in Olive Branch, Mississippi. The new facility will consolidate the operations of our U.S. based Personal Care and Healthcare / Home Environment appliance businesses. The new facility became operational for the Healthcare / Home Environment segment during the first week of September 2013. See Note 9 to these consolidated condensed financial statements for related information regarding the debt incurred to fund the construction of the new distribution facility.

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Table of Contents**ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES***(in thousands)*

|  | August 31,<br>2013 | February 28,<br>2013 |
|--|--------------------|----------------------|
|  | \$ 32,790          |                      |
|  | 27,829             |                      |
|  | 21,357             |                      |
|  | 18,111             |                      |
|  | 7,057              |                      |
|  | 5,993              |                      |
|  | 6,934              |                      |
|  | 3,012              |                      |
|  | 7,899              |                      |
|  | \$ 130,982         |                      |

**OTHER LIABILITIES, NON-CURRENT***(in thousands)*

|                                       | August 31,<br>2013 | February 28,<br>2013 |
|---------------------------------------|--------------------|----------------------|
| Deferred compensation liability       | \$ 6,431           | \$ 6,443             |
| Liability for uncertain tax positions | 15,903             | 15,759               |
| Derivative liabilities                | -                  | 1,780                |
| Other liabilities                     | 1,305              | 1,760                |
| Total other liabilities, non-current  | \$ 23,639          | \$ 25,742            |

**Note 8 *Goodwill and Intangible Assets***

**Annual Impairment Testing in the First Quarter of Fiscal Year 2014** - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2014. As a result of our testing of indefinite-lived trademarks and licenses, we recorded a non-cash asset impairment charge of \$12.05 million (\$12.03 million after tax). The charge was related to certain trademarks in our Personal Care segment, which were written down to their estimated fair value, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

**Annual Impairment Testing in the First Quarter of Fiscal Year 2013** - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2013. As a result, we concluded no asset impairment charges were required. For fiscal year 2013, the estimated fair value of the indefinite-lived trademarks and licenses, reporting unit net assets, and the Company's estimated enterprise value exceeded their respective carrying values as of the date of the evaluation.



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

**GOODWILL AND INTANGIBLE ASSETS**

(in thousands)

| Description                         | August 31, 2013       |                                 |                          |                | February 28, 2013     |                                 |                          |                |
|-------------------------------------|-----------------------|---------------------------------|--------------------------|----------------|-----------------------|---------------------------------|--------------------------|----------------|
|                                     | Gross Carrying Amount | Cumulative Goodwill Impairments | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Cumulative Goodwill Impairments | Accumulated Amortization | Net Book Value |
| Housewares:                         |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                            | \$ 166,132            | \$ -                            | \$ -                     | \$ 166,132     | \$ 166,132            | \$ -                            | \$ -                     | \$ 166,132     |
| Trademarks - indefinite             | 75,200                | -                               | -                        | 75,200         | 75,200                | -                               | -                        | 75,200         |
| Other intangibles - finite          | 15,701                | -                               | (10,637)                 | 5,064          | 15,609                | -                               | (10,070)                 | 5,539          |
| Total Housewares                    | 257,033               | -                               | (10,637)                 | 246,396        | 256,941               | -                               | (10,070)                 | 246,871        |
| Healthcare / Home Environment:      |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                            | 251,758               | -                               | -                        | 251,758        | 251,758               | -                               | -                        | 251,758        |
| Trademarks - indefinite             | 54,000                | -                               | -                        | 54,000         | 54,000                | -                               | -                        | 54,000         |
| Licenses - finite                   | 15,300                | -                               | (4,935)                  | 10,365         | 15,300                | -                               | (3,455)                  | 11,845         |
| Other Intangibles - finite          | 114,490               | -                               | (28,962)                 | 85,528         | 114,490               | -                               | (23,220)                 | 91,270         |
| Total Healthcare / Home Environment | 435,548               | -                               | (33,897)                 | 401,651        | 435,548               | -                               | (26,675)                 | 408,873        |
| Personal Care:                      |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                            | 81,841                | (46,490)                        | -                        | 35,351         | 81,841                | (46,490)                        | -                        | 35,351         |
| Trademarks - indefinite             | 63,754                | -                               | -                        | 63,754         | 75,803                | -                               | -                        | 75,803         |
| Trademarks - finite                 | 150                   | -                               | (75)                     | 75             | 150                   | -                               | (72)                     | 78             |
| Licenses - indefinite               | 10,300                | -                               | -                        | 10,300         | 10,300                | -                               | -                        | 10,300         |
| Licenses - finite                   | 18,683                | -                               | (15,729)                 | 2,954          | 18,683                | -                               | (15,570)                 | 3,113          |
| Other intangibles - finite          | 49,437                | -                               | (23,759)                 | 25,678         | 49,437                | -                               | (20,957)                 | 28,480         |
| Total Personal Care                 | 224,165               | (46,490)                        | (39,563)                 | 138,112        | 236,214               | (46,490)                        | (36,599)                 | 153,125        |
| Total                               | \$ 916,746            | \$ (46,490)                     | \$ (84,097)              | \$ 786,159     | \$ 928,703            | \$ (46,490)                     | \$ (73,344)              | \$ 808,869     |

The following table summarizes the amortization expense attributable to intangible assets for the periods covered in the accompanying consolidated condensed statements of income, as well as our estimated amortization expense for the fiscal years 2014 through 2019.

**AMORTIZATION OF INTANGIBLE ASSETS**

(in thousands)

**Aggregate Amortization Expense  
For the three months ended**

|                 |    |       |
|-----------------|----|-------|
| August 31, 2013 | \$ | 5,408 |
|-----------------|----|-------|

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|                 |    |       |
|-----------------|----|-------|
| August 31, 2012 | \$ | 5,626 |
|-----------------|----|-------|

## **Aggregate Amortization Expense For the six months ended**

|                 |    |               |
|-----------------|----|---------------|
| August 31, 2013 | \$ | <b>10,839</b> |
| August 31, 2012 | \$ | 11,262        |

## **Estimated Amortization Expense For the fiscal years ended**

|               |    |        |
|---------------|----|--------|
| February 2014 | \$ | 21,557 |
| February 2015 | \$ | 21,018 |
| February 2016 | \$ | 20,838 |
| February 2017 | \$ | 20,515 |
| February 2018 | \$ | 16,697 |
| February 2019 | \$ | 11,917 |

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Table of Contents**Note 9 Debt**

**Revolving Line of Credit** - We have a Credit Agreement (the "Credit Agreement") with Bank of America, N.A. that provides for an unsecured total revolving commitment of up to \$250.00 million. The commitment under the Credit Agreement terminates on December 30, 2015. 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 August 31, 2013, the outstanding revolving loan principal balance was \$23.50 million and there were \$0.31 million of open letters of credit outstanding against the Credit Agreement. For both the three- and six-months ended August 31, 2013, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.18 to 3.63 percent. For the three- and six-months ended August 31, 2012, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.61 to 3.63 percent and 1.61 to 4.00 percent, respectively. As of August 31, 2013, the amount available for borrowings under the Credit Agreement was \$226.19 million.

**Long-Term Debt** A summary of our long-term debt is as follows:

**LONG-TERM DEBT**

(dollars in thousands)

|                                                                                                                                                                                                                                                                                                                                                                                                                                 | Original<br>Date<br>Borrowed | Interest<br>Rates | Matures | August 31,<br>2013 | February 28,<br>2013 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|---------|--------------------|----------------------|
| \$38 million unsecured loan with a state industrial development corporation, interim draws, interest is set and payable quarterly at the Base Rate, as defined below, plus a margin of up to 1.125%, or applicable LIBOR plus a margin of up to 2.125%, as determined by the interest rate elected. Loan subject to holder's call on or after March 1, 2018. Loan can be prepaid without penalty any time after March 20, 2014. | 03/13                        | 1.18% to 1.57%    | 03/23   | \$ 29,147          | \$ -                 |
| \$75 million unsecured floating interest rate 10 year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 90 basis points. Principal is due in June 2014. Notes can be prepaid without penalty. (1)                                                                                                                                                                                                      | 06/04                        | 6.01%             | 06/14   | 75,000             | 75,000               |
| \$100 million unsecured Senior Notes payable at a fixed interest rate of 3.90%. Interest payable semi-annually. Annual principal payments of \$20 million begin in January 2014. Prepayment of notes are subject to a make whole premium.                                                                                                                                                                                       | 01/11                        | 3.90%             | 01/18   | 100,000            | 100,000              |
| Total long-term debt                                                                                                                                                                                                                                                                                                                                                                                                            |                              |                   |         | 204,147            | 175,000              |
| Less current maturities of long-term debt                                                                                                                                                                                                                                                                                                                                                                                       |                              |                   |         | (96,900)           | (20,000)             |
| Long-term debt, excluding current maturities                                                                                                                                                                                                                                                                                                                                                                                    |                              |                   |         | \$ 107,247         | \$ 155,000           |

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(1) Floating interest rates have been hedged with an interest rate swap to effectively fix interest rates. Additional information regarding the swap is provided in Note 12 to these consolidated condensed financial statements.

In March 2013, Kaz USA, Inc. ( "Kaz USA" ), a wholly owned subsidiary of the Company, entered into a Loan Agreement, dated as of March 1, 2013, with the Mississippi Business Finance Corporation (the "MBFC" ) in connection with the issuance by MBFC of up to \$38.00 million of taxable industrial development revenue bonds (the "Bonds" ). The Bonds are issued under a Trust Indenture (the "IRB Indenture" ), between MBFC and Deutsche Bank National Trust Company, as trustee. Interim draws, accumulating up to a \$38.00 million aggregate maximum, may be made through March 20, 2014. The Bonds and the related loan to Kaz USA (the "MBFC Loan" ) will bear interest at a variable rate as elected by Kaz USA equal to either (a) a "Base Rate" plus a margin of 0.00 to 1.125 percent, depending upon the leverage ratio at the time of the borrowing or (b) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 to 2.125 percent, depending upon the leverage ratio at the time of the borrowing. The Base Rate is equal to the highest of (i) the federal funds rate for the day,

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plus 0.50 percent, (ii) the prime rate of Bank of America, N.A., or (iii) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 percent. The proceeds of the MBFC Loan are being used by Kaz USA to finance the purchase of land, construction of a distribution facility and the acquisition and installation of equipment, machinery and related assets located in Olive Branch, Mississippi.

