

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

FORM 10-Q

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

For the quarterly period ended August 31, 2016

or

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

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

Commission file number: 001-14669

**Helen of Troy**

**HELEN OF TROY LIMITED**

(Exact name of registrant as specified in its charter)

**Bermuda**

(State or other jurisdiction of  
incorporation or organization)

**74-2692550**

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

**Clarendon House**

**2 Church Street**

**Hamilton, Bermuda**

(Address of principal executive offices)

**1 Helen of Troy Plaza**

**El Paso, Texas**

(Registrant's United States Mailing Address)

**79912**

(Zip Code)

**(915) 225-8000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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

**Class**

Common Shares, \$0.10 par value, per share

**Outstanding at October 4, 2016**

27,874,720 shares

**HELEN OF TROY LIMITED AND SUBSIDIARIES**

**FORM 10 - Q**

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# **PART I. FINANCIAL INFORMATION**

## **ITEM 1. FINANCIAL STATEMENTS**

### **HELEN OF TROY LIMITED AND SUBSIDIARIES**

#### **Consolidated Condensed Balance Sheets (Unaudited)**

*(in thousands, except shares and par value)*

|                                                                                                                 | August 31,<br>2016 | February 29,<br>2016 |
|-----------------------------------------------------------------------------------------------------------------|--------------------|----------------------|
| <b>Assets</b>                                                                                                   |                    |                      |
| Assets, current:                                                                                                |                    |                      |
| Cash and cash equivalents                                                                                       | \$ 25,809          | \$ 225,800           |
| Receivables - principally trade, less allowances of \$4,792 and \$5,898                                         | 222,909            | 217,543              |
| Inventory                                                                                                       | 317,497            | 301,609              |
| Prepaid expenses and other current assets                                                                       | 14,102             | 9,780                |
| Income taxes receivable                                                                                         | -                  | 356                  |
| Total assets, current                                                                                           | 580,317            | 755,088              |
| Property and equipment, net of accumulated depreciation of \$100,820 and \$93,926                               | 133,568            | 130,465              |
| Goodwill                                                                                                        | 698,938            | 583,005              |
| Other intangible assets, net of accumulated amortization of \$151,536 and \$137,174                             | 437,951            | 375,751              |
| Deferred tax assets, net                                                                                        | 2,660              | 2,484                |
| Other assets, net of accumulated amortization of \$1,884 and \$1,828                                            | 2,081              | 2,101                |
| Total assets                                                                                                    | \$ 1,855,515       | \$ 1,848,894         |
| <b>Liabilities and Stockholders' Equity</b>                                                                     |                    |                      |
| Liabilities, current:                                                                                           |                    |                      |
| Accounts payable, principally trade                                                                             | \$ 130,763         | \$ 103,713           |
| Accrued expenses and other current liabilities                                                                  | 140,443            | 141,245              |
| Income taxes payable                                                                                            | 624                | -                    |
| Long-term debt, current maturities                                                                              | 24,529             | 22,644               |
| Total liabilities, current                                                                                      | 296,359            | 267,602              |
| Long-term debt, excluding current maturities                                                                    | 524,033            | 597,270              |
| Deferred tax liabilities, net                                                                                   | 21,986             | 27,364               |
| Other liabilities, noncurrent                                                                                   | 21,326             | 26,615               |
| Total liabilities                                                                                               | 863,704            | 918,851              |
| Commitments and contingencies                                                                                   |                    |                      |
| Stockholders' equity:                                                                                           |                    |                      |
| Cumulative preferred stock, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued                    | -                  | -                    |
| Common stock, \$0.10 par. Authorized 50,000,000 shares; 27,871,709 and 28,488,411 shares issued and outstanding | 2,787              | 2,774                |
| Additional paid in capital                                                                                      | 213,129            | 198,077              |
| Accumulated other comprehensive income (loss)                                                                   | 857                | 665                  |
| Retained earnings                                                                                               | 775,038            | 728,527              |
| Total stockholders' equity                                                                                      | 991,811            | 930,043              |
| Total liabilities and stockholders' equity                                                                      | \$ 1,855,515       | \$ 1,848,894         |

*See accompanying notes to consolidated condensed financial statements.*

## HELEN OF TROY LIMITED AND SUBSIDIARIES

### Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except per share data)

|                                                                                   | Three Months Ended August 31, |            | Six Months Ended August 31, |            |
|-----------------------------------------------------------------------------------|-------------------------------|------------|-----------------------------|------------|
|                                                                                   | 2016                          | 2015       | 2016                        | 2015       |
| Sales revenue, net                                                                | \$ 368,170                    | \$ 369,129 | \$ 716,108                  | \$ 714,474 |
| Cost of goods sold                                                                | 205,202                       | 221,124    | 400,713                     | 423,150    |
| Gross profit                                                                      | 162,968                       | 148,005    | 315,395                     | 291,324    |
| Selling, general and administrative expense ("SG&A")                              | 125,481                       | 115,573    | 247,610                     | 229,349    |
| Asset impairment charges                                                          | -                             | -          | 7,400                       | 3,000      |
| Operating income                                                                  | 37,487                        | 32,432     | 60,385                      | 58,975     |
| Nonoperating income (expense), net                                                | 88                            | (46)       | 237                         | 91         |
| Interest expense                                                                  | (3,866)                       | (2,503)    | (7,517)                     | (5,394)    |
| Income before income taxes                                                        | 33,709                        | 29,883     | 53,105                      | 53,672     |
| Income tax expense (benefit):                                                     |                               |            |                             |            |
| Current                                                                           | 7,925                         | 9,708      | 11,697                      | 13,722     |
| Deferred                                                                          | (2,571)                       | (4,277)    | (5,973)                     | (4,912)    |
| Net income                                                                        | \$ 28,355                     | \$ 24,452  | \$ 47,381                   | \$ 44,862  |
| Earnings per share:                                                               |                               |            |                             |            |
| Basic                                                                             | \$ 1.02                       | \$ 0.86    | \$ 1.70                     | \$ 1.58    |
| Diluted                                                                           | \$ 1.00                       | \$ 0.84    | \$ 1.68                     | \$ 1.54    |
| Weighted average shares of common stock used in computing net earnings per share: |                               |            |                             |            |
| Basic                                                                             | 27,845                        | 28,435     | 27,809                      | 28,478     |
| Diluted                                                                           | 28,224                        | 28,986     | 28,185                      | 29,037     |

See accompanying notes to consolidated condensed financial statements.

## HELEN OF TROY LIMITED AND SUBSIDIARIES

### Consolidated Condensed Statements of Comprehensive Income (Unaudited)

(in thousands)

|                                                       | Three Months Ended August 31, |            |               |               |            |               |
|-------------------------------------------------------|-------------------------------|------------|---------------|---------------|------------|---------------|
|                                                       | 2016                          |            |               | 2015          |            |               |
|                                                       | Before<br>Tax                 | Tax        | Net of<br>Tax | Before<br>Tax | Tax        | Net of<br>Tax |
| Income                                                | \$ 33,709                     | \$ (5,354) | \$ 28,355     | \$ 29,883     | \$ (5,431) | \$ 24,452     |
| Cash flow hedge activity - foreign currency contracts |                               |            |               |               |            |               |
| Changes in fair market value                          | 1,289                         | (275)      | 1,014         | 545           | (142)      | 403           |
| Settlements reclassified to income                    | (141)                         | 3          | (138)         | (121)         | 22         | (99)          |
| Total other comprehensive income                      | 1,148                         | (272)      | 876           | 424           | (120)      | 304           |
| Comprehensive income                                  | \$ 34,857                     | \$ (5,626) | \$ 29,231     | \$ 30,307     | \$ (5,551) | \$ 24,756     |
|                                                       |                               |            |               |               |            |               |
|                                                       | Six Months Ended August 31,   |            |               |               |            |               |
|                                                       | 2016                          |            |               | 2015          |            |               |
|                                                       | Before<br>Tax                 | Tax        | Net of<br>Tax | Before<br>Tax | Tax        | Net of<br>Tax |
| Income                                                | \$ 53,105                     | \$ (5,724) | \$ 47,381     | \$ 53,672     | \$ (8,810) | \$ 44,862     |
| Cash flow hedge activity - foreign currency contracts |                               |            |               |               |            |               |
| Changes in fair market value                          | 270                           | (42)       | 228           | 812           | (210)      | 602           |
| Settlements reclassified to income                    | 17                            | (53)       | (36)          | (240)         | 35         | (205)         |
| Total other comprehensive income                      | 287                           | (95)       | 192           | 572           | (175)      | 397           |
| Comprehensive income                                  | \$ 53,392                     | \$ (5,819) | \$ 47,573     | \$ 54,244     | \$ (8,985) | \$ 45,259     |

See accompanying notes to consolidated condensed financial statements.

## HELEN OF TROY LIMITED AND SUBSIDIARIES

### Consolidated Condensed Statements of Cash Flows (Unaudited)

(in thousands)

|                                                                                   | Six Months Ended August 31, |           |
|-----------------------------------------------------------------------------------|-----------------------------|-----------|
|                                                                                   | 2016                        | 2015      |
| Cash provided (used) by operating activities:                                     |                             |           |
| Net income                                                                        | \$ 47,381                   | \$ 44,862 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                             |           |
| Depreciation and amortization                                                     | 22,098                      | 21,227    |
| Amortization of financing costs                                                   | 583                         | 580       |
| Provision for doubtful receivables                                                | 886                         | 128       |
| Non-cash share-based compensation                                                 | 8,758                       | 3,938     |
| Non-cash intangible asset impairment charges                                      | 7,400                       | 3,000     |
| Gain on the sale of property and equipment                                        | (10)                        | -         |
| Deferred income taxes and tax credits                                             | (5,916)                     | (5,679)   |
| Changes in operating capital, net of effects of acquisition of businesses:        |                             |           |
| Receivables                                                                       | 1,632                       | (4,776)   |
| Inventories                                                                       | (9,408)                     | (55,382)  |
| Prepaid expenses and other current assets                                         | (3,986)                     | (1,715)   |
| Other assets and liabilities, net                                                 | (3,870)                     | (1,691)   |
| Accounts payable                                                                  | 24,788                      | 44,538    |
| Accrued expenses and other current liabilities                                    | (4,246)                     | 1,397     |
| Accrued income taxes                                                              | (409)                       | 1,784     |
| Net cash provided by operating activities                                         | 85,681                      | 52,211    |
| Cash provided (used) by investing activities:                                     |                             |           |
| Capital and intangible asset expenditures                                         | (10,215)                    | (5,946)   |
| Proceeds from the sale of property and equipment                                  | 32                          | 7         |
| Payments to acquire businesses                                                    | (209,258)                   | (42,750)  |
| Net cash used by investing activities                                             | (219,441)                   | (48,689)  |
| Cash provided (used) by financing activities:                                     |                             |           |
| Proceeds from line of credit                                                      | 155,900                     | 289,900   |
| Repayment of line of credit                                                       | (224,000)                   | (241,900) |
| Repayment of long-term debt                                                       | (3,800)                     | (1,900)   |
| Payment of financing costs                                                        | (36)                        | (19)      |
| Proceeds from share issuances under share-based compensation plans                | 6,129                       | 7,507     |
| Payment of tax obligations resulting from cashless share award settlements        | (424)                       | -         |
| Payments for repurchases of common stock                                          | -                           | (50,000)  |
| Net cash provided (used) by financing activities                                  | (66,231)                    | 3,588     |
| Net increase (decrease) in cash and cash equivalents                              | (199,991)                   | 7,110     |
| Cash and cash equivalents, beginning balance                                      | 225,800                     | 12,295    |
| Cash and cash equivalents, ending balance                                         | \$ 25,809                   | \$ 19,405 |

See accompanying notes to consolidated condensed financial statements.

**HELEN OF TROY LIMITED AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**  
**August 31, 2016**

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

The accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of August 31, 2016 and February 29, 2016, and the results of our consolidated operations for the interim periods presented. We follow the same accounting policies when preparing quarterly financial data as we use for preparing annual data. These statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K for the fiscal year ended February 29, 2016, and our other reports on file with the Securities and Exchange Commission (the “SEC”).

In this report and the accompanying consolidated condensed financial statements and notes, unless otherwise indicated or the context suggests otherwise, references to “the Company”, “our Company”, “Helen of Troy”, “we”, “us”, or “our” refer to Helen of Troy Limited and its subsidiaries. We refer to the Company's common shares, par value \$0.10 per share, as “common stock.” References to “OXO” and “Hydro Flask” refer to businesses that operate together under the Housewares segment. The OXO business includes the operations of OXO International and certain of its subsidiaries. The Hydro Flask business refers to the operations of Steel Technology, LLC, acquired on March 18, 2016. References to “Kaz” refer to the operations of Kaz, Inc. and its subsidiaries that comprise our Health & Home segment. References to “Healthy Directions” refer to the operations of Healthy Directions, LLC and its subsidiaries that comprise our Nutritional Supplements segment. References to “EMEA” refer to the combined geographic markets of Europe, the Middle East and Africa. We use product and service names in this report for identification purposes only and they may be protected in the United States and other jurisdictions by trademarks, trade names, service marks, and other intellectual property rights of the Company and other parties. The absence of a specific attribution in connection with any such mark does not constitute a waiver of any such right. All trademarks, trade names, service marks, and logos referenced herein belong to their respective owners. References to “the FASB” refer to the Financial Accounting Standards Board. References to “GAAP” refer to U.S. generally accepted accounting principles. References to “ASU” refer to the codification of GAAP in the Accounting Standards Updates issued by the FASB. References to “ASC” refer to the codification of GAAP in the Accounting Standards Codification issued by the FASB.

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

Our business is seasonal due to different calendar events, holidays and seasonal weather patterns. Historically, our highest sales volume and operating income occur in our third fiscal quarter ending November 30th. We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

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

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

**Note 2 – New Accounting Pronouncements**

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

***Not yet adopted:***

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

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

***New pronouncements adopted:***

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which changes the accounting for certain aspects of share-based payments to employees. The provisions of the new guidance affecting the Company require excess tax benefits and tax deficiencies to be recorded in the income statement when the awards vest or are settled; remove the requirement to include hypothetical excess tax benefits in the application of the treasury stock method when computing earnings per share; and provided for a new policy election to either: (1) continue applying forfeiture rate estimates in the determination of compensation cost, or (2) account for forfeitures as a reduction of share-based compensation cost as they occur. The new guidance also requires cash flows related to excess tax benefits to be classified as an operating activity in the cash flow statement and now requires shares withheld for tax withholding purposes to be classified as a financing activity.

We elected to early adopt the new guidance in the first quarter of fiscal year 2017. This required us to reflect any adjustments as of March 1, 2016. The primary impact of adoption was the recognition of excess tax benefits in our provision for income taxes rather than additional paid-in capital for all periods after fiscal year 2016. We elected to change our accounting policy regarding forfeitures. Previously, we estimated forfeitures expected to occur in the determination of compensation costs. Going forward we will now recognize forfeitures in the period

they occur. The cumulative effect adjustments made upon adoption were not material. For the three- and six-months ended August 31, 2016, we recognized additional share-based compensation expense of \$0.22 and \$0.45 million, respectively, from the change in accounting for forfeitures of share-based awards, and we recognized \$0.23 and \$1.34 million, respectively, of excess tax benefits in income tax expense rather than additional paid-in capital. The excess tax benefits were reported as an increase to cash provided by operations.

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

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

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

## IMPACT OF RECENT ACCOUNTING CHANGES

(in thousands)

|                                              |             |                        | Increase (Decrease) |                   |
|----------------------------------------------|-------------|------------------------|---------------------|-------------------|
|                                              | Standard    | Transition Method      | August 31, 2016     | February 29, 2016 |
| Consolidated Balance Sheets                  |             |                        |                     |                   |
| Current deferred tax assets, net             | ASU 2015-17 | Retrospective          | \$ (21,454)         | \$ (17,636)       |
| Long-term deferred tax assets, net           | ASU 2015-17 | Retrospective          | \$ 1,128            | \$ 879            |
| Long-term deferred tax assets, net           | ASU-2016-09 | Modified retrospective | \$ (232)            | \$ -              |
| Other assets - debt issuance costs           | ASU 2015-03 | Retrospective          | \$ (12,651)         | \$ (12,618)       |
| Other assets - accumulated amortization      | ASU 2015-03 | Retrospective          | \$ (9,207)          | \$ (8,625)        |
| Long-term debt, current maturities           | ASU 2015-03 | Retrospective          | \$ (1,171)          | \$ (1,156)        |
| Long-term deferred tax liabilities, net      | ASU 2015-17 | Retrospective          | \$ (20,326)         | \$ (16,757)       |
| Long-term debt, excluding current maturities | ASU 2015-03 | Retrospective          | \$ (2,274)          | \$ (2,837)        |
| Additional paid-in capital                   | ASU-2016-09 | Modified retrospective | \$ 588              | \$ -              |
| Retained earnings                            | ASU-2016-09 | Modified retrospective | \$ (820)            | \$ -              |

## IMPACT OF RECENT ACCOUNTING CHANGES

(in thousands)

|                                        |             |                        | Increase (Decrease)<br>Three Months Ended August 31, |          |
|----------------------------------------|-------------|------------------------|------------------------------------------------------|----------|
|                                        | Standard    | Transition Method      | 2016                                                 | 2015     |
| Consolidated Statements of Income      |             |                        |                                                      |          |
| Share-based compensation expense       | ASU-2016-09 | Modified retrospective | \$ 462                                               | \$ -     |
| Current income tax expense             | ASU-2016-09 | Modified retrospective | \$ (234)                                             | \$ -     |
| Consolidated Statements of Cash Flows  |             |                        |                                                      |          |
| Cash provided by operating activities: |             |                        |                                                      |          |
| Accrued income taxes                   | ASU-2016-09 | Retrospective          | \$ 234                                               | \$ 274   |
| Cash provided by financing activities: |             |                        |                                                      |          |
| Share-based compensation tax benefit   | ASU-2016-09 | Retrospective          | \$ (234)                                             | \$ (274) |

|                                        |             |                        | Increase (Decrease)<br>Six Months Ended August 31, |          |
|----------------------------------------|-------------|------------------------|----------------------------------------------------|----------|
|                                        | Standard    | Transition Method      | 2016                                               | 2015     |
| Consolidated Statements of Income      |             |                        |                                                    |          |
| Share-based compensation expense       | ASU-2016-09 | Modified retrospective | \$ 691                                             | \$ -     |
| Current income tax expense             | ASU-2016-09 | Modified retrospective | \$ (1,344)                                         | \$ -     |
| Consolidated Statements of Cash Flows  |             |                        |                                                    |          |
| Cash provided by operating activities: |             |                        |                                                    |          |
| Accrued income taxes                   | ASU-2016-09 | Retrospective          | \$ 1,344                                           | \$ 593   |
| Cash provided by financing activities: |             |                        |                                                    |          |
| Share-based compensation tax benefit   | ASU-2016-09 | Retrospective          | \$ (1,344)                                         | \$ (593) |

### Note 3 – Commitments and Contingencies

On January 22, 2016, a jury ruled against the Company in a case that involved claims by Exergen Corporation. The case dealt with the alleged patent infringement related to two forehead thermometer models sold by our subsidiary, Kaz USA, Inc., in the United States. As a result of the jury verdict, the Company recorded a charge in the fiscal quarter ended February 29, 2016, including legal fees and other related expenses, of \$17.83 million (\$17.79 million, after tax). On June 8, 2016, certain post-trial motions were concluded with Exergen Corporation being awarded an additional \$1.47 million of pre-judgment compensation. We accrued this additional amount in the fiscal quarter ended May 31, 2016. On July 6, 2016, the Company appealed the judgment to the United States Court of Appeals for the Federal Circuit. The Company intends to vigorously pursue its appellate rights and defend against the underlying judgment.

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

Most of our products are under warranty against defects in material and workmanship for periods ranging from two to five years. A small number of our products carry a lifetime warranty against defects in material and workmanship. 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 below:

### ACCRUAL FOR WARRANTY RETURNS

(in thousands)

|                                                         | Three Months Ended August 31, |           | Six Months Ended August 31, |           |
|---------------------------------------------------------|-------------------------------|-----------|-----------------------------|-----------|
|                                                         | 2016                          | 2015      | 2016                        | 2015      |
| Beginning balance                                       | \$ 18,981                     | \$ 20,894 | \$ 20,622                   | \$ 23,553 |
| Additions to the accrual                                | 13,671                        | 13,244    | 28,194                      | 26,758    |
| Reductions of the accrual - payments and credits issued | (13,193)                      | (13,341)  | (29,357)                    | (29,514)  |
| Ending balance                                          | \$ 19,459                     | \$ 20,797 | \$ 19,459                   | \$ 20,797 |

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

### Note 4 – Earnings per Share

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

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

### WEIGHTED AVERAGE DILUTED SECURITIES

(in thousands)

|                                                          | Three Months Ended August 31, |        | Six Months Ended August 31, |        |
|----------------------------------------------------------|-------------------------------|--------|-----------------------------|--------|
|                                                          | 2016                          | 2015   | 2016                        | 2015   |
| Weighted average shares outstanding, basic               | 27,845                        | 28,435 | 27,809                      | 28,478 |
| Incremental shares from share-based payment arrangements | 379                           | 551    | 376                         | 559    |
| Weighted average shares outstanding, diluted             | 28,224                        | 28,986 | 28,185                      | 29,037 |
| Dilutive securities, stock options                       | 386                           | 705    | 405                         | 751    |
| Dilutive securities, unvested or unsettled stock awards  | 324                           | 291    | 329                         | 292    |
| Antidilutive securities, stock options                   | 133                           | 150    | 138                         | 173    |

## Note 5 – Segment Information

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

### THREE MONTHS ENDED

(in thousands)

|                                           | Housewares<br>(1) | Health & Home | Nutritional<br>Supplements | Beauty    | Total      |
|-------------------------------------------|-------------------|---------------|----------------------------|-----------|------------|
| <b>August 31, 2016</b>                    |                   |               |                            |           |            |
| Sales revenue, net                        | \$ 105,976        | \$ 144,453    | \$ 33,112                  | \$ 84,629 | \$ 368,170 |
| Asset impairment charges                  | -                 | -             | -                          | -         | -          |
| Operating income                          | 24,233            | 9,397         | (1,229)                    | 5,086     | 37,487     |
| Capital and intangible asset expenditures | 2,249             | 845           | 545                        | 1,422     | 5,061      |
| Depreciation and amortization             | 1,442             | 5,284         | 2,174                      | 2,242     | 11,142     |

|                                           | Housewares | Health & Home | Nutritional<br>Supplements | Beauty     | Total      |
|-------------------------------------------|------------|---------------|----------------------------|------------|------------|
| <b>August 31, 2015</b>                    |            |               |                            |            |            |
| Sales revenue, net                        | \$ 78,848  | \$ 143,254    | \$ 38,048                  | \$ 108,979 | \$ 369,129 |
| Asset impairment charges                  | -          | -             | -                          | -          | -          |
| Operating income                          | 15,142     | 4,808         | 2,969                      | 9,513      | 32,432     |
| Capital and intangible asset expenditures | 291        | 1,224         | 775                        | 939        | 3,229      |
| Depreciation and amortization             | 1,075      | 5,514         | 1,965                      | 2,319      | 10,873     |

(1) The three months ended August 31, 2016 includes three months of operating results of Hydro Flask, which was acquired on March 18, 2016. There were no comparable results in the same period last year. See Notes 8 and 9 to these consolidated condensed financial statements for further information regarding the acquisition.

### SIX MONTHS ENDED

(in thousands)

|                                           | Housewares (1) | Health & Home | Nutritional<br>Supplements | Beauty     | Total      |
|-------------------------------------------|----------------|---------------|----------------------------|------------|------------|
| <b>August 31, 2016</b>                    |                |               |                            |            |            |
| Sales revenue, net                        | \$ 190,579     | \$ 290,808    | \$ 69,052                  | \$ 165,669 | \$ 716,108 |
| Asset impairment charges                  | -              | -             | 5,000                      | 2,400      | 7,400      |
| Operating income                          | 39,733         | 19,001        | (6,501)                    | 8,152      | 60,385     |
| Capital and intangible asset expenditures | 2,838          | 2,034         | 2,107                      | 3,236      | 10,215     |
| Depreciation and amortization             | 2,771          | 10,517        | 4,134                      | 4,676      | 22,098     |

|                                           | Housewares | Health & Home | Nutritional<br>Supplements | Beauty     | Total      |
|-------------------------------------------|------------|---------------|----------------------------|------------|------------|
| <b>August 31, 2015</b>                    |            |               |                            |            |            |
| Sales revenue, net                        | \$ 144,034 | \$ 286,296    | \$ 77,488                  | \$ 206,656 | \$ 714,474 |
| Asset impairment charges                  | -          | -             | -                          | 3,000      | 3,000      |
| Operating income                          | 26,325     | 13,226        | 5,589                      | 13,835     | 58,975     |
| Capital and intangible asset expenditures | 616        | 1,524         | 1,906                      | 1,900      | 5,946      |
| Depreciation and amortization             | 2,083      | 10,577        | 3,933                      | 4,634      | 21,227     |

(1) The six months ended August 31, 2016 includes approximately five and a half months of operating results of Hydro Flask, which was acquired on March 18, 2016. There were no comparable results in the same period last year. See Notes 8 and 9 to these consolidated condensed financial statements for further information regarding the acquisition.

We compute segment operating income based on net sales revenue, less cost of goods sold, SG&A, and any asset impairment charges associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment, plus shared service and corporate overhead expenses that are allocable to the segment. We do not allocate nonoperating income and expense, including interest or income taxes, to operating segments.

**Note 6 – Comprehensive Income (Loss)**

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

**CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) BY COMPONENT**  
*(in thousands)*

|                                                                    | Unrealized Holding<br>Gains (Losses)<br>on Cash Flow<br>Hedges (1) |
|--------------------------------------------------------------------|--------------------------------------------------------------------|
| Balance at February 29, 2016                                       | \$ 665                                                             |
| Other comprehensive income before reclassification                 | 270                                                                |
| Amounts reclassified out of accumulated other comprehensive income | 17                                                                 |
| Tax effects                                                        | (95)                                                               |
| Other comprehensive income (loss)                                  | 192                                                                |
| Balance at August 31, 2016                                         | \$ 857                                                             |

(1) Represents activity associated with certain foreign currency contracts. Balances at August 31, 2016 and February 29, 2016 include net deferred tax benefits (expense) of (\$0.09) and \$0.00 million, respectively.

**Note 7 – Supplemental Balance Sheet Information**
**PROPERTY AND EQUIPMENT**  
*(in thousands)*

|                                             | Estimated<br>Useful Lives<br>(Years) | August 31,<br>2016 | February 29,<br>2016 |
|---------------------------------------------|--------------------------------------|--------------------|----------------------|
| Land                                        | -                                    | \$ 12,800          | \$ 12,800            |
| Building and improvements                   | 3 - 40                               | 108,738            | 108,509              |
| Computer, furniture and other equipment     | 3 - 15                               | 70,946             | 70,778               |
| Tools, molds and other production equipment | 1 - 10                               | 30,557             | 28,254               |
| Construction in progress                    | -                                    | 11,347             | 4,050                |
| Property and equipment, gross               |                                      | 234,388            | 224,391              |
| Less accumulated depreciation               |                                      | (100,820)          | (93,926)             |
| Property and equipment, net                 |                                      | \$ 133,568         | \$ 130,465           |

**ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**  
*(in thousands)*

|                                                      | August 31,<br>2016 | February 29,<br>2016 |
|------------------------------------------------------|--------------------|----------------------|
| Accrued compensation, benefits and payroll taxes     | \$ 24,603          | \$ 28,912            |
| Accrued sales returns, discounts and allowances      | 26,787             | 27,530               |
| Accrued warranty returns                             | 19,459             | 20,622               |
| Accrued advertising                                  | 20,785             | 22,087               |
| Accrued legal fees and settlements                   | 17,556             | 16,699               |
| Accrued royalties                                    | 9,260              | 7,961                |
| Accrued property, sales and other taxes              | 7,515              | 6,938                |
| Accrued product liability                            | 1,847              | 2,098                |
| Derivative liabilities, current                      | 784                | 495                  |
| Liability for uncertain tax positions                | -                  | 536                  |
| Other                                                | 11,847             | 7,367                |
| Total accrued expenses and other current liabilities | \$ 140,443         | \$ 141,245           |

## OTHER LIABILITIES, NONCURRENT

(in thousands)

|                                       | August 31,<br>2016 | February 29,<br>2016 |
|---------------------------------------|--------------------|----------------------|
| Deferred compensation liability       | \$ 5,547           | \$ 8,298             |
| Liability for uncertain tax positions | 6,812              | 8,201                |
| Other liabilities                     | 8,967              | 10,116               |
| Total other liabilities, noncurrent   | <u>\$ 21,326</u>   | <u>\$ 26,615</u>     |

### Note 8 – Goodwill and Intangible Assets

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

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

**Annual Impairment Testing in the First Quarter of Fiscal Year 2016** - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2016. As a result of our testing of indefinite-lived trademarks, we recorded a non-cash asset impairment charge of \$3.00 million (\$2.66 million after tax). The charge was related to a trademark in our Beauty segment, which was written down to its estimated fair value, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

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

# **GOODWILL AND INTANGIBLE ASSETS**

(in thousands)

|                                      | August 31, 2016       |                                 |                          |                | February 29, 2016     |                                 |                          |                |
|--------------------------------------|-----------------------|---------------------------------|--------------------------|----------------|-----------------------|---------------------------------|--------------------------|----------------|
|                                      | Gross Carrying Amount | Cumulative Goodwill Impairments | Accumulated Amortization | Net Book Value | Gross Carrying Amount | Cumulative Goodwill Impairments | Accumulated Amortization | Net Book Value |
| <b>Housewares:</b>                   |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill (1)                         | \$ 282,065            | \$ -                            | \$ -                     | \$ 282,065     | \$ 166,132            | \$ -                            | \$ -                     | \$ 166,132     |
| Trademarks - indefinite (1)          | 134,200               | -                               | -                        | 134,200        | 75,200                | -                               | -                        | 75,200         |
| Other intangibles - finite (1)       | 40,172                | -                               | (14,186)                 | 25,986         | 15,448                | -                               | (12,916)                 | 2,532          |
| Total Housewares                     | 456,437               | -                               | (14,186)                 | 442,251        | 256,780               | -                               | (12,916)                 | 243,864        |
| <b>Health &amp; Home:</b>            |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                             | 284,913               | -                               | -                        | 284,913        | 284,913               | -                               | -                        | 284,913        |
| Trademarks - indefinite              | 54,000                | -                               | -                        | 54,000         | 54,000                | -                               | -                        | 54,000         |
| Licenses - finite                    | 15,300                | -                               | (14,280)                 | 1,020          | 15,300                | -                               | (12,750)                 | 2,550          |
| Licenses - indefinite                | 7,400                 | -                               | -                        | 7,400          | 7,400                 | -                               | -                        | 7,400          |
| Other intangibles - finite           | 116,813               | -                               | (60,464)                 | 56,349         | 116,575               | -                               | (54,913)                 | 61,662         |
| Total Health & Home                  | 478,426               | -                               | (74,744)                 | 403,682        | 478,188               | -                               | (67,663)                 | 410,525        |
| <b>Nutritional Supplements:</b>      |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                             | 96,609                | -                               | -                        | 96,609         | 96,609                | -                               | -                        | 96,609         |
| Brand assets - indefinite            | 60,520                | -                               | -                        | 60,520         | 65,520                | -                               | -                        | 65,520         |
| Other intangibles - finite           | 44,180                | -                               | (13,573)                 | 30,607         | 44,180                | -                               | (10,431)                 | 33,749         |
| Total Nutritional Supplements        | 201,309               | -                               | (13,573)                 | 187,736        | 206,309               | -                               | (10,431)                 | 195,878        |
| <b>Beauty:</b>                       |                       |                                 |                          |                |                       |                                 |                          |                |
| Goodwill                             | 81,841                | (46,490)                        | -                        | 35,351         | 81,841                | (46,490)                        | -                        | 35,351         |
| Trademarks - indefinite              | 46,354                | -                               | -                        | 46,354         | 48,754                | -                               | -                        | 48,754         |
| Trademarks - finite                  | 150                   | -                               | (90)                     | 60             | 150                   | -                               | (87)                     | 63             |
| Licenses - finite                    | 13,696                | -                               | (11,691)                 | 2,005          | 13,696                | -                               | (11,532)                 | 2,164          |
| Licenses - indefinite                | 10,300                | -                               | -                        | 10,300         | 10,300                | -                               | -                        | 10,300         |
| Other intangibles - finite           | 46,402                | -                               | (37,252)                 | 9,150          | 46,402                | -                               | (34,545)                 | 11,857         |
| Total Beauty                         | 198,743               | (46,490)                        | (49,033)                 | 103,220        | 201,143               | (46,490)                        | (46,164)                 | 108,489        |
| Total goodwill and intangible assets | \$ 1,334,915          | \$ (46,490)                     | \$ (151,536)             | \$ 1,136,889   | \$ 1,142,420          | \$ (46,490)                     | \$ (137,174)             | \$ 958,756     |

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

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

# **AMORTIZATION OF INTANGIBLE ASSETS**

*(in thousands)*

## **Aggregate Amortization Expense**

### **For the three months ended**

|                 |    |              |
|-----------------|----|--------------|
| August 31, 2016 | \$ | <b>7,222</b> |
| August 31, 2015 | \$ | 7,208        |

## **Aggregate Amortization Expense**

### **For the six months ended**

|                 |    |               |
|-----------------|----|---------------|
| August 31, 2016 | \$ | <b>14,426</b> |
| August 31, 2015 | \$ | 14,022        |

## **Estimated Amortization Expense**

### **For the fiscal years ended**

|               |    |        |
|---------------|----|--------|
| February 2017 | \$ | 28,240 |
| February 2018 | \$ | 24,931 |
| February 2019 | \$ | 20,348 |
| February 2020 | \$ | 19,030 |
| February 2021 | \$ | 16,471 |
| February 2022 | \$ | 5,976  |

## **Note 9 – Acquisitions**

**Hydro Flask Acquisition** - On March 18, 2016, the Company completed its acquisition of all membership units of Steel Technology, LLC, doing business as Hydro Flask. Hydro Flask is a leading designer, distributor and marketer of high performance insulated stainless steel food and beverage containers for active lifestyles. Hydro Flask adds a fast growing brand that has built equity among outdoor and active lifestyle enthusiasts with a product lineup, innovation pipeline and margin profile that complements, and will operate in, our Housewares segment. The acquisition extends the segment's reach into the outdoor and athletic specialty, natural foods and e-commerce channels. The aggregate purchase price for the transaction was approximately \$209.26 million in cash. Significant assets acquired include receivables, inventory, prepaid expenses, property and equipment, trade names, technology assets, customer relationships, and goodwill. Acquisition-related expenses, incurred during fiscal year 2016, were approximately \$0.70 million (before and after tax).

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

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

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

*(in thousands)*

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

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

The impact of the Hydro Flask acquisition on the Company's consolidated condensed statements of income for the three- and six-months ended August 31, 2016 is as follows:

**HYDRO FLASK - IMPACT ON CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

**March 18, 2016 (Acquisition Date) through August 31, 2016**

*(in thousands, except earnings per share data)*

|                     | August 31, 2016    |                  |
|---------------------|--------------------|------------------|
|                     | Three Months Ended | Six Months Ended |
| Sales revenue, net  | \$ 29,059          | \$ 43,428        |
| Net income          | 9,126              | 11,744           |
| Earnings per share: |                    |                  |
| Basic               | \$ 0.33            | \$ 0.42          |
| Diluted             | \$ 0.32            | \$ 0.42          |

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

# HYDRO FLASK

## PRO FORMA IMPACT ON CONSOLIDATED CONDENSED STATEMENTS OF INCOME

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

(in thousands, except earnings per share data)

|                     | Three Months Ended August 31, |            |
|---------------------|-------------------------------|------------|
|                     | 2016                          | 2015       |
| Sales revenue, net  | \$ 368,170                    | \$ 383,596 |
| Net income          | 28,355                        | 28,615     |
| Earnings per share: |                               |            |
| Basic               | \$ 1.02                       | \$ 1.01    |
| Diluted             | \$ 1.00                       | \$ 0.99    |
|                     | Six Months Ended August 31,   |            |
|                     | 2016                          | 2015       |
| Sales revenue, net  | \$ 719,603                    | \$ 737,489 |
| Net income          | 48,018                        | 49,880     |
| Earnings per share: |                               |            |
| Basic               | \$ 1.73                       | \$ 1.75    |
| Diluted             | \$ 1.70                       | \$ 1.72    |

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

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

# **Note 10 – Long-Term Debt**

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provides for an unsecured total revolving commitment of \$650 million as of August 31, 2016. The commitment under the Credit Agreement terminates on January 16, 2020. Accordingly, borrowings under the Credit Agreement are reported as long-term debt. 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, 2016, the outstanding revolving loan principal balance was \$482.00 million and the face amount of outstanding letters of credit was \$1.50 million. For the three- and six-months ended August 31, 2016, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.19 to 4.25 percent and 1.93 to 4.25 percent, respectively. For the three- and six-months ended August 31, 2015, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.43 to 3.50 percent and 1.43 to 4.00 percent, respectively. As of August 31, 2016, the amount available for borrowings under the Credit Agreement was \$166.50 million.