Assuming the \$38.00 million aggregate maximum is borrowed, outstanding principal of the MBFC Loan will be payable as follows: \$1.90 million on March 1 in each of 2014, 2015, 2018, 2019, 2020, 2021 and 2022; \$3.80 million on March 1, 2016; \$5.70 million on March 1, 2017; and \$15.20 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023. The MBFC Loan may be prepaid in whole or part without penalty any time after March 20, 2014. Additionally, Bank of America, N.A., the purchaser of the Bonds, may elect for the MBFC Loan to be prepaid in full on March 1, 2018. Following March 1, 2018, Bank of America, N.A. may elect for the MBFC Loan to be prepaid on March 1 of each subsequent year prior to maturity upon at least 90 days notice. In lieu of any prepayment, the Bonds may be purchased by a transferee, as permitted under the IRB Indenture.

The fair market value of the fixed rate debt at August 31, 2013, computed using a discounted cash flow analysis, was \$103.96 million compared to the \$100.00 million book value and represents a Level 2 liability. All other long-term debt has floating interest rates, and its book value approximates its fair value at August 31, 2013.

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 August 31, 2013, our debt agreements effectively limited our ability to incur more than \$354.23 million of additional debt from all sources, including draws on the Credit Agreement. As of August 31, 2013, we were in compliance with the terms of all of our debt agreements.

**Note 10   *Income Taxes***

Income tax expense for the three- and six-month periods ended August 31, 2013 was 17.4 and 18.0 percent of income before income taxes, respectively, compared to 17.2 and 16.5 percent, respectively, for the same periods last year. Our effective tax rate for the six months ended August 31, 2013 was also impacted by asset impairment charges of \$12.05 million, for which the related tax benefit was only \$0.02 million.

Table of Contents**Note 11 Fair Value**

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

**FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES**

(in thousands)

| Description                     | Fair Values at<br>August 31, 2013 | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Market Inputs<br>(Level 2) |
|---------------------------------|-----------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------|
| Assets:                         |                                   |                                                                         |                                                               |
| Money market accounts           | \$ 913                            | \$ 913                                                                  | \$ -                                                          |
| Foreign currency contracts      | 140                               | -                                                                       | 140                                                           |
| Total assets                    | \$ 1,053                          | \$ 913                                                                  | \$ 140                                                        |
| Liabilities:                    |                                   |                                                                         |                                                               |
| Long-term debt - fixed rate (1) | \$ 103,960                        | \$ -                                                                    | \$ 103,960                                                    |
| Long-term debt - floating rate  | 104,147                           | -                                                                       | 104,147                                                       |
| Interest rate swaps             | 3,012                             | -                                                                       | 3,012                                                         |
| Total liabilities               | \$ 211,119                        | \$ -                                                                    | \$ 211,119                                                    |

| Description                     | Fair Values at<br>February 28, 2013 | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>(Level 1) | Significant Other<br>Observable<br>Market Inputs<br>(Level 2) |
|---------------------------------|-------------------------------------|-------------------------------------------------------------------------|---------------------------------------------------------------|
| Assets:                         |                                     |                                                                         |                                                               |
| Money market accounts           | \$ 1,091                            | \$ 1,091                                                                | \$ -                                                          |
| Foreign currency contracts      | 496                                 | -                                                                       | 496                                                           |
| Total assets                    | \$ 1,587                            | \$ 1,091                                                                | \$ 496                                                        |
| Liabilities:                    |                                     |                                                                         |                                                               |
| Long-term debt - fixed rate (1) | \$ 105,725                          | \$ -                                                                    | \$ 105,725                                                    |
| Long-term debt - floating rate  | 75,000                              | -                                                                       | 75,000                                                        |
| Interest rate swaps             | 4,824                               | -                                                                       | 4,824                                                         |
| Total liabilities               | \$ 185,549                          | \$ -                                                                    | \$ 185,549                                                    |

(1) 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 remaining principal payments due.

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 1 assets.

We classify our fixed and floating rate debt as Level 2 liabilities because the estimation of the fair market value of these financial liabilities requires the use of discount rates based upon current market rates of interest for debt with comparable remaining terms. Such comparable 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 2.16 and 1.83 percent at August 31, 2013 and February 28, 2013, respectively. All other long-term debt has floating interest

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rates, and its book value approximates its fair value as of the reporting date.

We use derivatives for hedging purposes and our derivatives are primarily foreign currency contracts and an interest rate swap. We determine the fair value of our derivative instruments based on Level 2 inputs in the fair

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value hierarchy. See Note 12 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, in connection with our annual impairment testing during the fiscal quarter ended May 31, 2013, we recorded a non-cash asset impairment charge of \$12.05 million (\$12.03 million after tax). The charge related to certain trademarks in our Personal Care segment, which were written down to their estimated fair value, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

**Note 12 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 each of the three- and six-month periods ended August 31, 2013, approximately 14 percent of our net sales revenue was in foreign currencies. During each of the three- and six-month periods ended August 31, 2012, approximately 16 percent of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Australian Dollars, Peruvian Soles, and Venezuelan Bolivares Fuertes. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases. In our consolidated condensed statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets, and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses from remeasurement are recognized in SG&A. For the three- and six-month periods ended August 31, 2013, we recorded net foreign exchange gains (losses), including the impact of currency hedges, of (\$0.38) and (\$0.50) million, respectively, in SG&A and (\$0.02) and \$0.03 million, respectively, in income tax expense. For the three- and six-month periods ended August 31, 2012, we recorded net foreign exchange gains (losses), including the impact of currency hedges and currency swaps, of \$0.77 and (\$0.17) million, respectively, in SG&A and (\$0.03) and \$0.16 million, respectively, in income tax expense.

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

**Interest Rate Risk** Interest on our outstanding debt as of August 31, 2013 is both floating and fixed. Fixed rates are in place on \$100.00 million of Senior Notes at 3.90 percent, while floating rates are in place on \$23.50 million of borrowings under our Credit Agreement, \$29.15 million of interim draws under our MBFC Loan and \$75.00 million of Senior Notes due June 2014. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under the Credit Agreement and MBFC Loan. The floating rate Senior Notes due June 2014 reset as described in Note 9, and have been effectively converted to fixed rate debt using an interest rate swap (the swap), as described below.

We manage our floating rate \$75.00 million of Senior Notes due June 2014 using an interest rate swap. As of August 31, 2013, the swap converted an aggregate notional principal amount of \$75.00 million from floating interest rate payments under our Senior Notes due June 2014 to fixed interest rate payments at 6.01 percent. In the swap transaction, we maintain contracts to pay fixed rates of interest on an aggregate notional principal amount of \$75.00 million at a rate of 5.11 percent on our Senior Notes due June 2014, while simultaneously receiving floating rate interest payments set at 0.28 percent as of August 31, 2013 on the same notional amounts. The fixed rate side of the swap will not change over its life. The floating rate payments are reset quarterly based on three-month LIBOR. The resets are concurrent with the interest payments

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made on the underlying debt. Changes in the spread between the fixed rate payment side of the swap and the floating rate receipt side of the swap offset 100 percent of the change in any period of the underlying debt's floating rate payments. The swap is

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used to reduce our risk of increased interest costs; however, when interest rates drop significantly below the swap rate, we lose the benefit that our floating rate debt would provide, if not managed with a swap. The swap is considered 100 percent effective.

The fair values of our various derivative instruments are as follows:

## FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

|                                          |            | August 31, 2013       |                 |                                           |                                                |                               |
|------------------------------------------|------------|-----------------------|-----------------|-------------------------------------------|------------------------------------------------|-------------------------------|
| Designated as hedging instruments        | Hedge Type | Final Settlement Date | Notional Amount | Prepaid Expenses and Other Current Assets | Accrued Expenses and Other Current Liabilities | Other Liabilities, Noncurrent |
| Foreign currency contracts - sell Euro   | Cash flow  | 2/2014                | 5,750           | \$ 60                                     | \$ -                                           | \$ -                          |
| Foreign currency contracts - sell Pounds | Cash flow  | 2/2014                | £ 4,000         | 80                                        | -                                              | -                             |
| Interest rate swap                       | Cash flow  | 6/2014                | \$ 75,000       | -                                         | 3,012                                          | -                             |
| Total fair value                         |            |                       |                 | \$ 140                                    | \$ 3,012                                       | \$ -                          |

|                                          |            | February 28, 2013     |                 |                                           |                                                |                               |
|------------------------------------------|------------|-----------------------|-----------------|-------------------------------------------|------------------------------------------------|-------------------------------|
| Designated as hedging instruments        | Hedge Type | Final Settlement Date | Notional Amount | Prepaid Expenses and Other Current Assets | Accrued Expenses and Other Current Liabilities | Other Liabilities, Noncurrent |
| Foreign currency contracts - sell Euro   | Cash flow  | 10/2013               | 7,050           | \$ 239                                    | \$ -                                           | \$ -                          |
| Foreign currency contracts - sell Pounds | Cash flow  | 11/2013               | £ 3,000         | 257                                       | -                                              | -                             |
| Interest rate swap                       | Cash flow  | 6/2014                | \$ 75,000       | -                                         | 3,044                                          | 1,780                         |
| Total fair value                         |            |                       |                 | \$ 496                                    | \$ 3,044                                       | \$ 1,780                      |

The pre-tax effect of derivative instruments for the periods covered in the accompanying consolidated condensed financial statements are as follows:

## PRE-TAX EFFECT OF DERIVATIVE INSTRUMENTS

(in thousands)

|                                        | Gain \ (Loss) Recognized in OCI (effective portion) |          | Location         | Three Months Ended August 31, Gain \ (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income |       | Location | Gain \ (Loss) Recognized as Income (1) |       |
|----------------------------------------|-----------------------------------------------------|----------|------------------|----------------------------------------------------------------------------------------------------------------|-------|----------|----------------------------------------|-------|
|                                        | 2013                                                | 2012     |                  | 2013                                                                                                           | 2012  |          | 2013                                   | 2012  |
| Currency contracts - cash flow hedges  | \$ (68)                                             | \$ (933) | SG&A             | \$ 108                                                                                                         | \$ 11 | SG&A     | \$ -                                   | \$ 14 |
| Interest rate swaps - cash flow hedges | (24)                                                | (457)    | Interest expense | (925)                                                                                                          | (980) |          | -                                      | -     |