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

## **LONG-TERM DEBT**

(in thousands)

|                                                                                                                                                                                                                                                                                                                                                                                                                | Original<br>Date<br>Borrowed | Interest<br>Rates | Matures | August 31,<br>2016 | February 29,<br>2016 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|---------|--------------------|----------------------|
| \$37.61 million unsecured loan with the Mississippi Business Finance Corporation (the “MBFC Loan”), interest is set and payable quarterly at a Base Rate, plus a margin of up to 1.00%, or applicable LIBOR plus a margin of up to 2.00%, as determined by the interest rate elected and the Leverage Ratio. Loan subject to holder’s call on or after March 1, 2018. Loan can be prepaid without penalty. (1) | 03/13                        | Floating          | 03/23   | \$ 29,913          | \$ 33,706            |
| \$100 million unsecured Senior Notes payable at a fixed interest rate of 3.90%. Interest payable semi-annually. Annual principal payments of \$20 million began in January 2014. Prepayment of notes are subject to a “make whole” premium.                                                                                                                                                                    | 01/11                        | 3.90              | 01/18   | 39,620             | 39,496               |
| Credit Agreement                                                                                                                                                                                                                                                                                                                                                                                               | 01/15                        | Floating          | 01/20   | 479,029            | 546,712              |
| Total long-term debt                                                                                                                                                                                                                                                                                                                                                                                           |                              |                   |         | 548,562            | 619,914              |
| Less current maturities of long-term debt                                                                                                                                                                                                                                                                                                                                                                      |                              |                   |         | (24,529)           | (22,644)             |
| Long-term debt, excluding current maturities                                                                                                                                                                                                                                                                                                                                                                   |                              |                   |         | \$ 524,033         | \$ 597,270           |

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

The fair market value of the fixed rate debt at August 31, 2016, computed using a discounted cash flow analysis and comparable market rates was \$40.36 million, compared to the \$39.62 million book value and represents a Level 2 liability. Our other long-term debt has floating interest rates, and its book value approximates its fair value at August 31, 2016.

At the beginning of fiscal year 2017, we adopted ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs”, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than an asset. We have made the necessary conforming reclassifications to the February 29, 2016 consolidated condensed balance sheet and related

footnote disclosures. Note 2 to these consolidated condensed financial statements provides further information regarding the impact of this recent accounting change.

All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. Our debt agreements require the maintenance of certain financial covenants, including maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms is defined in the various agreements). Our debt agreements also contain other customary covenants, including among other things, covenants restricting or limiting the Company, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) repurchasing shares of our common stock and paying dividends. As of August 31, 2016, our debt agreements effectively limited our ability to incur more than \$201.45 million of additional debt from all sources, including the Credit Agreement. We were in compliance with the terms of these agreements as of August 31, 2016.

#### **Note 11 – Income Taxes**

Income tax expense for the three- and six-months ended August 31, 2016 was 15.9 and 10.8 percent of income before income taxes, respectively, compared to 18.2 and 16.4 percent, respectively, for the same periods last year. The year-over-year decrease in our effective tax rate was primarily due to:

- a \$1.40 million tax benefit recorded in the fiscal quarter ended May 31, 2016 related to the resolution of uncertain tax positions; and
- \$0.23 and \$1.34 million in tax benefits, respectively, for the three- and six-months ended August 31, 2016, resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital. This was due to our adoption of ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” Note 2 to these consolidated condensed financial statements provides further information regarding the impact of this recent accounting change.

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

**Note 12 – 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)

|                            | Fair Values at<br>August 31, 2016<br>(Level 2) (1)   |
|----------------------------|------------------------------------------------------|
| Assets:                    |                                                      |
| Money market accounts      | \$ 2,131                                             |
| Foreign currency contracts | 1,976                                                |
| Total assets               | <u>\$ 4,107</u>                                      |
| Liabilities:               |                                                      |
| Fixed rate debt (2)        | \$ 40,355                                            |
| Floating rate debt         | 508,942                                              |
| Foreign currency contracts | 784                                                  |
| Total liabilities          | <u>\$ 550,081</u>                                    |
|                            |                                                      |
|                            | Fair Values at<br>February 29, 2016<br>(Level 2) (1) |
| Assets:                    |                                                      |
| Money market accounts      | \$ 211,964                                           |
| Foreign currency contracts | 1,372                                                |
| Total assets               | <u>\$ 213,336</u>                                    |
| Liabilities:               |                                                      |
| Fixed rate debt (2)        | \$ 40,281                                            |
| Floating rate debt         | 580,418                                              |
| Foreign currency contracts | 502                                                  |
| Total liabilities          | <u>\$ 621,201</u>                                    |

- (1) Our financial assets and liabilities are classified as Level 2 because their valuation is dependent on observable inputs and other quoted prices for similar assets or liabilities, or model-derived valuations whose significant value drivers are observable.
- (2) Debt values are reported at estimated fair value in these tables, but are recorded in the accompanying consolidated condensed balance sheets at the undiscounted value of the remaining principal payments due, less related unamortized debt issuance costs.

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

We classify our fixed and floating rate debt as Level 2 liabilities because the estimation of their fair market value requires the use of discount rates based upon current market rates of interest for debt with comparable terms. These discount rates are significant other observable market inputs. The fair market value of the fixed rate debt was computed using a discounted cash flow analysis and discount rates of 1.67 percent at August 31, 2016 and 2.39 percent at February 29, 2016. All other long-term debt has floating interest rates, and its book value approximates its fair value as of the reporting date.

We use derivatives for hedging purposes. As of August 31, 2016, our derivatives consist of foreign currency contracts and cross-currency debt swaps. We determine the fair value of our derivative instruments based on Level 2 inputs in the fair value hierarchy. See Notes 6, 7 and 13 to these consolidated condensed financial statements for more information on our hedging activities.

The Company's other non-financial assets include goodwill and other intangible assets, which we classify as Level 3 assets. These assets are measured at fair value on a non-recurring basis as part of the Company's impairment assessments and as circumstances require. As discussed in Note 8 to these consolidated condensed financial statements, in connection with our annual impairment testing during the fiscal quarter ended May 31, 2016, we recorded a non-cash asset impairment charge of \$7.40 million (\$5.10 million after tax). The charge related to brand assets and trademarks in our Beauty and Nutritional Supplements segments, which were written down to their estimated fair values, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

### **Note 13 – Financial Instruments and Risk Management**

**Foreign Currency Risk** - Our functional currency is the U.S. Dollar. By operating internationally, we are subject to foreign currency risk from transactions denominated in currencies other than the U.S. Dollar ("foreign currencies"). Such transactions include sales, certain inventory purchases and operating expenses. As a result of such transactions, portions of our cash, trade accounts receivable and trade accounts payable are denominated in foreign currencies. During the three- and six-months ended August 31, 2016, approximately 11 and 12 percent, respectively, of our net sales revenue in each period was in foreign currencies. During both the three- and six-months ended August 31, 2015, approximately 15 percent of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. We make most of our inventory purchases from the Far East and primarily use the U.S. Dollar for such purchases. In our consolidated condensed statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets, and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses from remeasurement of the balance sheet are recognized in SG&A. For the three- and six-months ended August 31, 2016, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of (\$0.73) and (\$0.49) million, respectively, in SG&A, and \$0.06 and \$0.07 million, respectively, in income tax expense. For the three- and six-months ended August 31, 2015, we recorded net foreign exchange gains (losses) from remeasurement, including the impact of foreign currency hedges and cross-currency debt swaps, of \$ (1.22) and (\$2.10) million, respectively, in SG&A, and (\$0.07) and \$0.07 million, respectively, in income tax expense.

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

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

**Venezuelan Bolivar Currency Exchange Uncertainties** - In February 2016, the Venezuelan government announced changes to its foreign currency exchange system. These changes included an immediate devaluation of its official exchange rate, now known as DIPRO, from 6.30 Bolivars per U.S. Dollar to 10.00 Bolivars per U.S. Dollar. The changes also included the dissolution of its previous alternative exchange rate systems, and the

institution of a new alternative exchange system known as DICOM governing all other transactions not covered by DIPRO. DICOM replaced SIMADI, which was the lowest rate in the previous exchange system. SIMADI closed at February 29, 2016 at approximately 205 Bolivars per U.S. Dollar. DICOM opened in early March 2016 at approximately 207 Bolivars per U.S. Dollar.

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

The Company adopted DICOM in the first quarter of fiscal year 2017. Absent further changes in the exchange system, or unless future developments call for further changes, we intend to use DICOM to re-measure our financial statements going forward. At the current DICOM exchange rate, we expect that U.S. Dollar reported operating results from Venezuela will no longer be meaningful to the Company or the Beauty segment. Net sales revenue from Venezuela for the three- and six-months ended August 31, 2016 was \$0.14 and \$0.37 million, respectively, compared to \$5.93 and \$10.04 million, respectively, for same periods last year. Operating income (loss) from Venezuela for the three- and six-months ended August 31, 2016 was (\$0.01) and (\$0.11) million, respectively, compared to \$1.74 and \$3.32 million, respectively, for same periods last year.

Developments within the Venezuelan economy, including any future governmental interventions, are beyond our ability to control or predict, and we cannot assess the impact, if any, such events may have on our Venezuelan business.

**Interest Rate Risk** – Interest on our outstanding debt as of August 31, 2016 is both floating and fixed. Fixed rates are in place on \$40 million of Senior Notes at 3.90% and floating rates are in place on the balance of all other debt outstanding, which totaled \$512.01 million as of August 31, 2016. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under our Credit Agreement and the MBFC Loan.

The fair values of our derivative instruments are as follows:

#### FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

|                                                          |            |                  |           | August 31, 2016                    |        |                                    |                                |
|----------------------------------------------------------|------------|------------------|-----------|------------------------------------|--------|------------------------------------|--------------------------------|
|                                                          |            | Final Settlement | Notional  | Prepaid Expenses and Other Current | Other  | Accrued Expenses and Other Current | Other Liabilities, Non-current |
| Derivatives designated as hedging instruments            | Hedge Type | Date             | Amount    | Assets                             | Assets | Liabilities                        |                                |
| Foreign currency contracts - sell Euro                   | Cash flow  | 2/2018           | € 24,000  | \$ 413                             | \$ 101 | \$ -                               | \$ -                           |
| Foreign currency contracts - sell Canadian Dollars       | Cash flow  | 10/2017          | \$ 23,500 | -                                  | 14     | 743                                | -                              |
| Foreign currency contracts - sell Pounds                 | Cash flow  | 8/2017           | £ 9,000   | 1,207                              | -      | -                                  | -                              |
| Foreign currency contracts - sell Australian Dollars     | Cash flow  | 2/2017           | \$ 1,350  | -                                  | -      | 41                                 | -                              |
| Subtotal                                                 |            |                  |           | 1,620                              | 115    | 784                                | -                              |
| <b>Derivatives not designated under hedge accounting</b> |            |                  |           |                                    |        |                                    |                                |
| Foreign currency contracts - cross-currency debt swaps   | (1)        | 1/2018           | \$ 10,000 | -                                  | 241    | -                                  | -                              |
| Total fair value                                         |            |                  |           | \$ 1,620                           | \$ 356 | \$ 784                             | \$ -                           |

## FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

| February 29, 2016                                        |           |                       |                 |                                           |              |                                                |                                |
|----------------------------------------------------------|-----------|-----------------------|-----------------|-------------------------------------------|--------------|------------------------------------------------|--------------------------------|
|                                                          |           | Final Settlement Date | Notional Amount | Prepaid Expenses and Other Current Assets | Other Assets | Accrued Expenses and Other Current Liabilities | Other Liabilities, Non-current |
| <b>Derivatives designated as hedging instruments</b>     |           |                       |                 |                                           |              |                                                |                                |
| Foreign currency contracts - sell Euro                   | Cash flow | 2/2017                | € 27,000        | \$ 1,066                                  | \$ -         | \$ -                                           | \$ -                           |
| Foreign currency contracts - sell Canadian Dollars       | Cash flow | 6/2017                | \$ 28,000       | -                                         | -            | 495                                            | 7                              |
| Foreign currency contracts - sell Pounds                 | Cash flow | 2/2017                | £ 3,450         | 94                                        | -            | -                                              | -                              |
| Foreign currency contracts - sell Australian Dollars     | Cash flow | 8/2016                | \$ 1,650        | 6                                         | -            | -                                              | -                              |
| Subtotal                                                 |           |                       |                 | 1,166                                     | -            | 495                                            | 7                              |
| <b>Derivatives not designated under hedge accounting</b> |           |                       |                 |                                           |              |                                                |                                |
| Foreign currency contracts - cross-currency debt swap    | (1)       | 1/2018                | \$ 5,000        | -                                         | 206          | -                                              | -                              |
| Total fair value                                         |           |                       |                 | \$ 1,166                                  | \$ 206       | \$ 495                                         | \$ 7                           |

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

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

## PRE-TAX EFFECT OF DERIVATIVE INSTRUMENTS

(in thousands)

| Three Months Ended August 31,         |                                                     |        |                                                                         |        |        |                                    |       |      |
|---------------------------------------|-----------------------------------------------------|--------|-------------------------------------------------------------------------|--------|--------|------------------------------------|-------|------|
|                                       | Gain / (Loss) Recognized in OCI (effective portion) |        | Gain / (Loss) Accumulated Other Comprehensive Income (Loss) into Income |        |        | Gain / (Loss) Recognized As Income |       |      |
|                                       | 2016                                                | 2015   | Location                                                                | 2016   | 2015   | Location                           | 2016  | 2015 |
| Currency contracts - cash flow hedges | \$ 1,289                                            | \$ 545 | SG&A                                                                    | \$ 141 | \$ 121 |                                    | \$ -  | \$ - |
| Cross-currency debt swaps - principal | -                                                   | -      |                                                                         | -      | -      | SG&A                               | (17)  | -    |
| Cross-currency debt swaps - interest  | -                                                   | -      |                                                                         | -      | -      | Interest Expense                   | 35    | -    |
| Total                                 | \$ 1,289                                            | \$ 545 |                                                                         | \$ 141 | \$ 121 |                                    | \$ 18 | \$ - |

  

| Six Months Ended August 31,           |                                                     |        |                                                                         |         |        |                                    |       |      |
|---------------------------------------|-----------------------------------------------------|--------|-------------------------------------------------------------------------|---------|--------|------------------------------------|-------|------|
|                                       | Gain / (Loss) Recognized in OCI (effective portion) |        | Gain / (Loss) Accumulated Other Comprehensive Income (Loss) into Income |         |        | Gain / (Loss) Recognized As Income |       |      |
|                                       | 2016                                                | 2015   | Location                                                                | 2016    | 2015   | Location                           | 2016  | 2015 |
| Currency contracts - cash flow hedges | \$ 270                                              | \$ 812 | SG&A                                                                    | \$ (17) | \$ 240 |                                    | \$ -  | \$ - |
| Cross-currency debt swaps - principal | -                                                   | -      |                                                                         | -       | -      | SG&A                               | 35    | -    |
| Cross-currency debt swaps - interest  | -                                                   | -      |                                                                         | -       | -      | Interest Expense                   | 35    | -    |
| Total                                 | \$ 270                                              | \$ 812 |                                                                         | \$ (17) | \$ 240 |                                    | \$ 70 | \$ - |

We expect pre-tax net gains of \$0.84 million associated with foreign currency contracts currently reported in accumulated other comprehensive income, to be reclassified into income over the next twelve months. The amount ultimately realized, however, will differ as exchange rates change and the underlying contracts settle.

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

**Note 14 – Repurchase of Helen of Troy Common Stock**

As of August 31, 2016, we were authorized by our Board of Directors to purchase up to \$158.51 million of common stock in the open market or through private transactions. Our current equity-based compensation plans include provisions that allow for the “net exercise” of share settled awards by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares and are included in the table below as common stock received in connection with share-based compensation.

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

**SHARE REPURCHASES**

|                                                                      | <b>Three Months Ended August 31,</b> |             | <b>Six Months Ended August 31,</b> |             |
|----------------------------------------------------------------------|--------------------------------------|-------------|------------------------------------|-------------|
|                                                                      | <b>2016</b>                          | <b>2015</b> | <b>2016</b>                        | <b>2015</b> |
| Common stock repurchased on the open market or through tender offer: |                                      |             |                                    |             |
| Number of shares                                                     | -                                    | 556,591     | -                                  | 556,591     |
| Aggregate value of shares (in thousands)                             | \$ -                                 | \$ 50,000   | \$ -                               | \$ 50,000   |
| Average price per share                                              | \$ -                                 | \$ 89.83    | \$ -                               | \$ 89.83    |
| Common stock received in connection with share-based compensation:   |                                      |             |                                    |             |
| Number of shares                                                     | 668                                  | 1,282       | 5,274                              | 1,282       |
| Aggregate value of shares (in thousands)                             | \$ 65                                | \$ 119      | \$ 507                             | \$ 119      |
| Average price per share                                              | \$ 97.11                             | \$ 92.49    | \$ 96.17                           | \$ 92.49    |

**Note 15 – Share-Based Compensation Plans**

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

- During the three months ended May 31, 2016, we granted options to purchase 1,500 shares of common stock to employees. The fair value of these options were estimated using the Black-Scholes option pricing model to estimate fair value of \$28.74 for a grant with a term of four years. The following assumptions were used for the grant: expected life of 4.05 years; risk-free interest rate of 1.22 percent; zero dividend yield; and an expected volatility of 33.40 percent.
- During the three- and six-months ended August 31, 2016, we issued 1,190 and 2,471 restricted shares, respectively, to non-employee Board members with a total grant date fair value of \$0.12 and \$0.25 million, respectively, and average share prices of \$103.46 and \$99.55, respectively.
- During the three- and six-months ended August 31, 2016, we granted RSUs that may be settled for 4,650 and 83,582 shares of common stock, with average fair values at the grant dates of \$94.58 and \$97.63 per unit, respectively.
- During the three months ended May 31, 2016, we granted PSUs that may be settled for up to 139,456 shares of common stock, with an average fair value of \$97.12 per unit.
- During the three months ended May 31, 2016, employee RSUs for 13,231 shares vested and settled with a total grant date fair value of \$1.27 million and a share price of \$95.92.
- During the three- and six-months ended August 31, 2016, employees exercised stock options to purchase 38,032 and 111,667 shares of common stock, respectively.
- During the three- and six-months ended August 31, 2016, employees purchased 14,580 shares of common stock for \$1.12 million through our employee stock purchase plan.