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|              |         |            |          |          |      |       |
|--------------|---------|------------|----------|----------|------|-------|
| <b>Total</b> | \$ (92) | \$ (1,390) | \$ (817) | \$ (969) | \$ - | \$ 14 |
|--------------|---------|------------|----------|----------|------|-------|

|                       | Gain \ (Loss)<br>Recognized in OCI<br>(effective portion) |                 | Location | Six Months Ended August 31,<br>Gain \ (Loss) Reclassified<br>from Accumulated Other<br>Comprehensive Loss into Income |                   | Location | Gain \ (Loss) Recognized<br>as Income (1) |              |
|-----------------------|-----------------------------------------------------------|-----------------|----------|-----------------------------------------------------------------------------------------------------------------------|-------------------|----------|-------------------------------------------|--------------|
|                       | 2013                                                      | 2012            |          | 2013                                                                                                                  | 2012              |          | 2013                                      | 2012         |
|                       |                                                           |                 |          |                                                                                                                       |                   |          |                                           |              |
| Currency contracts -  |                                                           |                 |          |                                                                                                                       |                   |          |                                           |              |
| cash flow hedges      | \$ (32)                                                   | \$ (23)         | SG&A     | \$ 324                                                                                                                | \$ 37             | SG&A     | \$ -                                      | \$ 49        |
| Interest rate swaps - |                                                           |                 | Interest |                                                                                                                       |                   |          |                                           |              |
| cash flow hedges      | (27)                                                      | (501)           | expense  | (1,839)                                                                                                               | (1,906)           |          | -                                         | -            |
| <b>Total</b>          | <b>\$ (59)</b>                                            | <b>\$ (524)</b> |          | <b>\$ (1,515)</b>                                                                                                     | <b>\$ (1,869)</b> |          | <b>\$ -</b>                               | <b>\$ 49</b> |

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

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We expect net gains of \$0.14 million associated with foreign currency contracts and losses of \$3.01 million associated with our interest rate swap, currently reported in accumulated other comprehensive loss, to be reclassified into income over the next ten months. The amount ultimately realized, however, will differ as exchange rates and interest rates change and the underlying contracts settle.

**Counterparty Credit Risk** - Financial instruments, including foreign currency contracts and interest rate swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk 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.

**Note 13 Repurchase of Helen of Troy Common Stock**

As of August 31, 2013, we were authorized by our Board of Directors to purchase up to 2,910,487 shares of common stock in the open market or through private transactions. Our current equity compensation plans include provisions that allow for the net exercise of stock options 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. Net exercises are accounted for by the Company as a purchase and retirement of shares.

During the fiscal quarter ended May 31, 2013, our Chief Executive Officer and President (the CEO) tendered 9,898 shares of restricted common stock having a market value of \$0.35 million as payment for related federal tax obligations arising from the vesting and settlement of performance-based restricted share units (Performance RSUs). We accounted for this activity as a purchase and retirement of the shares at a price of \$35.55 per share.

For the periods covered in the accompanying consolidated condensed financial statements, open market repurchase activity and common stock option exercises resulted in the following share repurchases:

**SHARE REPURCHASES**

|                                                                           | <b>Three Months Ended August 31,</b> |             | <b>Six Months Ended August 31,</b> |             |
|---------------------------------------------------------------------------|--------------------------------------|-------------|------------------------------------|-------------|
|                                                                           | <b>2013</b>                          | <b>2012</b> | <b>2013</b>                        | <b>2012</b> |
| Common stock repurchased on the open market                               |                                      |             |                                    |             |
| Number of shares                                                          | -                                    | -           | 33,862                             | -           |
| Aggregate market value of shares (in thousands)                           | \$ -                                 | \$ -        | \$ 1,311                           | \$ -        |
| Average price per share                                                   | \$ -                                 | \$ -        | \$ 38.71                           | \$ -        |
| Common stock received in settlement of stock options and Performance RSUs |                                      |             |                                    |             |
| Number of shares                                                          | 636                                  | 2,595       | 13,453                             | 47,039      |
| Aggregate market value of shares (in thousands)                           | \$ 27                                | \$ 82       | \$ 490                             | \$ 1,558    |
| Average price per share                                                   | \$ 42.89                             | \$ 31.46    | \$ 36.44                           | \$ 33.11    |

**Note 14**   *Share-Based Compensation Plans*

We have share-based awards outstanding under two expired and three active share-based compensation plans.

During the three- and six-months ended August 31, 2013, the Company granted options to purchase 8,000 and 258,750 shares of common stock, respectively, to certain of our officers, employees and new hires. For the fiscal year-to-date, these options were granted at exercise prices ranging from \$36.03 to \$42.25 per share. The fair value of the options were estimated using the Black-Scholes option pricing model to estimate fair values ranging from \$10.82 to \$13.17 for grants with terms of four and five years. The following assumptions were used for the grants: expected lives ranging from 4.05 to 4.35 years; risk-free interest rates ranging from 0.55 to 1.14 percent; zero dividend yield; and expected volatilities ranging from 36.00 to 41.67 percent.

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During the three- and six-month periods ending August 31, 2013, the Company awarded restricted stock grants with total values of \$0.15 and \$0.29 million, respectively, to certain Board members based upon fair values at the date of grant ranging from \$36.56 to \$40.09, respectively. Over the same three- and six-month periods, the grants were settled with 2,628 and 5,256 restricted shares, respectively, and cash of \$0.04 and \$0.08 million, respectively. The restricted stock awards vested immediately.

On April 22, 2013, under the terms of his employment agreement, bonus plan and relevant stock plans, our CEO earned and received the following equity awards as a component of his fiscal year 2013 performance-based incentive compensation:

- 159,666 shares of restricted stock with a total grant date fair value of \$5.68 million, or \$35.55 per share, which vest on February 28, 2015; and
- 100,000 Performance RSUs, originally granted on March 1, 2012 with an original grant date fair market value of \$3.29 million, or \$32.88 per share, of which 33,400 shares vested on April 22, 2013, 33,300 shares vest on February 28, 2014 and 33,300 shares vest on February 28, 2015.

We are recording the expense for these awards in accordance with their vesting over their related service periods.

Accruals for the CEO's remaining Performance RSUs and the CEO's restricted stock awards associated with his annual bonus are subject to the achievement of specified performance goals for the fiscal year and are estimated until earned, subject to a probability assessment of achieving the associated performance criteria. These accruals and the service period expense associated with the CEO's fiscal year 2013 and 2014 awards are shown in the line below entitled "Performance-based restricted stock awards and units."

During the three- and six-months ended August 31, 2013, employees and directors exercised stock options to purchase 45,784 and 153,720 shares of common stock, respectively.

We recorded share-based compensation expense in SG&A for the periods covered in the accompanying consolidated condensed financial statements as follows:

**SHARE-BASED PAYMENT EXPENSE**

*(in thousands, except per share data)*

|  | Three Months Ended August 31, |      | Six Months Ended August 31, |      |
|--|-------------------------------|------|-----------------------------|------|
|  | 2013                          | 2012 | 2013                        | 2012 |
|  | \$ 613                        |      | \$ 1,202                    |      |
|  | 150                           |      | 287                         |      |
|  | 2,543                         |      | 5,236                       |      |

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|  |          |  |          |  |
|--|----------|--|----------|--|
|  | 158      |  | 158      |  |
|  | 3,464    |  | 6,883    |  |
|  | (686)    |  | (1,411)  |  |
|  | \$ 2,778 |  | \$ 5,472 |  |
|  |          |  |          |  |
|  | \$ 0.09  |  | \$ 0.17  |  |
|  | \$ 0.09  |  | \$ 0.17  |  |

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

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

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

Our business is dependent upon discretionary consumer demand for most of our products and most of our business operates within mature and highly developed consumer markets. The principal driver of our operating performance is the strength of the U.S. economy. Domestic macroeconomic conditions have been moderately improving for some time and lately we have begun to see indications of economic improvement in key Western European and Latin American markets. While there are a number of favorable domestic economic indicators, including a robust stock market, moderating fuel prices, modestly positive employment figures, an uptick in manufacturing and recovering domestic housing markets, we believe consumers continue to be cautious with their disposable personal income. Recent reports of weaker than expected back-to-school results now have retailers and forecasters increasingly guarded about the upcoming holiday season. Additionally, though we believe unemployment rates have come down domestically and in certain key international markets, we remain cautious regarding the current and long-term prospects of the strength of the consumer workforce and demand due to the impact of shifting demographics and displacement of workers from the last recession. Finally, the underlying global dynamics that have kept consumers and businesses unsettled over the last several years still remain: Middle East tensions and related political instabilities, U.S. government budget issues, uncertainty regarding tax policy, the emerging impact of healthcare legislation on U.S. business's cost structures, cost variability, and frequent supplier instabilities. Accordingly, we remain cautious regarding our business outlook.

We have made the following progress on key initiatives:

- The Healthcare / Home Environment segment converted from their legacy Enterprise Resource Planning (ERP) system onto our global ERP system. We believe this migration will eliminate a number of costs associated with managing multiple ERP systems and continue to improve uniformity of execution throughout our organization. In addition, we are constantly upgrading and adding functionality to the overall system with key enhancements underway in the product development and finance areas that will further streamline and improve the quality of our back office operations.
- We commenced shipments out of our new 1.3 million square foot distribution facility in Olive Branch, Mississippi during the first week of September 2013. The new facility will house the distribution operations of both our Personal Care and Healthcare / Home Environment appliance business. We have moved the domestic Healthcare / Home Environment distribution out of its current leased Memphis, Tennessee location and are exiting that facility. The lease is scheduled to terminate on October 31, 2013. At the quarter's end, approximately 96 percent of our domestic Healthcare / Home Environment inventory had been moved to the new facility, with the balance to be moved in early September. In accordance with our original plan, we will not transition our domestic Personal Care appliance distribution to the new facility until after the end of our peak shipping season and expect to complete that move early in fiscal year 2015. We are pleased that the project is currently on schedule and on budget.

These investments will improve the infrastructure that supports our current business, stage us for additional operating efficiencies over the foreseeable future and provide a platform for further growth.

Consolidated net sales revenue for the three- and six-month periods ended August 31, 2013 increased \$31.98 and \$36.28 million to \$319.39 and \$623.90 million, respectively, compared to \$287.41 and \$587.62

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million, respectively, for the same periods last year. Net sales revenue in our Housewares segment increased \$5.60 million, or 8.7 percent, for the three month period ended August 31, 2013, and increased \$8.88 million, or 7.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Healthcare / Home Environment segment increased \$22.57 million, or 20.4 percent, for the three month period ended August 31, 2013, and increased \$25.76 million, or 11.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Personal Care segment increased \$3.81 million, or 3.4 percent, for the three month period ended August 31, 2013, and increased \$1.65 million, or 0.7 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. In addition to our net sales revenue performance discussed above, key results for the three- and six-month periods ended August 31, 2013 include the following:

- Consolidated gross profit margin as a percentage of net sales revenue for the fiscal quarter ended August 31, 2013 decreased 2.1 percentage points to 38.6 percent compared to 40.7 percent for the same period last year. Consolidated gross profit margin as a percentage of net sales revenue for the six month period ended August 31, 2013 decreased 1.5 percentage points to 39.0 percent compared to 40.5 percent for the same period last year.
  
- Selling, general and administrative expense ( SG&A ) as a percentage of net sales revenue decreased 0.9 percentage points to 29.1 percent for the three months ended August 31, 2013 compared to 30.0 percent for the same period last year. SG&A as a percentage of net sales revenue for the six months ended August 31, 2013 decreased 1.1 percentage points to 28.9 percent compared to 30.0 percent for the same period last year.
  
- For the three- and six-month periods ended August 31, 2013, operating income decreased to \$30.36 and \$50.98 million compared to \$30.84 and \$61.99 million, respectively, for the same periods last year. For the three- and six-month periods ended August 31, 2013, operating income as a percentage of net sales revenue decreased 1.2 and 2.3 percentage points, respectively. Operating income for the six month period ended August 31, 2013 includes a non-cash asset impairment charge of \$12.05 million, which represents 1.9 percentage points of the year-over-year decline. We recorded no non-cash asset impairment charges during the same period last year.
  
- For the three- and six-month periods ended August 31, 2013, our net income was \$23.32 and \$37.71 million, respectively, compared to \$22.97 and \$46.44 million, respectively, for the same periods last year, an increase of 1.5 and decrease of 18.8 percent, respectively. For the three- and six-month periods ended August 31, 2013, our diluted earnings per share was \$0.72 and \$1.17 compared to \$0.72 and \$1.46, respectively, for the same periods last year.
  
- Income without impairments was \$23.32 and \$49.74 million, respectively, for the three- and six-month periods ended August 31, 2013, compared to \$22.97 and \$46.44 million, respectively, for the same periods last year. Our diluted earnings per share without impairments was \$0.72 and \$1.54 for the three- and six-month periods ended August 31, 2013, compared to \$0.72 and \$1.46, respectively, for the same periods last year. Income without impairments and diluted earnings per share without impairments 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, beginning on page 27.

Table of Contents**RESULTS OF OPERATIONS****Comparison of the three- and six-month periods ended August 31, 2013 to the same periods ended August 31, 2012**

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

**SELECTED OPERATING DATA**

*(dollars in thousands)*

|                                             | <b>Three Months Ended August 31,</b> |             |                  |                 | <b>% of Sales Revenue, net</b> |             |
|---------------------------------------------|--------------------------------------|-------------|------------------|-----------------|--------------------------------|-------------|
|                                             | <b>2013</b>                          | <b>2012</b> | <b>\$ Change</b> | <b>% Change</b> | <b>2013</b>                    | <b>2012</b> |
| Sales revenue by segment, net               |                                      |             |                  |                 |                                |             |
| Housewares                                  | \$ <b>70,165</b>                     | \$ 64,570   | \$ 5,595         | 8.7%            | <b>22.0%</b>                   | 22.5%       |
| Healthcare / Home Environment               | <b>133,044</b>                       | 110,477     | 22,567           | 20.4%           | <b>41.7%</b>                   | 38.4%       |
| Personal Care                               | <b>116,178</b>                       | 112,364     | 3,814            | 3.4%            | <b>36.4%</b>                   | 39.1%       |
| Total sales revenue, net                    | <b>319,387</b>                       | 287,411     | 31,976           | 11.1%           | <b>100.0%</b>                  | 100.0%      |
| Cost of goods sold                          | <b>196,132</b>                       | 170,381     | 25,751           | 15.1%           | <b>61.4%</b>                   | 59.3%       |
| Gross profit                                | <b>123,255</b>                       | 117,030     | 6,225            | 5.3%            | <b>38.6%</b>                   | 40.7%       |
| Selling, general and administrative expense | <b>92,899</b>                        | 86,189      | 6,710            | 7.8%            | <b>29.1%</b>                   | 30.0%       |
| Asset impairment charges                    | -                                    | -           | -                | 0.0%            | <b>0.0%</b>                    | 0.0%        |
| Operating income                            | <b>30,356</b>                        | 30,841      | (485)            | -1.6%           | <b>9.5%</b>                    | 10.7%       |
| Nonoperating income (expense), net          | <b>56</b>                            | 31          | 25               | 80.6%           | <b>0.0%</b>                    | 0.0%        |
| Interest expense                            | <b>(2,192)</b>                       | (3,130)     | 938              | -30.0%          | <b>-0.7%</b>                   | -1.1%       |
| Total other income (expense)                | <b>(2,136)</b>                       | (3,099)     | 963              | -31.1%          | <b>-0.7%</b>                   | -1.1%       |
| Income before income taxes                  | <b>28,220</b>                        | 27,742      | 478              | 1.7%            | <b>8.8%</b>                    | 9.7%        |
| Income tax expense                          | <b>4,902</b>                         | 4,774       | 128              | 2.7%            | <b>1.5%</b>                    | 1.7%        |
| Net income                                  | \$ <b>23,318</b>                     | \$ 22,968   | \$ 350           | 1.5%            | <b>7.3%</b>                    | 8.0%        |

|                                             | <b>Six Months Ended August 31,</b> |             |                  |                 | <b>% of Sales Revenue, net</b> |             |
|---------------------------------------------|------------------------------------|-------------|------------------|-----------------|--------------------------------|-------------|
|                                             | <b>2013</b>                        | <b>2012</b> | <b>\$ Change</b> | <b>% Change</b> | <b>2013</b>                    | <b>2012</b> |
| Sales revenue by segment, net               |                                    |             |                  |                 |                                |             |
| Housewares                                  | \$ <b>133,695</b>                  | \$ 124,819  | \$ 8,876         | 7.1%            | <b>21.4%</b>                   | 21.2%       |
| Healthcare / Home Environment               | <b>258,646</b>                     | 232,887     | 25,759           | 11.1%           | <b>41.5%</b>                   | 39.6%       |
| Personal Care                               | <b>231,562</b>                     | 229,916     | 1,646            | 0.7%            | <b>37.1%</b>                   | 39.1%       |
| Total sales revenue, net                    | <b>623,903</b>                     | 587,622     | 36,281           | 6.2%            | <b>100.0%</b>                  | 100.0%      |
| Cost of goods sold                          | <b>380,484</b>                     | 349,444     | 31,040           | 8.9%            | <b>61.0%</b>                   | 59.5%       |
| Gross profit                                | <b>243,419</b>                     | 238,178     | 5,241            | 2.2%            | <b>39.0%</b>                   | 40.5%       |
| Selling, general and administrative expense | <b>180,389</b>                     | 176,189     | 4,200            | 2.4%            | <b>28.9%</b>                   | 30.0%       |
| Asset impairment charges                    | <b>12,049</b>                      | -           | 12,049           | *               | <b>1.9%</b>                    | 0.0%        |
| Operating income                            | <b>50,981</b>                      | 61,989      | (11,008)         | -17.8%          | <b>8.2%</b>                    | 10.5%       |

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|                                    |                  |           |            |        |              |       |
|------------------------------------|------------------|-----------|------------|--------|--------------|-------|
| Nonoperating income (expense), net | <b>140</b>       | 54        | 86         | *      | <b>0.0%</b>  | 0.0%  |
| Interest expense                   | <b>(5,134)</b>   | (6,442)   | 1,308      | -20.3% | <b>-0.8%</b> | -1.1% |
| Total other income (expense)       | <b>(4,994)</b>   | (6,388)   | 1,394      | -21.8% | <b>-0.8%</b> | -1.1% |
| Income before income taxes         | <b>45,987</b>    | 55,601    | (9,614)    | -17.3% | <b>7.4%</b>  | 9.5%  |
| Income tax expense                 | <b>8,278</b>     | 9,161     | (883)      | -9.6%  | <b>1.3%</b>  | 1.6%  |
| Net income                         | <b>\$ 37,709</b> | \$ 46,440 | \$ (8,731) | -18.8% | <b>6.0%</b>  | 7.9%  |

\* Calculation is not meaningful

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## Consolidated net sales revenue:

Consolidated net sales revenue for the three- and six-month periods ended August 31, 2013 increased \$31.98 and \$36.28 million to \$319.39 and \$623.90 million, respectively, compared to \$287.41 and \$587.62 million, respectively, for the same periods last year. Net sales revenue in our Housewares segment increased \$5.60 million, or 8.7 percent, for the three month period ended August 31, 2013, and increased \$8.88 million, or 7.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Healthcare / Home Environment segment increased \$22.57 million, or 20.4 percent, for the three month period ended August 31, 2013, and increased \$25.76 million, or 11.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Personal Care segment increased \$3.81 million, or 3.4 percent, for the three month period ended August 31, 2013, and increased \$1.65 million, or 0.7 percent, for the six month period ended August 31, 2013, when compared to the same periods last year.

## Impact of acquisitions on net sales revenue:

Because we are an acquisition-oriented company, we have historically provided an analysis of our net sales revenues in terms of organic growth from our core business (business owned and operated over the same fiscal period last year) and growth from acquisitions (business that we have acquired and operated for less than twelve months during each period presented). Our last acquisition occurred on December 30, 2011. Accordingly for the three- and six-month periods ended August 31, 2013, all net sales revenue growth is organic growth from our core business, as shown in the tables below.