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

# **SHARE-BASED PAYMENT EXPENSE**

*(in thousands, except per share data)*

|                                                           | <b>Three Months Ended August 31,</b> |             | <b>Six Months Ended August 31,</b> |             |
|-----------------------------------------------------------|--------------------------------------|-------------|------------------------------------|-------------|
|                                                           | <b>2016</b>                          | <b>2015</b> | <b>2016</b>                        | <b>2015</b> |
| Stock options                                             | \$ 667                               | \$ 644      | \$ 1,407                           | \$ 1,337    |
| Directors stock compensation                              | 175                                  | 175         | 350                                | 350         |
| Performance based and other stock awards                  | 2,096                                | 887         | 6,847                              | 2,132       |
| Employee stock purchase plan                              | 258                                  | 223         | 258                                | 223         |
| Share-based payment expense                               | 3,196                                | 1,929       | 8,862                              | 4,042       |
| Less income tax benefits                                  | (693)                                | (274)       | (2,214)                            | (593)       |
| Share-based payment expense, net of income tax benefits   | \$ 2,503                             | \$ 1,655    | \$ 6,648                           | \$ 3,449    |
| Earnings per share impact of share based payment expense: |                                      |             |                                    |             |
| Basic                                                     | \$ 0.09                              | \$ 0.06     | \$ 0.24                            | \$ 0.12     |
| Diluted                                                   | \$ 0.09                              | \$ 0.06     | \$ 0.24                            | \$ 0.12     |

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

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

*Throughout this MD&A, we refer to certain measures used by management to evaluate financial performance. We also may refer to a number of financial measures that are not defined under GAAP, but have corresponding GAAP-based measures. Where non-GAAP measures appear, we provide tables reconciling these to their corresponding GAAP-based measures and make reference to a discussion of their use. We believe these measures provide investors with important information that is useful in understanding our business results and trends. Please see "Explanation of Certain Terms and Measures Used in MD&A" beginning on page 49 for more information on the use and calculation of certain GAAP-based and non-GAAP financial measures.*

### OVERVIEW

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

The Nutritional Supplements segment primarily sells directly to consumers. Our other segments primarily sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores, and specialty stores. In addition, the Beauty segment sells extensively through beauty supply retailers and wholesalers, and the Health & Home segment sells certain of its product lines through medical distributors and other products through home improvement stores. We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

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

We believe that the growth in the internet as a sales channel is reducing market share in the traditional "brick and mortar" channels. During the fiscal quarter and year-to-date periods ended August 31, 2016, sales to internet-based customers comprised approximately 13.5 and 12.2 percent, respectively, of our total consolidated net sales revenue compared to approximately 10.1 and 9.9 percent, respectively, for the same periods last year. As a result, we continue to refine our domestic distribution capabilities to adjust to this form of demand and meet the logistical challenge of higher frequency, smaller order size shipments.

With the continued growth in internet sales, we believe there are certain trends emerging in the retail environment. Shopping mall traffic is declining and many brick and mortar retailers are aggressively looking to their suppliers for gross margin improvement to make up the sales volume lost to the internet. The internet affects brick and mortar retailers not just by taking sales, but lower foot traffic also reduces opportunities for impulse buying. In addition, retailers are rationalizing their product offerings with weaker brand equities being de-emphasized or replaced with private label. Major internet retailers are also becoming increasingly efficient with respect to inventory management and are able to operate with lower shelf stock and tighter safety stock. In addition, there is uncertainty related to the upcoming U.S. election and impending exit of the U.K. from the European Union (“Brexit”). The confluence of these trends has created additional uncertainty for our business as we enter our peak selling season, and we are responding by developing additional pricing, promotional and supply chain strategies to adapt to a changing retail environment.

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

We also believe that Brexit has contributed to a contraction of consumer activity for our Europe, Middle East and Africa (“EMEA”) operations. The retail outlook for the EMEA region has grown considerably more uncertain and our operations may be affected by regional recessions, currency volatility and emergent regional trade disputes, any of which could have a material adverse effect on our business. For the fiscal quarter and year-to-date periods ended August 31, 2016, the British Pound has weakened against the U.S. dollar by 10.4 and 5.5 percent, respectively, compared to the same periods last year. For the fiscal quarter and year-to-date periods ended August 31, 2016, net sales revenue denominated in British Pounds represented approximately 2.1 percent of our consolidated net sales revenue.

The outlook for our non-EMEA international operations continues to remain uncertain as these operations serve consumers in more inconsistently recovering economies that are more susceptible to fiscal and geo-political instabilities. During the fiscal quarter and year-to-date periods ended August 31, 2016, foreign currency fluctuations, particularly in Latin America, exposed our international operating results to significant variability and uncertainty, which was compounded by weakness in the retail environments throughout these markets.

As further discussed in Note 13 to the accompanying consolidated condensed financial statements and under Part I. Item 3. “Quantitative and Qualitative Disclosures about Market Risk – Foreign Currency Risk – Venezuelan Bolivar Currency Exchange Uncertainties”, we adopted the new Venezuela DICOM exchange rate at the beginning of the first quarter of fiscal year 2017. DICOM opened at 207 Bolivars per U.S. Dollar and devalued to approximately 645 Bolivars per U.S. Dollar as of August 31, 2016. Absent further changes in the exchange system, or unless future developments call for further changes, we intend to use DICOM to re-measure our financial statements going forward. At the current DICOM exchange rate, we expect that U.S. Dollar reported operating results from Venezuela will no longer be meaningful to the Company or the Beauty segment. Net sales revenue from Venezuela for the fiscal quarter and year-to-date periods ended August 31, 2016 was \$0.14 and \$0.37 million, respectively, compared to \$5.93 and \$10.04 million, respectively, for the same periods last year. Operating income (loss) from Venezuela for the fiscal quarter and year-to-date periods ended August 31, 2016 was (\$0.01) and (\$0.11) million, respectively, compared to \$1.74 and \$3.32 million, respectively, for the same periods last year. Developments within the Venezuelan economy, including any future governmental interventions, are beyond our ability to control or predict, and we cannot assess the impact, if any, such events may have on our Venezuelan business.

### ***Financial Performance Highlights***

Consolidated net sales revenue for the fiscal quarter ended August 31, 2016 decreased \$0.96 million, or 0.3 percent, to \$368.17, compared to \$369.13 million for the same period last year. Consolidated net sales revenue for the fiscal year-to-date period ended August 31, 2016 increased \$1.64 million, or 0.2 percent, to \$716.11 million, compared to \$714.47 million for the same period last year. Core business net sales revenue decreased \$30.02 and \$42.51 million, or 8.1 and 5.9 percent, for the fiscal quarter and year-to-date periods ended August 31, 2016, respectively, compared to the same periods last year.

Net sales revenue for the fiscal quarter and year-to-date periods ended August 31, 2016 includes the unfavorable impact of net foreign exchange fluctuations of \$2.32 and \$4.13 million, respectively, compared to the same periods last year. In addition to the impact from foreign currency fluctuations, the year-over-year comparisons of net sales revenue were unfavorably impacted by the Company's transition from the official exchange rate in Venezuela to the market rate of DICOM, which is the lowest rate in the current exchange rate system. Net sales revenue from our Venezuelan operations decreased by \$5.79 and \$9.67 million to \$0.14 and \$0.37 million, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$5.93 and \$10.04 million in the same periods last year, almost entirely due to the adoption of the DICOM exchange rate. This impact is reported in the Beauty segment.

Net sales revenue in our Housewares segment increased \$27.13 and \$46.55 million for the fiscal quarter and year-to-date periods ended August 31, 2016, or 34.4 and 32.3 percent, respectively, compared to the same period last year. The year-over-year increases include \$29.06 and \$43.43 million of net sales from the Hydro Flask acquisition. For the fiscal quarter and year-to-date periods ended August 31, 2016, Housewares core business declined \$1.93 million and increased \$3.12 million, respectively, compared to the same periods last year. Net sales revenue in our Health & Home segment increased \$1.20 and \$4.51 million for the fiscal quarter and year-to-date periods ended August 31, 2016, or 0.8 and 1.6 percent, respectively, compared to the same periods last year. Net sales revenue in our Nutritional Supplements segment decreased \$4.94 and \$8.44 million for the fiscal quarter and year-to-date periods ended August 31, 2016, or 13.0 and 10.9 percent, respectively, compared to the same periods last year. Net sales revenue in our Beauty segment decreased \$24.35 and \$40.99 million for the fiscal quarter and year-to-date periods ended August 31, 2016, or 22.3 and 19.8 percent, respectively, compared to the same periods last year. The declines in the Beauty segment's net sales revenue for the fiscal quarter and year-to-date periods ended August 31, 2016 include the net unfavorable impacts of \$1.27 and \$2.67 million, respectively, from foreign currency exchange fluctuations and \$5.79 and \$9.67 million in declines, respectively, from our Venezuelan operations, which are primarily due to the adoption of the new DICOM exchange rate discussed above.

In addition to our net sales revenue performance discussed above, key results for the fiscal quarter and year-to-date periods ended August 31, 2016 include the following:

- Consolidated gross profit margin increased 4.2 percentage points to 44.3 percent for the fiscal quarter ended August 31, 2016, compared to 40.1 percent for the same period last year. Consolidated gross profit margin increased 3.2 percentage points to 44.0 percent for the fiscal year-to-date ended August 31, 2016, compared to 40.8 percent for the same period last year.
- Our SG&A ratio increased 2.8 percentage points to 34.1 percent for the fiscal quarter ended August 31, 2016, compared to 31.3 percent for the same period last year. Our SG&A ratio increased 2.5 percentage points to 34.6 percent for the fiscal year-to-date ended August 31, 2016, compared to 32.1 percent for the same period last year.

- Operating income was \$37.49 and \$60.39 million, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$32.43 and \$58.98 million for the same periods last year. Operating income for the fiscal year-to-date period ended August 31, 2016 includes non-cash intangible asset impairment charges of \$7.40 million, compared to \$3.00 million for the same period last year. Operating income for the fiscal year-to-date period ended August 31, 2016 also includes a patent litigation charge of \$1.47 million for which there were no comparable charges in the same period last year.
- Adjusted operating margin was 13.0 percent for the fiscal quarter ended August 31, 2016, compared to 11.2 percent for the same period last year. Adjusted operating margin was 12.9 percent for the fiscal year-to-date ended August 31, 2016, compared to 11.2 percent for the same period last year.
- Income tax expense was \$5.35 and \$5.72 million, or 15.9 and 10.8 percent of income before taxes, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$5.43 and \$8.81 million, or 18.2 and 16.4 percent of income before taxes, respectively, for the same periods last year.
- Net income was \$28.36 and \$47.38 million, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$24.45 and \$44.86 million, respectively, for the same periods last year. Diluted earnings per share was \$1.00 and \$1.68, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$0.84 and \$1.54, respectively, for the same periods last year.
- Adjusted income was \$37.03 and \$72.92 million, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$32.33 and \$63.04 million, respectively, for the same periods last year. Adjusted diluted EPS was \$1.31 and \$2.59, respectively, for the fiscal quarter and year-to-date periods ended August 31, 2016, compared to \$1.12 and \$2.17 million, respectively, for the same periods last year.

Adjusted operating income, adjusted operating margin, adjusted income, and adjusted diluted EPS are non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further, and reconciled to their applicable GAAP-based measures on pages 35 through 36 for the fiscal quarter and 42 through 43 for the fiscal year-to-date period.

## RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, our selected operating data, in U.S. Dollars, as a year-over-year percentage change and as a percentage of net sales revenue. We will refer to this table in the discussion of results of operations which follows:

### SELECTED OPERATING DATA (1)

(in thousands)

|                                             | Three Months Ended August 31, |           |           |          | % of Sales Revenue, net |         |
|---------------------------------------------|-------------------------------|-----------|-----------|----------|-------------------------|---------|
|                                             | 2016                          | 2015      | \$ Change | % Change | 2016                    | 2015    |
| Sales revenue by segment, net               |                               |           |           |          |                         |         |
| Housewares                                  | \$ 105,976                    | \$ 78,848 | \$ 27,128 | 34.4 %   | 28.8 %                  | 21.4 %  |
| Health & Home                               | 144,453                       | 143,254   | 1,199     | 0.8 %    | 39.2 %                  | 38.8 %  |
| Nutritional Supplements                     | 33,112                        | 38,048    | (4,936)   | (13.0)%  | 9.0 %                   | 10.3 %  |
| Beauty                                      | 84,629                        | 108,979   | (24,350)  | (22.3)%  | 23.0 %                  | 29.5 %  |
| Total sales revenue, net                    | 368,170                       | 369,129   | (959)     | (0.3)%   | 100.0 %                 | 100.0 % |
| Cost of goods sold                          | 205,202                       | 221,124   | (15,922)  | (7.2)%   | 55.7 %                  | 59.9 %  |
| Gross profit                                | 162,968                       | 148,005   | 14,963    | 10.1 %   | 44.3 %                  | 40.1 %  |
| Selling, general and administrative expense | 125,481                       | 115,573   | 9,908     | 8.6 %    | 34.1 %                  | 31.3 %  |
| Asset impairment charges                    | -                             | -         | -         | - %      | - %                     | - %     |
| Operating income                            | 37,487                        | 32,432    | 5,055     | 15.6 %   | 10.2 %                  | 8.8 %   |
| Nonoperating income (expense), net          | 88                            | (46)      | 134       | * %      | - %                     | - %     |
| Interest expense                            | (3,866)                       | (2,503)   | (1,363)   | 54.5 %   | (1.1)%                  | (0.7)%  |
| Total other expense                         | (3,778)                       | (2,549)   | (1,229)   | 48.2 %   | (1.0)%                  | (0.7)%  |
| Income before income taxes                  | 33,709                        | 29,883    | 3,826     | 12.8 %   | 9.2 %                   | 8.1 %   |
| Income tax expense                          | 5,354                         | 5,431     | (77)      | (1.4)%   | 1.5 %                   | 1.5 %   |
| Net income                                  | \$ 28,355                     | \$ 24,452 | \$ 3,903  | 16.0 %   | 7.7 %                   | 6.6 %   |

|                                             | Six Months Ended August 31, |            |           |          | % of Sales Revenue, net |         |
|---------------------------------------------|-----------------------------|------------|-----------|----------|-------------------------|---------|
|                                             | 2016                        | 2015       | \$ Change | % Change | 2016                    | 2015    |
| Sales revenue by segment, net               |                             |            |           |          |                         |         |
| Housewares                                  | \$ 190,579                  | \$ 144,034 | \$ 46,545 | 32.3 %   | 26.6 %                  | 20.2 %  |
| Health & Home                               | 290,808                     | 286,296    | 4,512     | 1.6 %    | 40.6 %                  | 40.1 %  |
| Nutritional Supplements                     | 69,052                      | 77,488     | (8,436)   | (10.9)%  | 9.6 %                   | 10.8 %  |
| Beauty                                      | 165,669                     | 206,656    | (40,987)  | (19.8)%  | 23.1 %                  | 28.9 %  |
| Total sales revenue, net                    | 716,108                     | 714,474    | 1,634     | 0.2 %    | 100.0 %                 | 100.0 % |
| Cost of goods sold                          | 400,713                     | 423,150    | (22,437)  | (5.3)%   | 56.0 %                  | 59.2 %  |
| Gross profit                                | 315,395                     | 291,324    | 24,071    | 8.3 %    | 44.0 %                  | 40.8 %  |
| Selling, general and administrative expense | 247,610                     | 229,349    | 18,261    | 8.0 %    | 34.6 %                  | 32.1 %  |
| Asset impairment charges                    | 7,400                       | 3,000      | 4,400     | 146.7 %  | 1.0 %                   | 0.4 %   |
| Operating income                            | 60,385                      | 58,975     | 1,410     | 2.4 %    | 8.4 %                   | 8.3 %   |
| Nonoperating income (expense), net          | 237                         | 91         | 146       | * %      | - %                     | - %     |
| Interest expense                            | (7,517)                     | (5,394)    | (2,123)   | 39.4 %   | (1.0)%                  | (0.8)%  |
| Total other expense                         | (7,280)                     | (5,303)    | (1,977)   | 37.3 %   | (1.0)%                  | (0.7)%  |
| Income before income taxes                  | 53,105                      | 53,672     | (567)     | (1.1)%   | 7.4 %                   | 7.5 %   |
| Income tax expense                          | 5,724                       | 8,810      | (3,086)   | (35.0)%  | 0.8 %                   | 1.2 %   |
| Net income                                  | \$ 47,381                   | \$ 44,862  | \$ 2,519  | 5.6 %    | 6.6 %                   | 6.3 %   |

\* Calculation is not meaningful

- (1) Includes three and approximately five and a half months, respectively, of operating results of Hydro Flask for the fiscal quarter and year-to-date periods ended August 31, 2016, with no comparable results in the same period last year. Hydro Flask operating results are reported in the Housewares segment.

## **Second Quarter of Fiscal Year 2017 Compared to Second Quarter of Fiscal Year 2016**

### ***Consolidated net sales revenue:***

Consolidated net sales revenue for the fiscal quarter ended August 31, 2016 decreased \$0.96 million to \$368.17 million, compared to \$369.13 million for the same period last year, a decrease of 0.3 percent. Net sales revenue in our Housewares segment increased \$27.13 million, or 34.4 percent, compared to the same period last year. The year-over-year increase was comprised of \$29.06 million of net sales from the Hydro Flask acquisition, partially offset by a \$1.93 million decline in Housewares' core business net sales revenue. Net sales revenue in our Health & Home segment increased \$1.20 million, or 0.8 percent, compared to the same period last year. Net sales revenue in our Nutritional Supplements segment decreased \$4.94 million, or 13.0 percent, compared to the same period last year. Net sales revenue in our Beauty segment decreased \$24.35 million, or 22.3 percent, compared to the same period last year. The decline in the Beauty segment includes the net unfavorable impacts of \$1.27 million of foreign currency exchange fluctuations and a \$5.79 million decline from our Venezuelan operations, which is primarily due to the adoption of the new DICOM exchange rate referred to previously.