## IMPACT OF ACQUISITIONS ON NET SALES REVENUE

(in thousands)

|                                                  | Three Months Ended August 31, |            |
|--------------------------------------------------|-------------------------------|------------|
|                                                  | 2013                          | 2012       |
| Prior year's sales revenue, net                  | \$ 287,411                    | \$ 277,420 |
| Components of net sales revenue change           |                               |            |
| Core business                                    | 31,976                        | (16,261)   |
| Incremental net sales revenue from acquisitions: |                               |            |
| PUR (three months in fiscal 2013)                | -                             | 26,252     |
| Change in sales revenue, net                     | 31,976                        | 9,991      |
| Sales revenue, net                               | \$ 319,387                    | \$ 287,411 |
| Total net sales revenue growth                   | 11.1 %                        | 3.6 %      |
| Core business                                    | 11.1 %                        | -5.9 %     |
| Acquisitions                                     | -                             | 9.5 %      |

## IMPACT OF ACQUISITIONS ON NET SALES REVENUE

(in thousands)

| Six Months Ended August 31, |      |
|-----------------------------|------|
| 2013                        | 2012 |

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|                                                  |    |         |    |          |
|--------------------------------------------------|----|---------|----|----------|
| Prior year's sales revenue, net                  | \$ | 587,622 | \$ | 548,887  |
| Components of net sales revenue change           |    |         |    |          |
| Core business                                    |    | 36,281  |    | (11,808) |
| Incremental net sales revenue from acquisitions: |    |         |    |          |
| PUR (six months in fiscal 2013)                  |    | -       |    | 50,543   |
| Change in sales revenue, net                     |    | 36,281  |    | 38,735   |
| Sales revenue, net                               | \$ | 623,903 | \$ | 587,622  |
| Total net sales revenue growth                   |    | 6.2%    |    | 7.1%     |
| Core business                                    |    | 6.2%    |    | -2.2%    |
| Acquisitions                                     |    | -       |    | 9.2%     |

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

***Impact of foreign currencies on net sales revenue:***

During each of the three- and six-month periods ended August 31, 2013, we transacted approximately 14 percent of our net sales revenues in foreign currencies. During each of the three- and six-month periods ended August 31, 2012, we transacted approximately 16 percent of our net sales revenues in foreign currencies. These transactions were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Australian Dollars, Peruvian Soles, and Venezuelan Bolivares Fuertes. For the three- and six-month periods ended August 31, 2013, the impact of net foreign currency exchange rates decreased our international net sales revenue by approximately \$0.91 and \$2.10 million, respectively. Approximately 86 percent of the impact of these fluctuations affected sales in our Personal Care segment.

***Segment net sales revenue:***

We operate our business under three segments: Housewares, Healthcare / Home Environment and Personal Care. Our Housewares segment reports the operations of OXO, whose product offerings include food preparation and storage, cleaning, organization, and baby and toddler care products. The Healthcare / Home Environment segment sells products in the following categories: health care devices, such as thermometers, blood pressure monitors, humidifiers, and heating pads; water filtration systems; and small home appliances, such as air purifiers, portable heaters, fans, and insect control devices (bug zappers). Our Personal Care segment currently offers products in three categories: hair care, beauty care and wellness appliances; grooming, skin care and hair care solutions; and brushes, combs and accessories.

**Housewares Segment** Net sales revenue in the Housewares segment for the three month period ended August 31, 2013 increased \$5.60 million, or 8.7 percent, to \$70.17 million compared with \$64.57 million for the same period last year. Net sales revenue in the Housewares segment for the six month period ended August 31, 2013 increased \$8.88 million, or 7.1 percent, to \$133.70 million compared with \$124.82 million for the same period last year. From a product perspective, the Housewares segment's net sales revenue growth was principally driven by overall growth in kitchen tools, gadgets and kitchen storage lines, the success of the revamped OXO cleaning utility line, and continued market penetration of our OXO tot line of infant and toddler care products. From a customer perspective, growth was driven by expanded shelf space and assortments at several key retailers, continued growth in internet sales, an expansion of the wholesale club business, and new customer distribution in the current fiscal year.

**Healthcare / Home Environment Segment** Net sales revenue in the Healthcare / Home Environment segment for the three month period ended August 31, 2013 increased \$22.57 million, or 20.4 percent, to \$133.04 million compared with \$110.48 million for the same period last year. Net sales revenue in the Healthcare / Home Environment segment for the six month period ended August 31, 2013 increased \$25.76 million, or 11.1 percent, to \$258.65 million compared with \$232.89 million for the same period last year. The segment experienced net sales revenue increases in the water filtration category largely as a result of advertising and promotional activity. The segment has also seen strong performance in air purification and its Braun Thermoscan line of thermometry. Additionally, fan sales have had solid year-to-date increases as a result of a very warm summer in Europe. This growth was partially offset by a sales decline in the insect control category, resulting from a cool spring in North America.

**Personal Care Segment** - Net sales revenue in the Personal Care segment for the three month period ended August 31, 2013 increased \$3.81 million, or 3.4 percent, to \$116.18 million compared with \$112.36 million for the same period last year. Net sales revenue in the Personal Care segment for the six month period ended August 31, 2013 increased \$1.65 million, or 0.7 percent, to \$231.56 million compared with \$229.92 million for the same period last year. The increase in net sales revenue was primarily due to gains in our professional

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appliances, brushes, combs and accessories categories and in Europe and Latin America. Europe benefited from a new product distribution arrangement specific to the current fiscal year. The gains were partially offset by declines in our domestic retail appliance and grooming, skin care and hair care solutions product categories. The domestic retail appliance product category has been negatively impacted by lost shelf space at a major retailer, which was partially offset by increased distribution elsewhere. The grooming, skin care and hair care solutions product category continues to encounter particularly difficult retail conditions, including significant new competitive product launches and promotional spending in hair care, inventory rationalization at large retailers, and changing customer order replenishment practices leading to elevated out-of-stock positions on retail shelves.

***Consolidated gross profit margin:***

Consolidated gross profit margin as a percentage of net sales revenue for the three months ended August 31, 2013 decreased 2.1 percentage points to 38.6 percent compared to 40.7 percent for the same period last year. Consolidated gross profit margin as a percentage of net sales revenue for the six months ended August 31, 2013 decreased 1.5 percentage points to 39.0 percent compared to 40.5 percent for the same period last year. Our consolidated gross profit margin was unfavorably impacted by the combined effects of increased promotional program costs, the effect of foreign currency exchange rates on net sales revenue and the continuing trend of general product cost increases across all segments. In addition, the growth of the Healthcare / Home Environment segment's net sales revenue has a dilutive impact on gross margins because its overall gross margins are lower than our other two segments.

Our product sourcing mix is heavily dependent on imports from China. China's currency is no longer pegged solely to the U.S. dollar. As a result, we believe China's currency will continue to appreciate against the U.S. Dollar in the short-to-intermediate-term, resulting in increased product costs over time. Furthermore, if increases in the underlying costs of labor and commodities in China occur, we expect that they would also result in future increases in our product costs.

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

SG&A decreased 0.9 percentage points, to 29.1 percent of net sales revenue for the three month period ended August 31, 2013, compared to 30.0 percent for the same period last year. SG&A decreased 1.1 percentage points, to 28.9 percent of net sales revenue for the six month period ended August 31, 2013, compared to 30.0 percent for the same period last year. The year-over-year decreases in SG&A as a percentage of net sales revenue is primarily due to: lower outbound freight and distribution costs, reduced media advertising costs and a gain from a litigation settlement. These expense reductions were partially offset by higher incentive compensation costs and higher cooperative advertising costs during the three- and six-month periods ended August 31, 2013.

***Asset impairment charges:***

We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2014. As a result of our testing of indefinite-lived trademarks and licenses, we recorded a non-cash asset impairment charge of \$12.05 million (\$12.03 million after tax) during the fiscal quarter ended May 31, 2013. The charge was related to certain trademarks in our Personal Care segment, which were written down to their estimated fair value as a result of lower revenue outlooks due to competitive factors. The fair values were determined on the basis of future discounted cash flows using the relief from royalty valuation method.



Table of Contents**Operating income by segment:**

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

**OPERATING INCOME BY SEGMENT**

(dollars in thousands)

|                               | Three Months Ended August 31, |           | \$ Change | % Change | % of Sales Revenue, net |       |
|-------------------------------|-------------------------------|-----------|-----------|----------|-------------------------|-------|
|                               | 2013                          | 2012      |           |          | 2013                    | 2012  |
| Housewares                    | \$ 13,772                     | \$ 12,078 | \$ 1,694  | 14.0%    | 19.6%                   | 18.7% |
| Healthcare / Home Environment | 4,974                         | 6,883     | (1,909)   | -27.7%   | 3.7%                    | 6.2%  |
| Personal Care                 | 11,610                        | 11,880    | (270)     | -2.3%    | 10.0%                   | 10.6% |
| Total operating income        | \$ 30,356                     | \$ 30,841 | \$ (485)  | -1.6%    | 9.5%                    | 10.7% |

|                               | Six Months Ended August 31, |           | \$ Change   | % Change | % of Sales Revenue, net |       |
|-------------------------------|-----------------------------|-----------|-------------|----------|-------------------------|-------|
|                               | 2013                        | 2012      |             |          | 2013                    | 2012  |
| Housewares                    | \$ 26,228                   | \$ 23,355 | \$ 2,873    | 12.3%    | 19.6%                   | 18.7% |
| Healthcare / Home Environment | 11,510                      | 14,874    | (3,364)     | -22.6%   | 4.5%                    | 6.4%  |
| Personal Care                 | 13,243                      | 23,760    | (10,517)    | -44.3%   | 5.7%                    | 10.3% |
| Total operating income        | \$ 50,981                   | \$ 61,989 | \$ (11,008) | -17.8%   | 8.2%                    | 10.5% |

We compute operating income for each segment based on net sales revenue, less cost of goods sold and SG&A associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment, plus overhead expenses that are allocable to the segment. We make allocations of overhead between operating segments using a number of relevant allocation criteria, depending on the nature of the expense, the most significant of which are relative revenues, estimates of relative labor expenditures, headcount, and facility square footage. We do not allocate nonoperating income and expense, interest or income taxes to operating segments.

**Housewares Segment** The Housewares segment's operating income for the three month period ended August 31, 2013 increased \$1.69 million, or 14.0 percent, compared to the same period last year. The Housewares segment's operating income for the six month period ended August 31, 2013 increased \$2.87 million, or 12.3 percent, compared to the same period last year. The increase in operating income for the periods reported is principally due to an increase in net sales revenue, improved overall operating leverage, and lower domestic distribution costs due to year-over-year efficiency gains. These favorable factors have been partially offset by higher product costs.

**Healthcare / Home Environment Segment** The Healthcare / Home Environment segment's operating income for the three month period ended August 31, 2013 decreased \$1.91 million, or 27.7 percent, compared to the same period last year. The Healthcare / Home Environment segment's operating income for the six month period ended August 31, 2013 decreased \$3.36 million, or 22.6 percent, compared to the same period last year. The decrease in operating income over the periods reported was principally due to higher product and incentive compensation costs and higher allocations of overhead.

**Personal Care Segment** The Personal Care segment's operating income for the three month period ended August 31, 2013 decreased \$0.27 million, or 2.3 percent, compared to the same period last year. The Personal Care segment's operating income for the six month period ended August 31, 2013 decreased \$10.52 million, or 44.3 percent, compared to the same period last year. The decrease in operating income for the three month period ended August 31, 2013 was principally due to higher product costs, less favorable sales mix and increased incentive compensation cost allocations. These unfavorable factors were partially offset by lower media advertising costs and lower outbound freight and distribution costs. The decrease in operating income for the six month period ended August 31, 2013 was principally due to the impact of higher promotional allowances and cooperative advertising, higher product costs, the unfavorable impact of foreign exchange fluctuations, increased incentive compensation cost allocations, and a non-cash asset impairment charge (as further discussed above under

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Asset impairment charges ). These unfavorable factors were partially offset by lower media advertising costs, a gain from a litigation settlement and lower outbound freight and distribution costs.

#### ***Interest expense:***

Interest expense for the three- and six-month periods ended August 31, 2013 was \$2.19 and \$5.13 million, respectively, compared to \$3.13 and \$6.44 million, respectively, for the same periods last year. Interest expense was lower when compared to the same periods last year principally due to lower levels of debt outstanding.

#### ***Income tax expense:***

Income tax expense as a percentage of income before taxes for the three- and six-month periods ended August 31, 2013 was 17.4 and 18.0 percent, respectively, compared to 17.2 and 16.5 percent, respectively, for the same periods last year. Our effective tax rate for the six month period ended August 31, 2013 was impacted by asset impairment charges of \$12.05 million recorded during the fiscal quarter ended May 31, 2013, for which the related tax benefit was only \$0.02 million. As a result, we now expect our effective tax rate for the full fiscal year 2014 to range between 17.0 and 19.0 percent.

#### ***Net Income:***

Net income for the three month period ended August 31, 2013 increased by \$0.35 million compared to the same period last year. Net income for the six months ended August 31, 2013 decreased by \$8.73 million compared to the same period last year. The decline for the six months ended August 31, 2013 is due to the unfavorable impact of asset impairment charges of \$12.03 million, net of tax, recorded during the first quarter of fiscal 2014 as a result of our annual evaluation of goodwill and indefinite-lived intangible assets, as well as the other factors described above.

Income without impairments was \$23.32 and \$49.74 million, respectively, for the three- and six-month periods ended August 31, 2013, compared to \$22.97 and \$46.44 million, respectively, for the same periods last year. Income without impairments for the six month period ended August 31, 2013 increased by \$3.30 million when compared to the same period last year due to organic net sales revenue growth of 6.2 percent and a 1.1 percentage point decline in SG&A, partially offset by higher product costs. The following table presents the comparative impact of the asset impairment charges on our net income, and basic and diluted earnings per share for three- and six-month periods ended August 31, 2013 and 2012:

#### **IMPACT OF ASSET IMPAIRMENT CHARGES ON NET INCOME AND EARNINGS PER SHARE**

(dollars in thousands, except per share data)

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|                                      | Three Months Ended August 31, |           | Basic Earnings per Share |         | Diluted Earnings per Share |         |
|--------------------------------------|-------------------------------|-----------|--------------------------|---------|----------------------------|---------|
|                                      | 2013                          | 2012      | 2013                     | 2012    | 2013                       | 2012    |
| Net income, as reported              | \$ 23,318                     | \$ 22,968 | \$ 0.73                  | \$ 0.72 | \$ 0.72                    | \$ 0.72 |
| Asset impairment charges, net of tax | -                             | -         | -                        | -       | -                          | -       |
| Income without impairments           | \$ 23,318                     | \$ 22,968 | \$ 0.73                  | \$ 0.72 | \$ 0.72                    | \$ 0.72 |
|                                      |                               |           |                          |         |                            |         |
|                                      | 2013                          |           | 2013                     |         | 2013                       |         |
|                                      | \$ 37,709                     |           | \$ 1.18                  |         | \$ 1.17                    |         |
|                                      | 12,034                        |           | 0.38                     |         | 0.37                       |         |
|                                      | \$ 49,743                     |           | \$ 1.56                  |         | \$ 1.54                    |         |

The table shown above entitled "Impact of Asset Impairment Charges on Net Income and Earnings per Share" reports income and earnings per share which exclude asset impairment charges. Income without impairments and earnings per share without impairments, as discussed in the preceding table, may be considered non-GAAP financial information as contemplated by SEC Regulation G, Rule 100. The preceding

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table reconciles these measures to their corresponding GAAP-based measures presented in our consolidated condensed statements of income. The Company believes that income without impairments and earnings per share without impairments measures provide useful information to management and investors regarding financial and business trends relating to its financial condition and results of operations. The Company believes that income without impairments and earnings per share without impairments measures, in combination with the Company's financial results calculated in accordance with GAAP, provide investors with additional perspective regarding the impact of asset impairment charges on net income and earnings per share. The Company also believes that these non-GAAP measures facilitate a more direct comparison of its performance with its competitors. The Company further believes including the excluded asset impairment charges would not accurately reflect the underlying performance of its continuing operations for the period in which the impairments are incurred, even though asset impairment charges may be incurred and reflected in the Company's GAAP financial results in the foreseeable 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 income without impairments and earnings per share without impairments measures 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.

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

Selected measures of our liquidity and capital resources for the six month periods ended August 31, 2013 and 2012 are shown below:

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

|                                         | <b>Six Months Ended August 31,</b> |             |
|-----------------------------------------|------------------------------------|-------------|
|                                         | <b>2013</b>                        | <b>2012</b> |
| Accounts Receivable Turnover (Days) (1) | <b>61.9</b>                        | 61.1        |
| Inventory Turnover (Times) (1)          | <b>2.7</b>                         | 2.7         |
| Working Capital ( <i>in thousands</i> ) | <b>\$ 227,230</b>                  | \$ 173,061  |
| Current Ratio                           | <b>1.6 : 1</b>                     | 1.4 : 1     |
| Ending Debt to Ending Equity Ratio (2)  | <b>23.5%</b>                       | 39.4%       |
| Return on Average Equity (1)(3)         | <b>11.7%</b>                       | 13.7%       |

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

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

(3) For the six month period ended August 31, 2013, a non-cash impairment charge of \$12.05 million (\$12.03 million after tax) had an unfavorable impact of 1.3 percentage points on return on average equity.

***Operating activities:***

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Operating activities provided \$57.14 million of cash during the first six months of fiscal year 2014, compared to \$10.75 million of cash provided during the same period in fiscal year 2013. The increase in operating cash flow was primarily due to the timing of fluctuations in working capital components, particularly year-over-year changes in inventory activity, when compared to the same period last year.

Accounts receivable increased \$11.59 million to \$231.31 million as of August 31, 2013, compared to \$219.72 million at the end of fiscal year 2013. Accounts receivable turnover increased to 61.9 days at August 31,

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2013 compared to 61.1 days at August 31, 2012. This calculation is based on a rolling five quarter accounts receivable balance.

Inventories increased \$25.98 million to \$306.85 million as of August 31, 2013, compared to \$280.87 million at the end of fiscal year 2013. The year-to-date inventory increase is primarily due to normal seasonal fluctuations. The end of the second fiscal quarter is typically our peak inventory quarter because we build inventory in anticipation of back-to-school and holiday selling seasons. Inventories at August 31, 2013 decreased \$11.84 million compared to the August 31, 2012 balance of \$318.70 million. Inventory turnover was 2.7 times at August 31, 2013 and 2012.

Working capital was \$227.23 million at August 31, 2013, compared to \$173.06 million at August 31, 2012. The increase in working capital over the last twelve months is primarily caused by the repayment of our debt. Cash from operations was used to pay down \$137.50 million of short-term debt. This was partially offset by the reclassification of \$20.00 and \$75.00 million of long-term debt scheduled to mature in January 2014, and June 2014, respectively, as current liabilities. As a result, our current ratio increased to 1.6:1 at August 31, 2013, compared to 1.4:1 at August 31, 2012.

***Investing activities:***

Investing activities used \$34.58 million of cash during the six month period ended August 31, 2013. Highlights of those activities follow:

- We spent \$29.57 million on building and improvements, primarily in connection with the construction of our new distribution facility in Olive Branch, Mississippi; and
- We spent \$4.06 million on information technology infrastructure and other furniture and equipment, \$0.77 million on tools, molds and other capital asset additions and \$0.18 million on the development of new patents.

***Financing activities:***

Financing activities used \$25.31 million of cash during the six month period ended August 31, 2013. Highlights of those activities follow:

- We had draws of \$76.80 million against our revolving credit agreement;
- We repaid \$135.30 million drawn against our revolving credit agreement;

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- We had draws of \$29.15 million against new debt to finance the construction of our new distribution facility in Olive Branch, Mississippi;
- We incurred \$0.13 million in debt acquisition costs in connection with new long-term debt;
- Employees and certain members of our Board of Directors exercised options to purchase 153,720 shares of common stock, providing \$4.51 million of cash, including tax benefits;
- We paid \$0.44 million in tax obligations in connection with the vesting of certain restricted stock grants to our Chief Executive Officer and members of our Board of Directors;
- We repurchased and retired 33,862 shares of common stock at an average price of \$38.71 per share for a total purchase price of \$1.31 million; and
- Share-based compensation expenses provided \$1.41 million in current tax benefits.

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

We have a credit agreement (the "Credit Agreement") with Bank of America, N.A., that provides for an unsecured total revolving commitment of up to \$250.00 million. The commitment under the Credit Agreement terminates on December 30, 2015. With each borrowing, we can elect the interest rate method based on our funding needs at the time. Borrowings under the Credit Agreement accrue interest at a base rate plus a margin of 0.00 to 1.125 percent per annum based on the Leverage Ratio (as defined in the Credit Agreement) at the time of borrowing. The base rate is equal to the highest of the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50 percent, Bank of America's prime rate or the one-month LIBOR rate plus 1.00 percent. Alternatively, if we elect, borrowings accrue interest based on the respective one-, two-, three-, or six-month LIBOR rate plus a margin of 1.00 to 2.125 percent per annum based upon the Leverage Ratio at the time of the borrowing. 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 August 31, 2013, the outstanding revolving loan principal balance was \$23.50 million and there were \$0.31 million of open letters of credit outstanding against the Credit Agreement. For both the three- and six-months ended August 31, 2013, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.18 to 3.63 percent. For the three- and six-month periods ended August 31, 2012, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.61 to 3.63 percent and 1.61 to 4.00 percent, respectively. As of August 31, 2013, the amount available for borrowings under the Credit Agreement was \$226.19 million.