### ***Impact of acquisitions on net sales revenue:***

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

## **IMPACT OF ACQUISITIONS ON NET SALES REVENUE**

*(in thousands)*

|                                                                      | <b>Three Months Ended August 31,</b> |             |
|----------------------------------------------------------------------|--------------------------------------|-------------|
|                                                                      | <b>2016</b>                          | <b>2015</b> |
| Prior year's sales revenue, net                                      | \$ 369,129                           | \$ 319,949  |
| Components of sales revenue change, net                              |                                      |             |
| Core business                                                        | (30,018)                             | 34,937      |
| Incremental net sales revenue from acquisitions (non-core business): |                                      |             |
| Healthy Directions (one month in fiscal year 2016)                   | -                                    | 13,445      |
| Vicks VapoSteam (three months in fiscal year 2016)                   | -                                    | 798         |
| Hydro Flask (three months in fiscal year 2017)                       | 29,059                               | -           |
| Change in sales revenue, net                                         | (959)                                | 49,180      |
| Total sales revenue, net                                             | \$ 368,170                           | \$ 369,129  |
| Total net sales revenue growth                                       | (0.3)%                               | 15.4 %      |
| Core business                                                        | (8.1)%                               | 10.9 %      |
| Acquisitions                                                         | 7.9 %                                | 4.5 %       |

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

During the fiscal quarters ended August 31, 2016 and 2015, approximately 11 and 15 percent, respectively, of our net sales revenue was denominated in foreign currencies. These transactions were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. For the fiscal quarter ended August 31, 2016, the impact of net foreign currency exchange rate fluctuations negatively impacted our consolidated U.S. Dollar reported net sales revenue by approximately \$2.32 million, or 0.6 percent. In our Beauty segment, foreign exchange fluctuations had a \$1.27 million, or 1.5 percent, unfavorable impact on U.S. Dollar reported net sales revenue. In our Housewares and Health & Home segments, foreign exchange fluctuations had unfavorable impacts of \$0.53 and \$0.52 million, respectively, on U.S. Dollar reported net sales revenue.

In addition to the impact from foreign currency fluctuations, the year-over-year comparison of net sales revenue was unfavorably impacted by the Company's transition from the official exchange rate in Venezuela to the market rate of DICOM, which is the lowest rate in the current exchange rate system. Net sales revenue from our Venezuelan operations decreased by \$5.79 million to \$0.14 million for the fiscal quarter ended August 31, 2016, compared to \$5.93 million in the same period last year, almost entirely due to the adoption of the DICOM exchange rate. This impact reduced year-over-year net sales in the Beauty Segment by 5.3 percent.

***Segment net sales revenue:***

**Housewares Segment** - Net sales revenue in the Housewares segment for the fiscal quarter ended August 31, 2016 increased \$27.13 million, or 34.4 percent, to \$105.98 million, compared to \$78.85 million for the same period last year. The year-over-year increase was comprised of \$29.06 million of net sales from the Hydro Flask acquisition partially offset by a \$1.93 million, or 2.4 percent decline in Housewares' core business net sales revenue. We believe the Hydro Flask business is on track to exceed our expectations, fueled by new product introductions, increased shelf and display space, and new distribution gains. In the segment's core business, a 4.4 percent increase in average unit selling price was offset by a 6.9 percent decline in unit volume. The decrease in Housewares core net sales revenue occurred principally in the U.S., as sales in EMEA increased modestly despite the negative impact of the weakened British Pound. The net sales decline in the U.S. was primarily the result of smaller and less frequent replenishment orders due to weakening retail sales in the sector, retailer inventory reductions, and in some cases, delays in early season holiday orders as a result of falling consumer traffic counts. We continue to expect the segment's longer-term growth to continue to be driven by new products, category expansion, expanded shelf space and assortments at key traditional and internet retailers, and new distribution gains in international markets.

**Health & Home Segment** - Net sales revenue in the Health & Home segment for the fiscal quarter ended August 31, 2016 increased \$1.20 million, or 0.8 percent, to \$144.45 million, compared to \$143.25 million for the same period last year. Higher unit volumes contributed 5.0 percent to the segment's growth, partially offset by a 4.2 percent decline in the average unit selling price. Average unit selling price declines were principally caused by a seasonal shift in mix, which included higher sales of mid-priced items such as fans, and lower priced consumables such as water filters, Vaposteam and VapoPads. Foreign currency fluctuations reduced U.S. Dollar reported net sales revenue by \$0.52 million, or 0.4 percent. Net sales gains were primarily driven by PUR water filtration systems, seasonal fans and early season shipments of heaters, partially offset by declines in humidification and hot/cold therapy. In the water filtration category, we believe consumer awareness of municipal water quality issues across the U.S. continues to drive more frequent consumer filter replacement, growth in household penetration and incremental gains in product placement with key retailers. Our seasonal fan business benefited from strong in-season replenishment orders due to high summer temperatures. The heater business growth was driven by early-season new product introductions and distribution gains. The decline in humidifier sales was primarily due to retailers exiting last year's cough/cold/flu season with higher inventory levels. The decline in the hot/cold therapy category was primarily due to the rationalization of lower margin business.

**Nutritional Supplements Segment** - Net sales revenue for the fiscal quarter ended August 31, 2016 decreased \$4.94 million, or 13.0 percent, to \$33.11 million, compared to \$38.05 million for the same period last year. Lower unit volumes and a decrease in average unit selling price contributed approximately 9.1 and 3.9 percent, respectively, to the decline in the segment's net sales revenue. The decline in average selling price was primarily driven by lower average order values and an increase in promotional pricing to develop new buyer growth in selected categories. The segment saw declines in its offline response rates and legacy print newsletter subscription business, which is being strategically de-emphasized in the segment's business model. Net sales revenue from the segment's AutoDelivery program, a continuity program where customers can schedule delivery of product based on their timing and frequency requirements, was essentially flat when compared to the same period last year. The segment is in the process of implementing a multi-year strategic transition from offline to online channels and is dedicating resources to its online interface and e-commerce platforms in an effort to improve order conversion and average order values. The segment recently completed a significant milestone in its

multi-year plan by implementing new order and customer relationship management systems, which we believe will enhance marketing and order conversion effectiveness, as well as improve the overall customer experience.

**Beauty Segment** - Net sales revenue in the Beauty segment for the fiscal quarter ended August 31, 2016 decreased \$24.35 million, or 22.3 percent, to \$84.63 million, compared to \$108.98 million for the same period last year. Lower unit volumes and a lower average unit selling price contributed approximately 17.5 and 4.8 percent, respectively, to the decline in the segment's net sales revenue. The decline in the Beauty segment net sales revenue includes a \$5.79 million decline from our Venezuelan operations, which is almost entirely due to the adoption of the new DICOM exchange rate, and the net unfavorable impact of \$1.27 million from foreign currency exchange fluctuations. Another \$4.16 million of the sales decline relates to a decline in the foot care category due to high inventory in the channel and competitive pressures. Additionally, the segment has de-emphasized sales into the discount channel and other lower margin business. Lower store traffic counts and soft consumer spending at traditional brick and mortar retailers, continued inventory rationalization within the segment's product categories, and competitive pressures accounted for the remainder of the decline. We continue to expect challenging conditions for the segment for the balance of fiscal year 2017.

***Consolidated gross profit margin:***

Consolidated gross profit as a percentage of net sales revenue for the fiscal quarter ended August 31, 2016 increased 4.2 percentage points to 44.3 percent, compared to 40.1 percent for the same period last year. The increase in consolidated gross profit margin is primarily due to favorable shifts in product mix, product rationalization efforts, accretion from the Hydro Flask acquisition, and reductions in product costs, partially offset by the unfavorable impact of foreign currency fluctuations.

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

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

Our consolidated SG&A ratio increased 2.8 percentage points to 34.1 percent for fiscal quarter ended August 31, 2016, compared to 31.3 percent for the same period last year. The increase was primarily due to:

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

These factors were partially offset by:

- lower advertising expense; and
- lower year-over-year foreign currency revaluation losses, partially due to cash flow hedges and \$10 million of U.S. Dollar to Euro cross-currency debt swaps.

### **Operating income by segment:**

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

#### **OPERATING INCOME BY SEGMENT**

(in thousands)

|                         | <u>Three Months Ended August 31,</u> |             |                  |                 | <u>% of Sales Revenue, net</u> |             |
|-------------------------|--------------------------------------|-------------|------------------|-----------------|--------------------------------|-------------|
|                         | <u>2016</u>                          | <u>2015</u> | <u>\$ Change</u> | <u>% Change</u> | <u>2016</u>                    | <u>2015</u> |
| Housewares (1)          | \$ 24,233                            | \$ 15,142   | \$ 9,091         | 60.0 %          | 22.9 %                         | 19.2 %      |
| Health & Home           | 9,397                                | 4,808       | 4,589            | 95.4 %          | 6.5 %                          | 3.4 %       |
| Nutritional Supplements | (1,229)                              | 2,969       | (4,198)          | (141.4)%        | (3.7)%                         | 7.8 %       |
| Beauty                  | 5,086                                | 9,513       | (4,427)          | (46.5)%         | 6.0 %                          | 8.7 %       |
| Total operating income  | \$ 37,487                            | \$ 32,432   | \$ 5,055         | 15.6 %          | 10.2 %                         | 8.8 %       |

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

In the discussion that follows, our usage of the terms operating margin, operating expense ratio and operating leverage are further described and explained beginning on page 49.

**Housewares Segment** - Operating income for the fiscal quarter ended August 31, 2016 increased \$9.09 million, or 60.0 percent, compared to the same period last year. Operating margin increased 3.7 percentage points to 22.9 percent, compared to 19.2 percent for the same period last year. The increase in operating margin was primarily due to the accretive impact of the Hydro Flask acquisition, which increased the segment operating margin by 4.6 percentage points for the fiscal quarter ended August 31, 2016, partially offset by margin compression from new product categories in the core business.

**Health & Home Segment** - Operating income for the fiscal quarter ended August 31, 2016 increased \$4.59 million, or 95.4 percent, compared to the same period last year. Operating margin increased 3.1 percentage points to 6.5 percent, compared to 3.4 percent for the same period last year. The increase in operating margin is primarily due to improved gross margin as a result of product cost reductions, improvement in product sales mix, lower advertising expense, and lower outbound freight costs.

**Nutritional Supplements Segment** - Operating income for the fiscal quarter ended August 31, 2016 decreased \$4.20 million compared to the same period last year. Operating margin was (3.7 ) percent , compared to 7.8 percent for the same period last year. The primary drivers of the operating margin decline were:

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

**Beauty Segment** - Operating income for the fiscal quarter ended August 31, 2016 decreased \$4.43 million to \$5.09 million, compared to \$9.51 million for the same period last year. Operating margin decreased 2.7 percentage points to 6.0 percent, compared to 8.7 percent for the same period last year. The primary drivers of the operating margin decline were:

- the net sales revenue decline and the impact it had on operating leverage;
- foreign currency exchange rate fluctuations, which reduced segment net sales revenue by \$1.27 million; and
- a decline in operating income of \$1.75 million from our Venezuelan operations, due almost entirely to the adoption of the new DICOM exchange rate.

These factors were partially offset by an increase in the segment's gross profit margin primarily due to reduced product costs and improvement in product sales mix.

## ADJUSTED OPERATING INCOME AND OPERATING MARGIN

(in thousands)

| Three Months Ended August 31, 2016    |            |        |               |       |                         |         |          |       |                  |
|---------------------------------------|------------|--------|---------------|-------|-------------------------|---------|----------|-------|------------------|
|                                       | Housewares |        | Health & Home |       | Nutritional Supplements |         | Beauty   |       | Total            |
| Operating income, as reported (GAAP)  | \$ 24,233  | 22.9 % | \$ 9,397      | 6.5 % | \$ (1,229)              | (3.7) % | \$ 5,086 | 6.0 % | \$ 37,487 10.2 % |
| Amortization of intangible assets (1) | 671        | 0.6 %  | 3,542         | 2.5 % | 1,571                   | 4.7 %   | 1,438    | 1.7 % | 7,222 2.0 %      |
| Non-cash share-based compensation (2) | 705        | 0.7 %  | 1,005         | 0.7 % | 333                     | 1.0 %   | 1,101    | 1.3 % | 3,144 0.9 %      |
| Adjusted operating income (non-GAAP)  | \$ 25,609  | 24.2 % | \$ 13,944     | 9.7 % | \$ 675                  | 2.0 %   | \$ 7,625 | 9.0 % | \$ 47,853 13.0 % |

| Three Months Ended August 31, 2015    |            |        |               |       |                         |        |           |        |                  |
|---------------------------------------|------------|--------|---------------|-------|-------------------------|--------|-----------|--------|------------------|
|                                       | Housewares |        | Health & Home |       | Nutritional Supplements |        | Beauty    |        | Total            |
| Operating income, as reported (GAAP)  | \$ 15,142  | 19.2 % | \$ 4,808      | 3.4 % | \$ 2,969                | 7.8 %  | \$ 9,513  | 8.7 %  | \$ 32,432 8.8 %  |
| Amortization of intangible assets (1) | 338        | 0.4 %  | 3,868         | 2.7 % | 1,564                   | 4.1 %  | 1,438     | 1.3 %  | 7,208 2.0 %      |
| Non-cash share-based compensation (2) | 325        | 0.4 %  | 533           | 0.4 % | 273                     | 0.7 %  | 746       | 0.7 %  | 1,877 0.5 %      |
| Adjusted operating income (non-GAAP)  | \$ 15,805  | 20.0 % | \$ 9,209      | 6.4 % | \$ 4,806                | 12.6 % | \$ 11,697 | 10.7 % | \$ 41,517 11.2 % |

In the tables above, footnote references (1) to (2) correspond to the notes beginning on page 36 under the table entitled "Adjusted Income and EPS".

Adjusted operating income and adjusted operating margin, as discussed in the preceding tables, may be considered non-GAAP financial measures as set forth in SEC Regulation G, Rule 100. An explanation of the reasons why the Company believes the non-GAAP financial information is useful and the nature and limitations of the non-GAAP financial measures is furnished on page 44.

### Interest expense:

Interest expense for the fiscal quarter ended August 31, 2016 was \$3.87 million, compared to \$2.50 million for the same period last year. The increase in interest expense is due to higher levels of debt and higher average interest rates during the fiscal quarter ended August 31, 2016, when compared to the same period last year.

### Income tax expense:

Income tax expense for the fiscal quarter ended August 31, 2016 was 15.9 percent of income before income taxes, compared to 18.2 percent for the same period last year. The year-over-year decrease in our effective tax rate was due to shifts in the mix of taxable income in our various tax jurisdictions.

### **Net income:**

Net income for the fiscal quarter ended August 31, 2016 increased by \$3.90 million, compared to the same period last year. Our diluted earnings per share increased \$0.16 to \$1.00 compared to \$0.84 for the same period last year.

### **Adjusted income and EPS :**

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

### **ADJUSTED INCOME AND EPS**

*(in thousands, except per share data)*

|                                                                                 | <b>Three Months Ended August 31,</b> |             | <b>Basic EPS</b> |             | <b>Diluted EPS</b> |             |
|---------------------------------------------------------------------------------|--------------------------------------|-------------|------------------|-------------|--------------------|-------------|
|                                                                                 | <b>2016</b>                          | <b>2015</b> | <b>2016</b>      | <b>2015</b> | <b>2016</b>        | <b>2015</b> |
| Net income as reported (GAAP)                                                   | \$ 28,355                            | \$ 24,452   | \$ 1.02          | \$ 0.86     | \$ 1.00            | \$ 0.84     |
| Amortization of intangible assets, net of tax (1)                               | 6,228                                | 6,278       | 0.22             | 0.22        | 0.22               | 0.22        |
| Non-cash share-based compensation, net of tax (2)                               | 2,451                                | 1,603       | 0.09             | 0.06        | 0.09               | 0.06        |
| Adjusted income (non-GAAP)                                                      | \$ 37,034                            | \$ 32,333   | \$ 1.33          | \$ 1.14     | \$ 1.31            | \$ 1.12     |
| Weighted average shares of common stock used in computing basic and diluted EPS |                                      |             | 27,845           | 28,435      | 28,224             | 28,986      |

- (1) For the fiscal quarters ended August 31, 2016 and 2015, amortization of intangible assets was \$7.22 million (\$6.23 million after tax) and \$7.21 million (\$6.28 million after tax), respectively.
- (2) For the fiscal quarters ended August 31, 2016 and 2015, non-cash share based compensation was \$3.14 million (\$2.45 million after tax) and \$1.88 million (\$1.60 million after tax), respectively.

Adjusted income for the fiscal quarter ended August 31, 2016 increased \$4.70 million compared to the same period last year. The increase in adjusted income was primarily due to:

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

These factors were partially offset by:

- the unfavorable impact of net foreign currency exchange rate fluctuations, which reduced our reported consolidated net sales revenue by \$2.32 million year-over-year;
- a decline in net income of \$1.49 million from our Venezuelan operations, due almost entirely to the adoption of the new DICOM exchange rate;
- higher compensation costs; and
- the impact within our core business that lower overall net sales had on operating leverage.

Adjusted diluted EPS was \$1.31 for the fiscal quarter ended August 31, 2016, compared to \$1.12 for the same period last year. Adjusted diluted EPS increased primarily due to the impact of higher earnings and lower weighted average diluted shares outstanding for the fiscal quarter ended August 31, 2016 compared to the same period last year.

Adjusted income and EPS, as discussed in the preceding tables, may be considered non-GAAP financial measures as set forth in SEC Regulation G, Rule 100. An explanation of the reasons why the Company believes the non-GAAP financial information is useful and the nature and limitations of the non-GAAP financial measures, is furnished on page 44.

### **First Six Months of Fiscal Year 2017 Compared to First Six Months of Fiscal Year 2016**

#### ***Consolidated net sales revenue:***

Consolidated net sales revenue for the six months ended August 31, 2016 increased \$1.63 million to \$716.11 million, compared to \$714.47 million for the same period last year, an increase of 0.2 percent. Net sales revenue in our Housewares segment increased \$46.55 million, or 32.3 percent, compared to the same period last year. The year-over-year increase was comprised of \$43.42 million of net sales from the Hydro Flask acquisition and core business growth of \$3.25 million. Net sales revenue in our Health & Home segment increased \$4.51 million, or 1.6 percent, compared to the same period last year. Net sales revenue in our Nutritional Supplements segment decreased \$8.44 million, or 10.9 percent, compared to the same period last year. Net sales revenue in our Beauty segment decreased \$40.99 million, or 19.8 percent, compared to the same period last year. The decline in the Beauty segment includes the net unfavorable impacts of \$2.67 million from foreign currency exchange fluctuations and a \$9.67 million decline from our Venezuelan operations, which is primarily due to the adoption of a new DICOM exchange rate referred to previously.