In addition to the Credit Agreement, at August 31, 2013, we had an aggregate principal balance of \$175.00 million of Senior Notes with varying maturities due between January 2014 and January 2018 and interest rates ranging from 3.90 to 6.01 percent. \$75.00 million of the debt can be prepaid without penalty and \$100.00 million of the debt is subject to a "make-whole" premium if repaid before maturity.

In March 2013, Kaz USA, Inc. ("Kaz USA"), a wholly owned subsidiary of the Company, entered into a Loan Agreement, dated as of March 1, 2013, with the Mississippi Business Finance Corporation (the "MBFC") in connection with the issuance by MBFC of up to \$38.00 million of taxable industrial development revenue bonds (the "Bonds"). The Bonds are issued under a Trust Indenture (the "IRB Indenture"), between MBFC and Deutsche Bank National Trust Company, as trustee. Interim draws, accumulating up to a \$38.00 million aggregate maximum, may be made through March 20, 2014. The Bonds and the related loan to Kaz USA (the "MBFC Loan") will bear interest at a variable rate as elected by Kaz USA equal to either (a) a "Base Rate" plus a margin of 0.00 to 1.125 percent depending upon the leverage ratio at the time of the borrowing or (b) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 to 2.125 percent, depending upon the leverage ratio at the time of the borrowing. The Base Rate is equal to the highest of (i) the federal funds rate for the day, plus 0.50 percent, (ii) the prime rate of Bank of America, N.A., or (iii) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 percent. The proceeds of the MBFC Loan are being used by Kaz USA to finance the purchase of land, construction of a distribution facility and the acquisition and installation of equipment, machinery and related assets located in Olive Branch, Mississippi.

Assuming the \$38.00 million aggregate maximum is borrowed, outstanding principal of the MBFC Loan will be payable as follows: \$1.90 million on March 1 in each of 2014, 2015, 2018, 2019, 2020, 2021, and 2022; \$3.80 million on March 1, 2016; \$5.70 million on March 1, 2017; and \$15.20 million on March 1, 2023. Any remaining outstanding principal and interest is due upon the maturity of the MBFC Loan on March 1, 2023. The MBFC Loan may be prepaid in whole or part without penalty any time after March 20, 2014. Additionally, Bank of America, N.A., the purchaser of the Bonds, may elect for the MBFC Loan to be prepaid in full on March 1, 2018. Following March 1, 2018, Bank of America, N.A. may elect for the MBFC Loan to be prepaid on March 1 of each subsequent year prior to maturity upon at least 90 days notice. In lieu of any prepayment, the Bonds may be purchased by a transferee, as permitted under the IRB Indenture.

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 are defined in the various agreements). Our debt agreements also contain other customary

covenants,

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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. 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 revolving credit facility.

The table below provides the formulas for certain key financial covenants as defined in our various debt agreements:

| Applicable Financial Covenant  | Credit Agreement and MBFC Loan                                                                                                                                        | \$75 Million Floating Rate Senior Notes                                              | \$100 Million 3.90% Fixed Rate Senior Notes                                                  |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Minimum Consolidated Net Worth | \$530 Million + 100% of Increase in Equity Due to Sale of Equity Interests After August 31, 2010<br>+<br>40% of Fiscal Quarter Net Earnings After August 31, 2010 (1) | \$260 Million<br>+<br>25% of Fiscal Quarter Net Earnings After February 29, 2004 (1) | \$500 Million<br>+<br>25% of Fiscal Quarter Net Earnings After August 31, 2010 (1)           |
| Interest Coverage Ratio        | EBIT (2)<br>÷<br>Interest Expense (2)                                                                                                                                 | None                                                                                 | EBIT (2)<br>÷<br>Interest Expense (2)                                                        |
|                                | Minimum Required: 3.00 to 1.00                                                                                                                                        |                                                                                      | Minimum Required: 2.50 to 1.00                                                               |
| Maximum Leverage Ratio         | Total Current and Long Term Debt (3)<br>÷<br>[EBITDA (2) + Pro Forma Effect of Acquisitions]                                                                          | Total Current and Long Term Debt (3)<br>÷<br>Total Capitalization (3)                | Total Current and Long Term Debt (3)<br>÷<br>[EBITDA (2) + Pro Forma Effect of Acquisitions] |
|                                | Maximum Allowed: 3:00 to 1:00                                                                                                                                         | Maximum Allowed: 55%                                                                 | Maximum Allowed: 3:25 to 1:00                                                                |

## Key Definitions:

EBIT: Earnings Before Non-Cash Charges, Interest Expense and Taxes

EBITDA: EBIT + Depreciation and Amortization Expense + Share Based Compensation

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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.

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Our contractual obligations and commercial commitments at August 31, 2013, were:

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

(in thousands)

|                                    | Total      | 2014<br>1 year | 2015<br>2 years | 2016<br>3 years | 2017<br>4 years | 2018<br>5 years | After<br>5 years |
|------------------------------------|------------|----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Term debt - fixed rate             | \$ 100,000 | \$ 20,000      | \$ 20,000       | \$ 20,000       | \$ 20,000       | \$ 20,000       | \$ -             |
| Term debt - floating rate (1)      | 104,147    | 76,900         | 1,900           | 3,800           | 5,700           | 1,900           | 13,947           |
| Long-term incentive plan payouts   | 8,177      | 3,584          | 3,040           | 1,260           | 293             | -               | -                |
| Interest on fixed rate debt        | 9,230      | 3,406          | 2,626           | 1,846           | 1,066           | 286             | -                |
| Interest on floating rate debt (1) | 5,618      | 4,115          | 311             | 277             | 221             | 176             | 518              |
| Open purchase orders               | 208,129    | 208,129        | -               | -               | -               | -               | -                |
| Long-term purchase commitments     | 3,029      | 606            | 606             | 606             | 606             | 605             | -                |
| Minimum royalty payments           | 81,657     | 12,964         | 12,735          | 12,628          | 9,736           | 9,440           | 24,154           |
| Advertising and promotional        | 54,097     | 8,276          | 5,109           | 5,211           | 5,316           | 5,422           | 24,763           |
| Operating leases                   | 12,654     | 4,530          | 3,102           | 1,761           | 1,460           | 1,133           | 668              |
| Capital spending commitments       | 4,982      | 4,982          | -               | -               | -               | -               | -                |
| Total contractual obligations (2)  | \$ 591,720 | \$ 347,492     | \$ 49,429       | \$ 47,389       | \$ 44,398       | \$ 38,962       | \$ 64,050        |

(1) The Company uses an interest rate hedge agreement (the swap) in conjunction with its unsecured, floating interest rate, \$75.00 million Senior Notes due June 2014. The swap hedges the variable LIBOR rates used to reset the floating rates on these Senior Notes. The swap effectively fixes the interest rates on the Senior Notes due June 2014 at 6.01 percent.

(2) In addition to the contractual obligations and commercial commitments in the table above, as of August 31, 2013, we have recorded a provision for our uncertain tax positions of \$15.90 million. We are unable to reliably estimate the timing of future payments, if any, related to uncertain tax positions. Therefore, we have excluded these tax liabilities from the table above.

During fiscal year 2012, we entered into certain employment and incentive compensation agreements with Gerald Rubin, our Chief Executive Officer and President (the CEO). The base and incentive compensation provisions of these agreements remain effective for fiscal years 2014 and 2015. Substantially all of the CEO's compensation pursuant to these agreements is performance-based and contingent upon our achievement of specified performance goals. The performance-based compensation is made up of the following three components:

- **Restricted Stock Units** - The CEO received a grant of 700,000 performance-based restricted stock units (Performance RSUs), which may be earned in tranches based on the Company's achievement of specified performance goals for fiscal years ending 2013, 2014 and 2015. The CEO earned 100,000 of the performance-based RSUs for the fiscal year ended February 28, 2013. All earned Performance RSUs are subject to additional time-based vesting requirements. Up to 200,000 Performance RSUs may be earned based on the Company's achievement of the specified performance goals for fiscal year 2014. With respect to fiscal year 2015, up to 700,000 Performance RSUs (less the number of Performance RSUs previously earned) may be earned based on the Company's achievement of either the specified performance goal for fiscal year 2015 or the three year average performance goal for the three fiscal years 2013 through 2015. A portion of any Performance RSUs earned

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in fiscal years 2013 and 2014 are subject to annual vesting requirements through fiscal year 2015. The Performance RSUs had a fair value at the date of grant of \$32.88 per share for a grant date fair value of \$23.02 million. Compensation expense associated with Performance RSUs is equal to the market value of our common stock on the date of the grant multiplied by the number of Performance RSUs vesting during any given period. Expense for each tranche must be estimated until earned, subject to a probability assessment of achieving the performance criteria specified for the tranche. We are recording the expense for each tranche over the related vesting and service periods in SG&A.

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- **Annual Bonus** - The CEO is also eligible to receive an annual bonus of up to \$25.00 million in cash and stock, subject to the achievement of specified performance goals. Any such bonus that is earned and payable will be paid two-thirds in the form of cash or cash equivalents up to a maximum of \$10.00 million. The remainder will be paid in the form of restricted stock. Any restricted stock granted will vest, with respect to annual bonuses for fiscal years 2013 and 2014, on February 28, 2015, and with respect to annual bonus for fiscal year 2015, on the date the Compensation Committee of the Company's Board of Directors certifies that the performance goals have been achieved.
- **Life Insurance Bonuses** - Two split-dollar life insurance policies and the obligation to pay the associated premiums remain to be transferred to the CEO through February 28, 2015 subject to the satisfaction of certain service and performance conditions. The amount of the value of the transfer of each of the two split-dollar life insurance policies (based on cash surrender values) is capped at \$4.00 and \$7.00 million, respectively.

The CEO's unvested Performance RSU's earned in fiscal year 2013 will generate \$1.10 million of performance-based compensation expense in both fiscal years 2014 and 2015. The CEO's restricted stock bonus earned in fiscal year 2013 will generate \$1.89 million of performance-based compensation expense in both fiscal years 2014 and 2015.

We currently expect Mr. Rubin to achieve certain performance targets for fiscal 2014 and the accompanying consolidated condensed financial statements include estimated accruals for his Performance RSU's, annual bonus and life insurance bonus under the various applicable agreements. To the extent of his achievement of performance targets for fiscal 2014 and 2015 (in full or in part), the resulting incentive compensation expense could have a significant impact upon SG&A and net income in those years. The expense we will actually record in fiscal years 2014 and 2015 will depend on the actual operating income achieved each year, as well as other factors that are components to the relevant performance targets underlying the compensation. Unanticipated events and circumstances may occur that could impact the timing of the accrual of the expense and the amount of incentive compensation expense recorded. For information concerning pro forma performance compensation expense, see Management Discussion and Analysis Financial Condition, Liquidity and Capital Resources in our annual report on Form 10-K for the year ended February 28, 2013. The timing and actual amount expensed as compensation during fiscal years 2014 and 2015 will vary from pro forma amounts described in the Form 10-K, and the variations might be material. Accordingly, the pro forma amounts in the Form 10-K are for illustrative purposes only.

***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. These requirements include: \$20.00 million of annual principal payments on the \$100.00 million Senior Notes, beginning in January 2014; principal payments on the \$38.00 million MBFC Loan beginning in March 2014; and the retirement of \$75.00 million of Senior Notes in June 2014. We expect our capital needs

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to stem primarily from the need to purchase sufficient levels of inventory and to carry normal levels of accounts receivable on our balance sheet. In addition, we continue to evaluate acquisition opportunities on a regular basis and may augment our internal growth with acquisitions of complementary businesses or product lines. We may finance acquisition activity with available cash, the issuance of common stock, additional debt, or other sources of financing, depending upon the size and nature of any such transaction and the status of the capital markets at the time of such acquisition.

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

**CRITICAL ACCOUNTING POLICIES**

The SEC defines critical accounting policies as those that are both most important to the portrayal of a company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a discussion of our critical accounting policies, see Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, under the heading Critical Accounting Policies in our annual report on Form 10-K for the year ended February 28, 2013. 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 PRONOUNCEMENTS**

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

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### 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 each of the three- and six-month periods ended August 31, 2013, approximately 14 percent of our net sales revenue was in foreign currencies. During each of the three- and six-month periods ended August 31, 2012, approximately 16 percent of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Australian Dollars, Peruvian Soles, and Venezuelan Bolivares Fuertes. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases. In our consolidated condensed statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets, and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses from remeasurement are recognized in SG&A.

A significant portion of the products we sell are purchased from third-party manufacturers in China. During fiscal year 2013, the Chinese Renminbi remained relatively flat against the U.S. Dollar. During fiscal years 2012 and 2011, the Chinese Renminbi appreciated against the U.S. Dollar approximately 4 percent each period. To the extent the Chinese Renminbi appreciates with respect to the U.S. Dollar in the future, the Company may experience cost increases on such purchases, and this can adversely impact profitability. China's currency intervention strategy with respect to the U.S. Dollar continues to evolve. Future interventions by China may result in further currency appreciation and increase our product costs over time.

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

We have historically hedged against certain foreign currency exchange rate risk by using a series of forward contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. In these transactions, we execute a forward currency contract that will settle at the end of a forecasted period. Because the size and terms of the forward contract are designed so that its fair market value will move in the opposite direction and approximate magnitude of the underlying foreign currency's forecasted exchange gain or loss during the forecasted period, a hedging relationship is created. To the extent that we forecast the expected foreign currency cash flows from the period we enter into the forward contract until the date it will settle with reasonable accuracy, we significantly lower or materially eliminate a particular currency's exchange rate risk exposure over the life of the related forward contract. We enter into these types of agreements where we believe we have meaningful exposure to foreign currency exchange rate 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.

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Interest on our outstanding debt as of August 31, 2013 is both floating and fixed. Fixed rates are in place on \$100.00 million of Senior Notes at 3.90 percent, while floating rates are in place on \$23.50 million of borrowings under our Credit Agreement, \$29.15 million of interim draws under our MBFC Loan and \$75.00 million of Senior Notes due June 2014. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under the Credit Agreement and MBFC Loan. The floating rate Senior Notes due June 2014 reset as described in Note 9 in the accompanying consolidated condensed financial statements, and have been effectively converted to fixed rate debt using an interest rate swap (the "swap"), as described below.

We manage our floating rate \$75.00 million of Senior Notes due June 2014 using an interest rate swap. As of August 31, 2013, the swap converted an aggregate notional principal amount of \$75.00 million from floating interest rate payments under our Senior Notes due June 2014 to fixed interest rate payments at 6.01 percent. In the swap transaction, we maintain contracts to pay fixed rates of interest on an aggregate notional principal amount of \$75.00 million at a rate of 5.11 percent on our Senior Notes due June 2014, while simultaneously receiving floating rate interest payments set at 0.28 percent as of August 31, 2013 on the same notional amounts. The fixed rate side of the swap will not change over its life. The floating rate payments are reset quarterly based on three-month LIBOR. The resets are concurrent with the interest payments made on the underlying debt. Changes in the spread between the fixed rate payment side of the swap and the floating rate receipt side of the swap offset 100 percent of the change in any period of the underlying debt's floating rate payments. The swap is used to reduce our risk of increased interest costs; however, when interest rates drop significantly below the swap rate, we lose the benefit that our floating rate debt would provide, if not managed with a swap. The swap is considered 100 percent effective.

The fair values of our various derivative instruments are as follows:

## FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

**August 31, 2013**

| August 31, 2013 |    |        |    |     |       |       |
|-----------------|----|--------|----|-----|-------|-------|
| 2/2014          |    | 5,750  | \$ | 60  | \$    | -     |
| 2/2014          | £  | 4,000  |    | 80  |       | -     |
| 6/2014          | \$ | 75,000 |    | -   | 3,012 | -     |
|                 |    |        | \$ | 140 | \$    | 3,012 |

February 28, 2013

[illegible]

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|                                             |           |         |    |        |    |            |    |              |    |              |
|---------------------------------------------|-----------|---------|----|--------|----|------------|----|--------------|----|--------------|
| Foreign currency contracts - sell<br>Euro   | Cash flow | 10/2013 |    | 7,050  | \$ | 239        | \$ | -            | \$ | -            |
| Foreign currency contracts - sell<br>Pounds | Cash flow | 11/2013 | £  | 3,000  |    | 257        |    | -            |    | -            |
| Interest rate swap                          | Cash flow | 6/2014  | \$ | 75,000 |    | -          |    | 3,044        |    | 1,780        |
| Total fair value                            |           |         |    |        | \$ | <b>496</b> | \$ | <b>3,044</b> | \$ | <b>1,780</b> |

## *Counterparty Credit Risk*

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

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**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 ( 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 , intend 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 Part 1, Item 1A. Risk Factors of our annual report on Form 10-K for the year ended February 28, 2013 and risks otherwise described from time to time in our SEC reports as filed. Such risks, uncertainties and other important factors include, among others:

- the departure and recruitment of key personnel;
- our ability to deliver products to our customers in a timely manner and according to their fulfillment standards;
- our geographic concentration of certain U.S. distribution facilities, which at certain times operate at or near capacity, and current plans to expand our U.S. distribution capacity, which increases our exposure to significant shipping disruptions and added shipping and storage costs;
- difficulties encountered during the transition to our new distribution facility could interrupt our logistical systems and cause shipping disruptions;
- 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;
- 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;
- our relationship with key customers and licensors;

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- the costs of complying with the business demands and requirements of large sophisticated customers;
- our dependence on foreign sources of supply and foreign manufacturing, and associated operational risks including but not limited to long lead times, consistent local labor availability and capacity, and timely availability of sufficient shipping carrier capacity;
- the impact of changing costs of raw materials and energy on cost of goods sold and certain operating expenses;
- circumstances which may contribute to future impairment of goodwill, intangible or other long-lived assets;
- the risks associated with the use of trademarks licensed from and to third parties;
- our dependence on the strength of retail economies and vulnerabilities to a prolonged economic downturn;
- our ability to develop and introduce a continuing stream of new products to meet changing consumer preferences;
- disruptions in U.S., Euro zone and other international credit markets;
- foreign currency exchange rate fluctuations;

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- trade barriers, exchange controls, expropriations, and other risks associated with foreign operations;
- our 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 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 new 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.

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**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 August 31, 2013. 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 August 31, 2013, 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 August 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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**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 28, 2013. Since the filing of our annual report on Form 10-K, there have been no material changes in our risk factors from those disclosed therein.

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

As of August 31, 2013, we were authorized by our Board of Directors to purchase up to 2,910,487 shares of common stock in the open market or through private transactions. Unless extended by our Board of Directors, the existing repurchase program ends on October 31, 2014. Our current equity compensation plans include provisions that allow for the net exercise of stock options 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. Net exercises are accounted for by the Company as a purchase and retirement of shares.

During the fiscal quarter ended August 31, 2013, employees tendered 636 shares of common stock having an aggregate market value of \$0.03 million, for an average price of \$42.89 per share. We accounted for these activities as a purchase and retirement of shares.

The following schedule sets forth the purchase activity for the three month period ended August 31, 2013:

**ISSUER PURCHASES OF EQUITY SECURITIES FOR THE THREE MONTHS ENDED AUGUST 31, 2013**

| Period | Total Number of<br>Shares<br>Purchased | Average Price<br>Paid per Share | Total Number of<br>Shares<br>Purchased as | Maximum<br>Number of Shares<br>that May Yet Be |
|--------|----------------------------------------|---------------------------------|-------------------------------------------|------------------------------------------------|
|--------|----------------------------------------|---------------------------------|-------------------------------------------|------------------------------------------------|

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|                                     |     |    |       | <b>Part of Publicly<br/>Announced Plans<br/>or Programs</b> | <b>Purchased Under<br/>the Plans or<br/>Programs</b> |
|-------------------------------------|-----|----|-------|-------------------------------------------------------------|------------------------------------------------------|
| <b>June 1 through June 30, 2013</b> | 187 | \$ | 40.28 | 187                                                         | 2,910,936                                            |
| <b>July 1 through July 31, 2013</b> | 449 |    | 43.98 | 449                                                         | 2,910,487                                            |
| <b>Aug 1 through Aug 31, 2013</b>   | -   |    | -     | -                                                           | 2,910,487                                            |
| <b>Total</b>                        | 636 | \$ | 42.89 | 636                                                         |                                                      |

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**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.                                                                                                                                                                          |

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**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: October 10, 2013

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

Date: October 10, 2013

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

Date: October 10, 2013

/s/ Richard J. Oppenheim  
Richard J. Oppenheim  
Financial Controller  
(Principal Accounting Officer)

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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.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.