#### ***Impact of acquisitions on net sales revenue:***

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

### **IMPACT OF ACQUISITIONS ON NET SALES REVENUE**

*(in thousands)*

|                                                                                   | Six Months Ended August 31, |            |
|-----------------------------------------------------------------------------------|-----------------------------|------------|
|                                                                                   | 2016                        | 2015       |
| Prior year's sales revenue, net                                                   | \$ 714,474                  | \$ 631,727 |
| Components of sales revenue change, net                                           |                             |            |
| Core business                                                                     | (42,506)                    | 28,412     |
| Incremental net sales revenue from acquisitions (non-core business):              |                             |            |
| Healthy Directions (four months in fiscal year 2016)                              | -                           | 52,885     |
| Vicks VapoSteam (one and five months in fiscal years 2017 and 2016, respectively) | 712                         | 1,450      |
| Hydro Flask (five and a half months in fiscal year 2017)                          | 43,428                      | -          |
| Change in sales revenue, net                                                      | 1,634                       | 82,747     |
| Total sales revenue, net                                                          | \$ 716,108                  | \$ 714,474 |
| Total net sales revenue growth                                                    | 0.2 %                       | 13.1 %     |
| Core business                                                                     | (5.9)%                      | 4.5 %      |
| Acquisitions                                                                      | 6.2 %                       | 8.6 %      |

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

During the six months ended August 31, 2016 and 2015, approximately 12 and 15 percent, respectively, of our net sales revenue was denominated in foreign currencies. These transactions were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. For the six months ended August 31, 2016, the impact of net foreign currency exchange rate fluctuations decreased our consolidated U.S. Dollar reported net sales revenue by approximately \$4.13 million. In our Beauty segment, foreign exchange fluctuations had a \$2.67 million unfavorable impact on U.S. Dollar reported net sales revenue. In our Housewares and Health & Home segments, foreign exchange fluctuations had unfavorable impacts of \$0.68 and \$0.78 million, respectively, on U.S. Dollar reported net sales revenue.

In addition to the impact from foreign currency fluctuations, the year-over-year comparison of net sales revenue was unfavorably impacted by the Company's transition from the official exchange rate in Venezuela to the market rate of DICOM, which is the lowest rate in the current exchange rate system. Net sales revenue from our Venezuelan operations decreased by \$9.67 million to \$0.37 million for the six months ended August 31, 2016, compared to \$10.04 million in the same period last year, almost entirely due to the adoption of the DICOM exchange rate. This impact reduced year-over-year net sales revenue in the Beauty Segment by 4.7 percent.

***Segment net sales revenue:***

**Housewares Segment** - Net sales revenue in the Housewares segment for the six months ended August 31, 2016 increased \$46.55 million, or 32.3 percent, to \$190.58 million, compared to \$144.03 million for the same period last year. The year-over-year increase was comprised of \$43.43 million of net sales from the Hydro Flask acquisition and core business growth of \$3.12 million, or 2.2 percent. In the segment's core business, a 5.6 percent increase in average unit selling price was partially offset by a 3.4 percent decline in unit volume. The overall increase in core business net sales revenue continues to be primarily due to new product and category introductions. We expect the segment's longer-term growth to continue to be driven by new products, category expansion, expanded shelf space and assortments at key traditional and internet retailers, and new distribution gains in international markets.

**Health & Home Segment** - Net sales revenue in the Health & Home segment for the six months ended August 31, 2016 increased \$4.51 million, or 1.6 percent, to \$290.81 million, compared to \$286.30 million for the same period last year. Higher unit volumes contributed 2.7 percent to the segment's growth, partially offset by a 1.1 percent decline in average unit selling price. Foreign currency fluctuations reduced U.S. Dollar reported net sales revenue by \$0.78 million, or 0.3 percent. Year-to-date net sales gains were primarily driven by PUR water filtration systems, seasonal fans, air purification systems, and early season shipments of heaters, partially offset by net sales declines in humidification and hot/cold therapy products. In the water filtration category, we believe consumer awareness of municipal water quality issues across the U.S. continues to drive more frequent consumer filter replacement, growth in household penetration and incremental gains in product placement with key retailers. Our seasonal fan business benefited from strong sell-in and in-season replenishment orders due to high summer temperatures. The heater business growth was driven by early-season new product introductions and distribution gains. The decline in humidifier sales was primarily due to retailers exiting last year's cough/cold/flu season with higher inventory levels. The decline in the hot/cold therapy category was primarily due to the rationalization of lower margin business.

**Nutritional Supplements Segment** - Net sales revenue for the six months ended August 31, 2016 decreased \$8.44 million, or 10.9 percent, to \$69.05 million, compared to \$77.49 million for the same period last year. Lower unit volume and a decrease in average unit selling price contributed approximately 8.5 and 2.4 percent, respectively, to the decline in the segment's net sales revenue. The decline in average selling price was primarily driven by lower average order values and an increase in promotional pricing to develop new buyer growth in selected categories. The segment saw declines in its offline response rates and legacy print newsletter subscription business, which is being strategically de-emphasized in the segment's business model. Net sales revenue from the segment's AutoDelivery program, a continuity program where customers can schedule delivery

of products based on their timing and frequency requirements, grew slightly when compared to the same period last year. The segment is in the process of implementing a multi-year strategic transition from offline to online channels and is dedicating resources to its online interface and e-commerce platforms in an effort to improve order conversion and average order values. The segment recently completed a significant milestone in its multi-year plans by implementing new order and customer relationship management systems, which we believe will enhance marketing and order conversion effectiveness, as well as improve the overall customer experience.

**Beauty Segment** - Net sales revenue in the Beauty segment for the six months ended August 31, 2016 decreased \$40.99 million, or 19.8 percent, to \$165.67 million, compared to \$206.66 million for the same period last year. Lower unit volume and a lower average unit selling price contributed approximately 16.5 and 3.3 percent, respectively, to the decline in the segment's net sales revenue. The decline in the Beauty segment net sales revenue includes a \$9.67 million net sales decline from our Venezuelan operations, which is almost entirely due to the adoption of the new DICOM exchange rate, and the net unfavorable impact of \$2.67 million from foreign currency exchange fluctuations. Another \$8.19 million of the sales decline relates to a decline in the foot care category due to high inventory in the channel and competitive pressures. Additionally, the segment has de-emphasized sales into the discount channel and other lower margin business. Lower store traffic counts and sluggish consumer spending at traditional brick and mortar retailers, continued inventory rationalization within the segment's product categories, and competitive pressures accounted for the remainder of the decline. We continue to expect challenging conditions for the segment for the balance of fiscal year 2017.

***Consolidated gross profit margin:***

Consolidated gross profit as a percentage of net sales revenue for the six months ended August 31, 2016 increased 3.2 percentage points to 44.0 percent, compared to 40.8 percent for the same period last year. The increase in consolidated gross profit margin is primarily due to favorable shifts in product mix, product rationalization efforts, accretion from the Hydro Flask acquisition, and reductions in product costs, partially offset by the unfavorable impact of foreign currency fluctuations.

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

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

Our consolidated SG&A ratio increased 2.5 percentage points to 34.6 percent for the six months ended August 31, 2016, compared to 32.1 percent for the same period last year. The increase was primarily due to:

- the impact of higher compensation costs due to hourly wage increases, increases in share-based compensation as new three-year performance based incentives enter their third year of existence and estimated performance factors are adjusted, and higher current year severance costs;
- the impact of additional patent litigation charges, which increased the SG&A ratio by 0.2 percentage points; and
- the impact within our core business that lower overall net sales had on operating leverage.

These factors were partially offset by:

- lower outbound freight costs;
- lower advertising expense; and
- lower year-over-year foreign currency revaluation losses, partially due to cash flow hedges and \$10 million of U.S. Dollar to Euro cross-currency debt swaps.

### ***Asset impairment charges:***

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

### ***Operating income by segment:***

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

#### **OPERATING INCOME BY SEGMENT**

(in thousands)

|                         | Six Months Ended August 31, |           |           |          | % of Sales Revenue, net |        |
|-------------------------|-----------------------------|-----------|-----------|----------|-------------------------|--------|
|                         | 2016                        | 2015      | \$ Change | % Change | 2016                    | 2015   |
| Housewares (1)          | \$ 39,733                   | \$ 26,325 | \$ 13,408 | 50.9 %   | 20.8 %                  | 18.3 % |
| Health & Home           | 19,001                      | 13,226    | 5,775     | 43.7 %   | 6.5 %                   | 4.6 %  |
| Nutritional Supplements | (6,501)                     | 5,589     | (12,090)  | *        | (9.4)%                  | 7.2 %  |
| Beauty                  | 8,152                       | 13,835    | (5,683)   | (41.1)%  | 4.9 %                   | 6.7 %  |
| Total operating income  | \$ 60,385                   | \$ 58,975 | \$ 1,410  | 2.4 %    | 8.4 %                   | 8.3 %  |

\* Calculation is not meaningful

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

In the discussion that follows, our usage of the terms operating margin, operating expense ratio and operating leverage are further described and explained beginning on page 49.

**Housewares Segment** - Operating income for the six months ended August 31, 2016 increased \$13.41 million, or 50.9 percent, compared to the same period last year. Operating margin increased 2.5 percentage points to 20.8 percent, compared to 18.3 percent for the same period last year. The increase in operating margin was primarily due to the accretive impact of the Hydro Flask acquisition, which increased the segment operating margin by 3.1 percentage points for the six months ended August 31, 2016, partially offset by higher promotional spending and higher media advertising in support of new products and categories and margin compression from new product categories.

**Health & Home Segment** - Operating income for the six months ended August 31, 2016 increased \$5.78 million, or 43.7 percent, compared to the same period last year. Operating margin increased 1.9 percentage points to 6.5 percent, compared to 4.6 percent for the same period last year. The increase in operating margin is due to improved gross margin as a result of product cost reductions, improvement in product sales mix, lower advertising expense, and lower outbound freight costs, partially offset by the impact of patent litigation charges.

**Nutritional Supplements Segment** - Operating income for the six months ended August 31, 2016 decreased \$12.09 million compared to the same period last year. Operating margin was (9.4) percent, compared to 7.2 percent for the same period last year. Operating income for the six months ended August 31, 2016 includes a non-cash intangible asset impairment charge of \$5.00 million, for which there was no comparable charge in the same period last year. This charge accounted for 7.2 percentage points of operating margin decline. Additional drivers of the operating margin decline were:

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

**Beauty Segment** - Operating income for the six months ended August 31, 2016 decreased \$5.68 million to \$8.15 million, compared to \$13.84 million for the same period last year. Operating margin decreased 1.8 percentage points to 4.9 percent, compared to 6.7 percent for the same period last year. Operating income included non-cash intangible asset impairment charges of \$2.40 and \$3.00 million for the fiscal quarters ended May 31, 2016 and 2015, respectively. Additional drivers of the operating margin decline were:

- the net sales decline and the impact it had on operating leverage;
- foreign currency exchange rate fluctuations, which reduced segment net sales revenue by \$2.67 million;
- a decline in operating income of \$3.43 million from our Venezuelan operations, due almost entirely to the adoption of the new DICOM exchange rate; and
- higher compensation costs.

These factors were partially offset by an increase in the segment's gross profit margin primarily due to reduced product costs and an improvement in product sales mix.

## ADJUSTED OPERATING INCOME AND OPERATING MARGIN

(in thousands)

| Six Months Ended August 31, 2016      |            |        |               |        |                         |         |           |       |           |        |
|---------------------------------------|------------|--------|---------------|--------|-------------------------|---------|-----------|-------|-----------|--------|
|                                       | Housewares |        | Health & Home |        | Nutritional Supplements |         | Beauty    |       | Total     |        |
| Operating income, as reported (GAAP)  | \$ 39,733  | 20.8 % | \$ 19,001     | 6.5 %  | \$ (6,501)              | (9.4) % | \$ 8,152  | 4.9 % | \$ 60,385 | 8.4 %  |
| Asset impairment charges (1)          | -          | - %    | -             | - %    | 5,000                   | 7.2 %   | 2,400     | 1.4 % | 7,400     | 1.0 %  |
| Patent litigation charge (2)          | -          | - %    | 1,468         | 0.5 %  | -                       | - %     | -         | - %   | 1,468     | 0.2 %  |
| Subtotal                              | 39,733     | 20.8 % | 20,469        | 7.0 %  | (1,501)                 | (2.2) % | 10,552    | 6.4 % | 69,253    | 9.7 %  |
| Amortization of intangible assets (3) | 1,328      | 0.7 %  | 7,080         | 2.4 %  | 3,142                   | 4.6 %   | 2,876     | 1.7 % | 14,426    | 2.0 %  |
| Non-cash share-based compensation (4) | 1,733      | 0.9 %  | 2,915         | 1.0 %  | 1,365                   | 2.0 %   | 2,745     | 1.7 % | 8,758     | 1.2 %  |
| Adjusted operating income (non-GAAP)  | \$ 42,794  | 22.5 % | \$ 30,464     | 10.5 % | \$ 3,006                | 4.4 %   | \$ 16,173 | 9.8 % | \$ 92,437 | 12.9 % |

| Six Months Ended August 31, 2015      |            |        |               |       |                         |        |           |        |           |        |
|---------------------------------------|------------|--------|---------------|-------|-------------------------|--------|-----------|--------|-----------|--------|
|                                       | Housewares |        | Health & Home |       | Nutritional Supplements |        | Beauty    |        | Total     |        |
| Operating income, as reported (GAAP)  | \$ 26,325  | 18.3 % | \$ 13,226     | 4.6 % | \$ 5,589                | 7.2 %  | \$ 13,835 | 6.7 %  | \$ 58,975 | 8.3 %  |
| Asset impairment charges (1)          | -          | - %    | -             | - %   | -                       | - %    | 3,000     | 1.5 %  | 3,000     | 0.4 %  |
| Subtotal                              | 26,325     | 18.3 % | 13,226        | 4.6 % | 5,589                   | 7.2 %  | 16,835    | 8.1 %  | 61,975    | 8.7 %  |
| Amortization of intangible assets (3) | 650        | 0.5 %  | 7,368         | 2.6 % | 3,128                   | 4.0 %  | 2,876     | 1.4 %  | 14,022    | 2.0 %  |
| Non-cash share-based compensation (4) | 631        | 0.4 %  | 1,128         | 0.4 % | 576                     | 0.7 %  | 1,603     | 0.8 %  | 3,938     | 0.6 %  |
| Adjusted operating income (non-GAAP)  | \$ 27,606  | 19.2 % | \$ 21,722     | 7.6 % | \$ 9,293                | 12.0 % | \$ 21,314 | 10.3 % | \$ 79,935 | 11.2 % |

In the tables above, footnote references (1) to (4) correspond to the notes beginning on page 43 under the table entitled “Adjusted Income and EPS”.

Adjusted operating income and adjusted operating margin, as discussed in the preceding tables, may be considered non-GAAP financial measures as set forth in SEC Regulation G, Rule 100. An explanation of the reasons why the Company believes the non-GAAP financial information is useful and the nature and limitations of the non-GAAP financial measures, is furnished on page 44.

### Interest expense:

Interest expense for the six months ended August 31, 2016 was \$7.52 million, compared to \$5.39 million for the same period last year. The increase in interest expense is due to higher levels of debt and higher average interest rates during the six months ended August 31, 2016, when compared to the same period last year.

### Income tax expense:

Income tax expense for the six months ended August 31, 2016 was 10.8 percent of income before income taxes, compared to 16.4 percent for the same period last year. The year-over-year decrease in our effective tax rate was primarily due to a \$1.40 million tax benefit related to the resolution of uncertain tax positions and a \$1.34 million tax benefit resulting from the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital due to our adoption of ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting.” See Note 2 to the accompanying consolidated condensed financial statements for further information regarding the impact of this recent accounting change.

### Net income:

Net income for the six months ended August 31, 2016 increased by \$2.52 million, compared to the same period last year. Our diluted earnings per share increased \$0.14 to \$1.68 compared to \$1.54 for the same period last year.

### Adjusted income and EPS :

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

### ADJUSTED INCOME AND EPS

(in thousands, except per share data)

|                                                                                 | Six Months Ended August 31, |           | Basic EPS |         | Diluted EPS |         |
|---------------------------------------------------------------------------------|-----------------------------|-----------|-----------|---------|-------------|---------|
|                                                                                 | 2016                        | 2015      | 2016      | 2015    | 2016        | 2015    |
| Net income as reported (GAAP)                                                   | \$ 47,381                   | \$ 44,862 | \$ 1.70   | \$ 1.58 | \$ 1.68     | \$ 1.54 |
| Asset impairment charges, net of tax (1)                                        | 5,097                       | 2,656     | 0.18      | 0.09    | 0.18        | 0.09    |
| Patent litigation charge, net of tax (2)                                        | 1,464                       | -         | 0.05      | -       | 0.05        | -       |
| Subtotal                                                                        | 53,942                      | 47,518    | 1.94      | 1.67    | 1.91        | 1.64    |
| Amortization of intangible assets, net of tax (3)                               | 12,430                      | 12,172    | 0.45      | 0.43    | 0.44        | 0.42    |
| Non-cash share-based compensation, net of tax (4)                               | 6,544                       | 3,345     | 0.24      | 0.12    | 0.23        | 0.12    |
| Adjusted income (non-GAAP)                                                      | \$ 72,916                   | \$ 63,035 | \$ 2.62   | \$ 2.21 | \$ 2.59     | \$ 2.17 |
| Weighted average shares of common stock used in computing basic and diluted EPS |                             |           | 27,809    | 28,478  | 28,185      | 29,037  |

- (1) For the six months ended August 31, 2016 and 2015, non-cash intangible asset impairment charges totaling \$7.40 million (\$5.10 million after tax) and \$3.00 million (\$2.66 million after tax), respectively.
- (2) The six months ended August 31, 2016 includes a patent litigation charge of \$1.47 million (\$1.46 million after tax).
- (3) For the six months ended August 31, 2016 and 2015, amortization of intangible assets was \$14.43 million (\$12.43 million after tax) and \$14.02 million (\$12.17 million after tax), respectively.
- (4) For the six months ended August 31, 2016 and 2015, non-cash share based compensation was \$8.76 million (\$6.54 million after tax) and \$3.94 million (\$3.35 million after tax), respectively.

Adjusted income for the six months ended August 31, 2016 increased \$9.88 million compared to the same period last year. The increase in adjusted income was primarily due to:

- the overall improvement in core business gross profit margin;
- the accretive impact of the Hydro Flask acquisition;
- lower outbound freight costs;
- lower year-over-year foreign currency revaluation losses, partially due to cash flow hedges and \$10 million of U.S. Dollar to Euro cross-currency debt swaps; and
- lower tax expense as a result of the recognition of a tax benefit related to the resolution of uncertain tax positions and the recognition of excess tax benefits from share-based compensation in income tax expense rather than paid-in capital.

These factors were partially offset by:

- the unfavorable impact of net foreign currency exchange rate fluctuations, which reduced our reported consolidated net sales revenue by \$4.13 million year-over-year;
- a decline in net income of \$2.81 million from our Venezuelan operations, due almost entirely to the adoption of the new DICOM exchange rate;
- higher compensation costs; and

- the impact within our core business that lower overall net sales had on operating leverage.

Adjusted diluted EPS was \$2.59 for the six months ended August 31, 2016, compared to \$2.17 for the same period last year. Adjusted diluted EPS increased due to the combined impacts of higher earnings and lower weighted average diluted shares outstanding for the six months ended August 31, 2016, compared to the same period last year.

The tables referred to on pages 35 and 36, and 42 entitled 43 entitled “Adjusted operating income and operating margin” and “Adjusted income and EPS”, respectively report operating income, operating margin, net income, and EPS without the impact of non-cash asset impairment charges, patent litigation charges, amortization of intangible assets, and non-cash share-based compensation for the periods presented, as applicable. For additional information on these adjusted measures, see “Explanation of Certain Terms and Measures Used in MD&A” on page 49. These measures may be considered non-GAAP financial information as set forth in SEC Regulation G, Rule 100. The preceding tables reconcile these measures to their corresponding GAAP-based measures presented in our consolidated condensed statements of income. We believe that adjusted operating income, adjusted operating margin, adjusted income and adjusted EPS provide useful information to management and investors regarding financial and business trends relating to the Company’s financial condition and results of operations. We believe that these non-GAAP financial measures, in combination with the Company’s financial results calculated in accordance with GAAP, provide investors with additional perspective regarding the impact of such charges on operating income, operating margin, net income, and earnings per share. We also believe that these non-GAAP measures facilitate a more direct comparison of the Company’s performance with its competitors. We further believe that including the excluded charges would not accurately reflect the underlying performance of the Company’s continuing operations for the period in which the charges are incurred, even though such charges may be incurred and reflected in the Company’s GAAP financial results in the near future. The material limitation associated with the use of the non-GAAP financial measures is that the non-GAAP measures do not reflect the full economic impact of the Company’s activities. The Company’s adjusted operating income, adjusted operating margin, adjusted income and adjusted EPS are not prepared in accordance with GAAP, are not an alternative to GAAP financial information and may be calculated differently than non-GAAP financial information disclosed by other companies. Accordingly, undue reliance should not be placed on non-GAAP information.

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

### SELECTED MEASURES OF OUR LIQUIDITY AND CAPITAL UTILIZATION (1)

|                                         | Six Months Ended August 31, |            |
|-----------------------------------------|-----------------------------|------------|
|                                         | 2016                        | 2015       |
| Accounts Receivable Turnover (Days)     | 54.8                        | 55.7       |
| Inventory Turnover (Times)              | 2.7                         | 2.8        |
| Working Capital ( <i>in thousands</i> ) | \$ 283,958                  | \$ 296,719 |
| Current Ratio                           | 2.0:1                       | 2.0:1      |
| Ending Debt to Ending Equity Ratio      | 55.3 %                      | 52.1 %     |
| Return on Average Equity (2)            | 10.9 %                      | 16.0 %     |

- (1) Our computation and use of the measures in this table are described beginning on page 49.
- (2) Net income and average equity reported above include the twelve month trailing impacts, after tax, of non-cash asset impairment charges, acquisition-related expenses, CEO succession costs, Venezuelan currency re-measurement related charges, and patent litigation charges, as applicable. For the periods reported above, these items had an unfavorable impact of 4.9 and 0.5 percentage points, respectively, on the return on average equity.

***Operating Activities:***

Operating activities provided \$85.68 million of cash during the six months ended August 31, 2016, compared to \$52.21 million of cash provided during the same period last year. The year-over-year increase in operating cash flow was primarily due to higher non-cash charges, additional cash flow from the acquisition of Hydro Flask and the timing of fluctuations in working capital components.

Accounts receivable increased \$5.37 million, to \$222.91 million as of August 31, 2016, compared to \$217.54 million at the end of fiscal year 2016. Accounts receivable as of August 31, 2016 includes \$16.25 million from the Hydro Flask acquisition. Accounts receivable turnover was 54.8 days at August 31, 2016, compared to 55.7 days for the same period last year. This calculation is based on a rolling five quarter accounts receivable balance.

Inventory increased \$15.89 million, to \$317.50 million as of August 31, 2016, compared to \$301.61 million at the end of fiscal year 2016. Inventory as of August 31, 2016 includes \$13.62 million from the Hydro Flask acquisition. Inventory turnover decreased to 2.7 times at August 31, 2016 compared to 2.8 times for the same period last year.

Working capital was \$283.96 million at August 31, 2016, compared to \$296.72 million at August 31, 2015 and our current ratio was 2.0:1 at the end of each period. As a result of the adoption of new accounting guidance, we reclassified certain prior period balances affecting the determination of comparative working capital and cash provided by operating activities. These reclassifications had no impact on the reported results of our operations for the six months ended August 31, 2015. Our prior period working capital, current ratio and debt to equity ratio, without reclassifications, were originally reported at August 31, 2015 as \$322.86 million, 2.0:1 and 52.6 percent, respectively. For more information regarding the impact of these changes in accounting, see Note 2 to the accompanying consolidated condensed financial statements.

***Investing activities:***

Investing activities used \$219.44 million of cash during the six months ended August 31, 2016. Highlights of those activities follow:

- we spent \$0.29 million on building improvements, \$5.61 million on computers, furniture and other equipment, \$3.79 million on tools, molds and other capital asset additions, and \$0.53 million on the development of new patents; and
- we paid \$209.26 million to acquire Hydro Flask.

***Financing activities:***

Financing activities used \$66.23 million of cash during the six months ended August 31, 2016. Highlights of those activities follow:

- we had draws of \$155.90 million under our credit agreement;
- we repaid \$224.00 million drawn under our credit agreement;
- we repaid \$3.80 million of our long-term debt;
- employees exercised options to purchase 111,667 shares of common stock, providing \$5.01 million of cash;
- Employees purchased 14,580 shares of common stock for \$1.12 million through our employee stock purchase plan; and
- we paid \$0.42 million in tax obligations resulting from cashless share award settlements.

***Revolving Credit Agreement:***

We have a credit agreement (the “Credit Agreement”) with Bank of America, N.A., as administrative agent, and other lenders that provides for an unsecured total revolving commitment of \$650 million as of August 31, 2016. The commitment under the Credit Agreement terminates on January 16, 2020. Accordingly, borrowings under the Credit Agreement are reported as long-term debt. 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, 2016, the outstanding revolving loan principal balance was \$482.00 million and the face amount of outstanding letters of credit was \$1.50 million. For the three- and six-months ended August 31, 2016, borrowings under the Credit Agreement incurred interest charges at rates ranging from 2.19 to 4.25 percent and 1.93 to 4.25 percent, respectively. For the three- and six-months ended August 31, 2015, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.43 to 3.50 percent and 1.43 to 4.00 percent, respectively. As of August 31, 2016, the amount available for borrowings under the Credit Agreement was \$166.50 million. Our debt agreements effectively limited our ability to incur more than \$201.45 million of additional debt from all sources, including the Credit Agreement.

***Other Debt Agreements:***

In addition to the Credit Agreement, at August 31, 2016, we had the following other long term debt outstanding:

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

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

The table below provides the formulas in effect for certain key financial covenants as defined in our debt agreements as of August 31, 2016:

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

**Key Definitions:**

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

**Notes:**

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

### ***Contractual obligations and commercial commitments:***

Our contractual obligations and commercial commitments at August 31, 2016, were:

#### **PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED THE LAST DAY OF AUGUST: (in thousands)**

|                                    | <b>Total</b>      | <b>2017<br/>1 year</b> | <b>2018<br/>2 years</b> | <b>2019<br/>3 years</b> | <b>2020<br/>4 years</b> | <b>2021<br/>5 years</b> | <b>After<br/>5 years</b> |
|------------------------------------|-------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Fixed rate debt                    | \$ 40,000         | \$ 20,000              | \$ 20,000               | \$ -                    | \$ -                    | \$ -                    | \$ -                     |
| Floating rate debt                 | 512,007           | 5,700                  | 1,900                   | 1,900                   | 483,900                 | 1,900                   | 16,707                   |
| Long-term incentive plan payouts   | 11,709            | 6,503                  | 3,768                   | 1,438                   | -                       | -                       | -                        |
| Interest on fixed rate debt        | 1,352             | 1,066                  | 286                     | -                       | -                       | -                       | -                        |
| Interest on floating rate debt (1) | 40,960            | 11,852                 | 11,766                  | 11,723                  | 4,693                   | 401                     | 525                      |
| Open purchase orders               | 178,186           | 178,186                | -                       | -                       | -                       | -                       | -                        |
| Long-term purchase commitments     | 1,190             | 584                    | 606                     | -                       | -                       | -                       | -                        |
| Minimum royalty payments           | 63,779            | 12,626                 | 12,467                  | 12,234                  | 9,169                   | 8,985                   | 8,298                    |
| Advertising and promotional        | 52,950            | 16,794                 | 6,408                   | 6,516                   | 6,627                   | 6,740                   | 9,865                    |
| Operating leases                   | 33,376            | 5,821                  | 5,245                   | 4,057                   | 3,327                   | 2,825                   | 12,101                   |
| Capital spending commitments       | 3,099             | 3,099                  | -                       | -                       | -                       | -                       | -                        |
| Total contractual obligations (2)  | <u>\$ 938,608</u> | <u>\$ 262,231</u>      | <u>\$ 62,446</u>        | <u>\$ 37,868</u>        | <u>\$ 507,716</u>       | <u>\$ 20,851</u>        | <u>\$ 47,496</u>         |

- (1) We estimate our future obligations for interest on our floating rate debt by assuming the weighted average interest rates in effect on each floating rate debt obligation at August 31, 2016 remain constant into the future. This is an estimate, as actual rates will vary over time. In addition, for the Credit Agreement, we assume that the balance outstanding as of August 31, 2016 remains the same for the remaining term of the agreement. The actual balance outstanding under our Credit Agreement may fluctuate significantly in future periods, depending on the availability of cash flow from operations and future investing and financing considerations.
- (2) In addition to the contractual obligations and commercial commitments in the table above, as of August 31, 2016, we have recorded total provisions for our uncertain tax positions totaling \$6.81 million. We are unable to reliably estimate the timing of most of the future payments, if any, related to uncertain tax positions. Therefore, we have excluded these tax liabilities from the table above.

### ***Off-Balance Sheet Arrangements:***

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

### ***Current and Future Capital Needs:***

Based on our current financial condition and current operations, we believe that cash flows from operations and available financing sources will continue to provide sufficient capital resources to fund our foreseeable short- and long-term liquidity requirements. We expect our capital needs to stem primarily from the need to purchase sufficient levels of inventory and to carry normal levels of accounts receivable on our balance sheet. In addition, we continue to evaluate acquisition opportunities on a regular basis. We may finance acquisition activity with available cash, the issuance of shares of common stock, additional debt, or other sources of financing, depending upon the size and nature of any such transaction and the status of the capital markets at the time of such acquisition. The Company may also elect to repurchase additional shares of common stock up to the balance of its current authorization over the next two fiscal years, subject to limitations contained in its debt agreements and based upon its assessment of a number of factors, including share price, trading volume and general market conditions, as well as on working capital requirements, general business conditions, financial conditions, any applicable contractual limitations and other factors, including alternative investment opportunities.

## CRITICAL ACCOUNTING POLICIES

The SEC defines critical accounting policies as those that are both most important to the portrayal of a company's financial condition and results, and require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. For a discussion of our critical accounting policies, see Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", under the heading "Critical Accounting Policies" in our annual report on Form 10-K for the year ended February 29, 2016. There have been no material changes to the Company's critical accounting policies from the information provided in our annual report on Form 10-K.

## NEW ACCOUNTING GUIDANCE

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

## EXPLANATION OF CERTAIN TERMS AND MEASURES USED IN MD&A

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Segment operating income: We compute segment operating income based on net sales revenue, less cost of goods sold, SG&A, and any asset impairment charges associated with the segment. The SG&A used to compute each segment's operating income is directly associated with the segment. We then deduct allocations for operational shared services and corporate overhead costs. We do not allocate nonoperating income and expense, including interest or income taxes to operating segments.

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

Working capital: Current assets less current liabilities.

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

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 the three- and six-months ended August 31, 2016, approximately 11 and 12 percent, respectively, of our net sales revenue in each period was in foreign currencies. During both the three- and six-months ended August 31, 2015, approximately 15 percent of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, and Venezuelan Bolivars. We make most of our inventory purchases from the Far East and primarily use the U.S. Dollar for such purchases. In our consolidated condensed statements of income, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets, and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses from remeasurement of the balance sheet are recognized in SG&A.

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

We hedge against certain foreign currency exchange rate risk by using a series of forward contracts designated as cash flow hedges and mark-to-market derivatives to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. In these transactions, we execute a forward currency contract that will settle at the end of a forecasted period. For cash flow hedges, a hedging relationship is created because the size and terms of the forward contract are designed so that its fair market value will move in the opposite direction and approximate magnitude of the underlying foreign currency’s forecasted exchange gain or loss during the forecasted period. To the extent that we forecast the expected foreign currency cash flows from the period we enter into the forward contract until the date it will settle with reasonable accuracy, we significantly lower or materially eliminate a particular currency’s exchange risk exposure over the life of the related forward contract. We also enter into certain foreign currency contracts we refer to as “cross-currency debt swaps.” Cross-currency debt swaps have been used with respect to \$10 million of our 3.90% Senior Notes, creating an economic hedge against currency movements. We have elected not to designate these contracts as fair value hedges. Accordingly, the net unrealized mark-to-market gain or loss on these derivatives is recognized in SG&A as incurred, and associated net fixed interest payments are recognized as an adjustment to interest expense. We enter into these types of agreements where we believe we have meaningful exposure to foreign currency exchange risk and the hedge pricing appears reasonable. It is not practical for us to hedge all our exposures, nor are we able to project in any meaningful way the possible effect and interplay of all foreign currency fluctuations on translated amounts or future earnings. This is due to our constantly changing exposure to various currencies, the fact that each foreign currency reacts differently to the U.S. Dollar and the significant number of currencies involved. Accordingly, we will always be subject to foreign exchange rate-risk on exposures we have not hedged, and these risks may be material. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes. We expect that as currency market conditions warrant, and our foreign denominated transaction exposure grows, we will continue to execute additional contracts in order to hedge against certain potential foreign exchange losses.

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

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

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

The Company adopted DICOM in the first quarter of fiscal year 2017. Absent further changes in the exchange system, or unless future developments call for further changes, we intend to use DICOM to re-measure our financial statements going forward. At the current DICOM exchange rate, we expect that U.S. Dollar reported operating results from Venezuela will no longer be meaningful to the Company or the Beauty segment. Net sales revenue from Venezuela for the three- and six-months ended August 31, 2016 was \$0.14 and \$0.37 million, respectively, compared to \$5.93 and \$10.04 million, respectively, for same periods last year. Operating income (loss) from Venezuela for the three- and six-months ended August 31, 2016 was (\$0.01) and (\$0.11) million, respectively, compared to \$1.74 and \$3.32 million, respectively, for same periods last year.

Developments within the Venezuelan economy, including any future governmental interventions, are beyond our ability to control or predict, and we cannot assess the impact, if any, such events may have on our Venezuelan business.

***Interest Rate Risk:***

Interest on our outstanding debt as of August 31, 2016 is both floating and fixed. Fixed rates are in place on \$40 million of Senior Notes at 3.90% and floating rates are in place on the balance of all other debt outstanding, which totaled \$512.01 million as of August 31, 2016. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under our Credit Agreement and the MB FC Loan.

The fair values of our derivative instruments are as follows:

**FAIR VALUES OF DERIVATIVE INSTRUMENTS**  
(in thousands)

| August 31, 2016                                      |            |                  |           |                                    |        |                                    |                                |
|------------------------------------------------------|------------|------------------|-----------|------------------------------------|--------|------------------------------------|--------------------------------|
|                                                      |            | Final Settlement | Notional  | Prepaid Expenses and Other Current | Other  | Accrued Expenses and Other Current | Other Liabilities, Non-current |
| Derivatives designated as hedging instruments        | Hedge Type | Date             | Amount    | Assets                             | Assets | Liabilities                        |                                |
| Foreign currency contracts - sell Euro               | Cash flow  | 2/2018           | € 24,000  | \$ 413                             | \$ 101 | \$ -                               | \$ -                           |
| Foreign currency contracts - sell Canadian Dollars   | Cash flow  | 10/2017          | \$ 23,500 | -                                  | 14     | 743                                | -                              |
| Foreign currency contracts - sell Pounds             | Cash flow  | 8/2017           | £ 9,000   | 1,207                              | -      | -                                  | -                              |
| Foreign currency contracts - sell Australian Dollars | Cash flow  | 2/2017           | \$ 1,350  | -                                  | -      | 41                                 | -                              |
| Subtotal                                             |            |                  |           | 1,620                              | 115    | 784                                | -                              |

**Derivatives not designated under hedge accounting**

|                                                        |     |        |           |          |        |        |      |
|--------------------------------------------------------|-----|--------|-----------|----------|--------|--------|------|
| Foreign currency contracts - cross-currency debt swaps | (1) | 1/2018 | \$ 10,000 | -        | 241    | -      | -    |
| Total fair value                                       |     |        |           | \$ 1,620 | \$ 356 | \$ 784 | \$ - |

| February 29, 2016                                    |            |                  |           |                                    |        |                                    |                                |
|------------------------------------------------------|------------|------------------|-----------|------------------------------------|--------|------------------------------------|--------------------------------|
|                                                      |            | Final Settlement | Notional  | Prepaid Expenses and Other Current | Other  | Accrued Expenses and Other Current | Other Liabilities, Non-current |
| Derivatives designated as hedging instruments        | Hedge Type | Date             | Amount    | Assets                             | Assets | Liabilities                        |                                |
| Foreign currency contracts - sell Euro               | Cash flow  | 2/2017           | € 27,000  | \$ 1,066                           | \$ -   | \$ -                               | \$ -                           |
| Foreign currency contracts - sell Canadian Dollars   | Cash flow  | 6/2017           | \$ 28,000 | -                                  | -      | 495                                | 7                              |
| Foreign currency contracts - sell Pounds             | Cash flow  | 2/2017           | £ 3,450   | 94                                 | -      | -                                  | -                              |
| Foreign currency contracts - sell Australian Dollars | Cash flow  | 8/2016           | \$ 1,650  | 6                                  | -      | -                                  | -                              |
| Subtotal                                             |            |                  |           | 1,166                              | -      | 495                                | 7                              |

**Derivatives not designated under hedge accounting**

|                                                       |     |        |          |          |        |        |      |
|-------------------------------------------------------|-----|--------|----------|----------|--------|--------|------|
| Foreign currency contracts - cross-currency debt swap | (1) | 1/2018 | \$ 5,000 | -        | 206    | -      | -    |
| Total fair value                                      |     |        |          | \$ 1,166 | \$ 206 | \$ 495 | \$ 7 |

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

**Counterparty Credit Risks:**

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

## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

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

- our ability to deliver products to our customers in a timely manner and according to their fulfillment standards;
- our relationships with key customers and licensors;
- the costs of complying with the business demands and requirements of large sophisticated customers;
- our dependence on the strength of retail economies and vulnerabilities to any prolonged economic downturn;
- the retention and recruitment of key personnel;
- expectations regarding our recent and future acquisitions, including our ability to realize anticipated cost savings, synergies and other benefits along with our ability to effectively integrate acquired businesses;
- foreign currency exchange rate fluctuations;
- disruptions in U.S., U.K., Euro zone, Venezuela, and other international credit markets;
- risks associated with weather conditions, the duration and severity of the cold and flu season and other related factors;
- our dependence on foreign sources of supply and foreign manufacturing, and associated operational risks including, but not limited to, long lead times, consistent local labor availability and capacity, and timely availability of sufficient shipping carrier capacity;
- risks to the Nutritional Supplements segment associated with the availability, purity and integrity of materials used in the manufacture of vitamins, minerals and supplements;
- the impact of changing costs of raw materials, labor and energy on cost of goods sold and certain operating expenses;
- the geographic concentration and peak season capacity of certain U.S. distribution facilities increases our exposure to significant shipping disruptions and added shipping and storage costs;
- our projections of product demand, sales and net income are highly subjective in nature and future sales and net income could vary in a material amount from such projections;
- circumstances which may contribute to future impairment of goodwill, intangible or other long-lived assets;

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

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

## **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, 2016. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of August 31, 2016, the end of the period covered by this quarterly report on Form 10-Q.

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

In connection with the evaluation described above, we identified no change in our internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act that occurred during our fiscal quarter ended August 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

### **ITEM 1A. RISK FACTORS**

The ownership of our common stock involves a number of risks and uncertainties. When evaluating the Company and our business before making an investment decision regarding our securities, potential investors should carefully consider the risk factors and uncertainties described in Part 1, Item 1A. “Risk Factors” of our annual report on Form 10-K for the fiscal year ended February 29, 2016. Since the filing of our annual report on Form 10-K, there have been no material changes in our risk factors from those disclosed therein.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

As of August 31, 2016, we were authorized by our Board of Directors to purchase up to \$158.51 million of common stock in the open market or through private transactions. Our current equity-based compensation plans include provisions that allow for the “net exercise” of share settled awards by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. These transactions are accounted for by the Company as a purchase and retirement of shares.

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

**ISSUER PURCHASES OF EQUITY SECURITIES FOR THE THREE MONTHS ENDED AUGUST 31, 2016**

|                                  | <b>Total Number of<br/>Shares Purchased</b> | <b>Average Price<br/>Paid per<br/>Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of<br/>Publicly<br/>Announced Plans<br/>or Programs</b> | <b>Dollar Value of<br/>Shares that May<br/>Yet be Purchased<br/>Under the Plans<br/>or Programs<br/>(in thousands)</b> |
|----------------------------------|---------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|
| June 1 through June 30, 2016     | -                                           | \$ -                                        | -                                                                                                           | \$ 158,575                                                                                                             |
| July 1 through July 31, 2016     | 668                                         | 97.11                                       | 668                                                                                                         | 158,510                                                                                                                |
| August 1 through August 31, 2016 | -                                           | -                                           | -                                                                                                           | 158,510                                                                                                                |
| Total                            | <u>668</u>                                  | <u>\$ 97.11</u>                             | <u>668</u>                                                                                                  |                                                                                                                        |

**ITEM 6. EXHIBITS**

(a) Exhibits

- |           |                                                                                                                                                                                              |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1*     | Helen of Troy Limited Amended and Restated 2011 Annual Incentive Plan, as amended.                                                                                                           |
| 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.

## 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 11, 2016

/s/ Julien R. Mininberg  
Julien R. Mininberg  
Chief Executive Officer,  
Director and Principal Executive Officer

Date: October 11, 2016

/s/ Brian L. Grass  
Brian L. Grass  
Chief Financial Officer  
and Principal Financial Officer

Date: October 11, 2016

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

**Index to Exhibits**

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\* Filed herewith.

\*\* Furnished herewith.

**HELEN OF TROY LIMITED**  
**AMENDED AND RESTATED**  
**2011 ANNUAL INCENTIVE PLAN**  
**(as amended through August 17, 2016)**

**Section 1. PURPOSE OF PLAN**

The purpose of the Plan is to promote the success of the Company and its Subsidiaries by providing to the participating executives of the Company and its Subsidiaries bonus incentives that qualify as performance-based compensation within the meaning of Section 162(m) of the Code. Subject to the approval of the shareholders of the Company, the Plan shall be effective as of March 1, 2014.

**Section 2. DEFINITIONS AND TERMS**

2.1. Accounting Terms. Except as otherwise expressly provided or the context otherwise requires, financial and accounting terms are used as defined for purposes of, and shall be determined in accordance with, GAAP.

2.2. Specific Terms. The following words and phrases as used herein shall have the following meanings:

“Board” means the Board of Directors of the Company.

“Bonus” means a cash or cash equivalent payment, payment in Shares, or payment opportunity as a context requires.

“Business Criteria” means any performance goals established by the Committee with respect to or based upon one or more (or any combination) of the following criteria selected by the Committee: (1) earnings before or after taxes; (2) earnings before interest, taxes, depreciation and amortization; (3) net income; (4) operating income; (5) earnings from continuing operations; (6) earnings per share (whether basic or fully diluted); (7) book value per share; (8) return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales or revenue); (9) expense management; (10) return on investment before or after the cost of capital; (11) improvements in capital structure; (12) maintenance or improvement of profit margins; (13) stock price; (14) market share; (15) revenues or sales; (16) costs; (17) cash flow; (18) cash flow productivity; (19) working capital; (20) changes in net assets (whether or not multiplied by a constant percentage intended to represent the cost of capital); (21) debt reduction; (22) reductions in the Company’s overhead ratio; (23) growth measures (including, but not limited to, sales, net income, cash flow or earnings per share); (24) stock price; (25) total shareholder return; (26) market share; (27) free cash flow; (28) cash flow productivity; (29) cash flow; and (30) expenses to sales ratio. Any of the above criteria may relate to or be based upon the Company, one or more of its Subsidiaries, divisions, geography, business units, segments, products, product lines, partnerships, joint ventures, minority investments (except with respect to total

shareholder return and earnings per share criteria), or any combination thereof, or may be determined or applied on an absolute or relative basis, a consolidated basis, an adjusted basis, or as compared to the performance of a published or special index, including, but not limited to, the Standard & Poor's 500 Stock Index, the Nasdaq Market index, the Russell 2000 index or a group of comparable companies, or any combination thereof. Business Criteria need not, however, be based upon any increase or positive result under a business criterion and could include, for example, maintaining the status quo or limiting economic losses.

“Change in Control” shall mean to have occurred at such time as either (i) any “person”, as such term is used in section 14(d) of the Exchange Act, other than the Company, a wholly-owned Subsidiary of the Company or any employee benefit plan of the Company, or its Subsidiaries, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act (or any successor rule), directly or indirectly, of fifty percent (50%) or more of the combined voting power of the Company's common stock, or (ii) individuals who constitute the Board on the effective date of this Plan (the “Incumbent Board”) cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof whose election or nomination for election by the Company's shareholders was approved by a vote of at least three quarters of the directors comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for the director without objection to such nomination) shall be, for purposes of this clause (ii) considered as though such person was a member of the Incumbent Board.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Committee” means the Compensation Committee of the Company which has been established to administer the Plan in accordance with Section 3.1 and Section 162(m) of the Code.

“Company” means Helen of Troy Limited, a Bermuda company, and any successor whether by merger, amalgamation, ownership or all or substantially all of its assets or otherwise.

“Disability” shall have such meaning attributed thereto in the Company's long-term disability plan, or, if no such plan exists, shall mean a “Permanent and Total Disability” as defined in Code Section 22(e).

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and as interpreted by the rules and regulations promulgated thereunder.

“Executive” means a key employee (including any officer) of the Company or any of the Subsidiaries.

“Fair Market Value” means, as of any date that requires the determination of the Fair Market Value of Shares under this Plan, the value of a Share on such date of determination, calculated as follows:

(i) If the Shares are then listed or admitted to trading on a Nasdaq market system or a stock exchange which reports closing sale prices, the Fair Market Value shall be the closing sale price on such date on such Nasdaq market system or principal stock exchange on which the Share is then listed or admitted to trading, or, if no closing sale price is quoted on such day, then the Fair Market Value shall be the closing sale

price of the Share on such Nasdaq market system or such exchange on the immediately preceding day on which a closing sale price is reported;

(ii) If the Shares are not then listed or admitted to trading on a Nasdaq market system or a stock exchange which reports closing sale prices, the Fair Market Value shall be the average of the closing bid and asked prices of the Share in the over-the-counter market on such date; or

(iii) If neither clause (i) nor (ii) is applicable as of such date, then the Fair Market Value shall be determined by the Board in good faith using any reasonable method of evaluation, which determination shall be conclusive and binding on all interested parties.

“ GAAP ” means generally accepted accounting principles used and applied in the United States of America.

“ Participant ” means an Executive selected to participate in the Plan by the Committee.

“ Performance Period ” means the Year or Years (or any portion thereof) with respect to which the Performance Targets are set by the Committee.

“ Performance Target(s) ” means the specific objective goal or goals (which may be cumulative and/or alternative) that are timely set in writing by the Committee for each Executive for the Performance Period with respect to any one or more of the Business Criteria.

“ Plan ” means the Helen of Troy Limited Amended and Restated 2011 Annual Incentive Plan as amended from time to time.

“ Section 162(m) ” means Section 162(m) of the Code, and the regulations promulgated thereunder, all as amended from time to time.

“ Shares ” means common shares, par value \$0.10 per share, of the Company.

“ Stock Plan ” means the Helen of Troy Limited 2008 Stock Incentive Plan, as it may be amended, restated or otherwise modified from time to time, and any successor or replacement plan adopted by the Board.

“ Subsidiary ” means any corporation, partnership or other entity as to which more than fifty percent (50%) of the voting securities or other voting ownership interests shall now or hereafter be owned or controlled, directly by a person, any Subsidiary of such person, or any Subsidiary of such Subsidiary.

“ Year ” means any one or more fiscal years of the Company commencing on March 1 of each year that represent(s) an applicable Performance Period.

### **Section 3. ADMINISTRATION OF THE PLAN**

3.1. The Committee. The Plan shall be administered by a Committee consisting solely of at least two members of the Board, duly authorized by the Board to administer the Plan, who (i) are not eligible to participate in the Plan and (ii) are “outside directors” within the meaning of Section 162(m).

3.2. Powers of the Committee. The Committee shall have the sole authority to establish and administer the Performance Target(s) and the responsibility of determining from among the Executives those persons who will participate in and receive Bonuses under the Plan and, subject to Sections 4 and 5 of the Plan, the amount of such Bonuses and shall otherwise be responsible for the administration of the Plan, in accordance with its terms. The Committee shall have the authority to construe and interpret the Plan and any agreement or other document relating to any Bonus under the Plan, may adopt rules and regulations governing the administration of the Plan, and shall exercise all other duties and powers conferred on it by the Plan, or which are incidental or ancillary thereto. As provided in Section 4.3, for each Performance Period, the Committee shall determine, at the time the Business Criteria and the Performance Target(s) are set, those Executives who are selected as Participants in the Plan.

3.3. Requisite Action. A majority (but not fewer than two) of the members of the Committee shall constitute a quorum. The vote of a majority of those present at a meeting at which a quorum is present or the unanimous written consent of the Committee shall constitute action by the Committee.

3.4. Express Authority (and Limitations on Authority) to Change Terms and Conditions of Bonus. Without limiting the Committee’s authority under other provisions of the Plan, but subject to any express limitations of the Plan and Section 5.8, the Committee shall have the authority to accelerate a Bonus (after the attainment of the applicable Performance Target(s) and certification by the Committee in accordance with Section 4.8) and to waive restrictive conditions for a Bonus (including any forfeiture conditions, but not Performance Target(s)), in such circumstances as the Committee deems appropriate. In the case of any acceleration of a Bonus after the attainment of the applicable Performance Target(s) and certification by the Committee in accordance with Section 4.8, the amount payable may be discounted, in the Committee’s discretion, to its present value using an interest rate equal to the published prime rate charged by Bank of America, N.A. or any successor thereof (such rate to be determined as of the last business day of the month preceding the month in which such acceleration occurs).

### **Section 4. BONUS PROVISIONS**

4.1. Provision for Bonus. Each Participant may receive a Bonus if and only if the Performance Target(s) established by the Committee, relative to the applicable Business Criteria, are attained. The applicable Performance Period and Performance Target(s) shall be determined by the Committee consistent with the terms of the Plan and Section 162(m).

4.2. Selection of Performance Target(s) for Participants – Business Criteria. With respect to any Bonus that a Participant may receive under the Plan, the specific Performance Target(s) with respect to the Business Criteria must be established by the Committee in advance of the deadlines applicable under Section 162(m) and while the performance relating to the Performance Target(s) remains substantially uncertain within the meaning of Section 162(m). At the time the Performance Target(s) are selected, the Committee shall provide, in terms of an objective formula or standard for each such Participant, and for any person who may become a Participant after the Performance Target(s) are set, the method of computing the specific amount that

will represent the maximum amount of Bonus payable to such Participant if the Performance Target(s) are attained, subject to Sections 4.1, 4.7, 4.10, 5.1 and 5.8.

4.3. Selection of Participants. For each Performance Period, the Committee shall determine, at the time the Business Criteria and the Performance Target(s) are set, the Executives who will participate in the Plan.

4.4. Effect of Mid-Year Commencement of Service. To the extent compatible with Sections 4.2 and 5.8, if services as an Executive commence after the adoption of the Plan and the Performance Target(s) are established for a Performance Period, the Committee may grant a Bonus that is proportionately adjusted based on the period of actual service during the Year; the amount of any Bonus paid to such person shall not exceed that proportionate amount.

4.5. Termination of Employment During Year. Unless otherwise determined by the Committee or required by applicable law or pursuant to any written agreement between the Company and the Executive:

(a) no Bonus shall be payable to an Executive if the Executive is not employed by the Company or any Subsidiary of the Company on the last day of the Performance Period for which the Bonus is otherwise payable, unless the Executive's employment with the Company and its Subsidiaries terminates during the Performance Period by reason of the Executive's death or Disability or following a Change in Control; and

(b) in the event of the Executive's death or Disability during the Performance Period, or in the event of the termination of the Executive's employment for any reason following a Change in Control that occurs during the Performance Period, the Executive (or the Executive's legal representative or beneficiary) shall receive a Bonus equal to the product of (i) the Bonus he would have received for the entire Performance Period, multiplied by (ii) a fraction, the numerator of which is the number of days during the Performance Period in which the Executive was an employee of the Company or its Subsidiaries, and the denominator of which is the number of days in the Performance Period.

Notwithstanding the foregoing or any written agreement between the Company and the Executive, the payment of such Bonus shall be made in accordance with Section 4.9 hereof.

4.6. Accounting Changes. Subject to Section 5.8, if, after the Performance Target(s) are established for a Performance Period, a change occurs in the applicable accounting principles or practices, the amount of the Bonuses paid under this Plan for such Performance Period shall be determined without regard to such change.

4.7. Committee Discretion to Determine Bonuses. The Committee has the sole discretion to determine the standard or formula pursuant to which each such Participant's Bonus shall be calculated (in accordance with Section 4.2), subject in all cases to the terms, conditions and limits of the Plan and of any other written commitment authorized by the Committee. The Committee may at any time establish additional conditions and terms of payment of Bonuses (including, but not limited to the achievement of other financial, strategic or individual goals, which may be objective or subjective) as it may deem desirable in carrying out the purposes of the Plan and may take into account such other factors as it deems appropriate in administering any aspect of the Plan. For example (without limiting the adjustments to any of the following), subject to Sections 4.6 and 5.8, the Committee may specify, in its sole discretion, at the time the Performance Targets are set, the manner of adjustment of any Performance Target to the extent necessary to prevent dilution or enlargement of

any award as a result of extraordinary events or circumstances, as determined by the Committee, or to exclude the effects of (a) extraordinary, unusual, or non-recurring items, (b) changes in applicable laws, regulations, or accounting principles, (c) currency fluctuations, (d) discontinued operations, (e) non-cash items, such as amortization, depreciation, reserves, or asset impairments, or (f) any recapitalization, restructuring, reorganization, merger, acquisition, divestiture, consolidation, spin-off, split-up, combination, liquidation, dissolution, sale of assets, or other similar corporate transaction. The Committee may not, however, increase the maximum amount permitted to be paid to any individual under Section 4.2 or 4.10 of the Plan or award a Bonus under this Plan if the applicable Performance Target(s) have not been satisfied.

4.8. Committee Certification. No Executive shall receive any payment under the Plan unless the Committee has certified, by resolution or other appropriate action in writing, that the amount thereof has been accurately determined in accordance with the terms, conditions and limits of the Plan and that the Performance Target(s) and any other material terms previously established by the Committee or set forth in the Plan were in fact satisfied.

4.9. Time of Payment. Any Bonuses granted by the Committee under the Plan shall be paid as soon as practicable following the Committee's determinations under this Section 4 and the certification of the Committee's findings under Section 4.8; provided, however, any such payment shall be made following the end of the Company's taxable year that coincides with or includes the end of the Performance Period and shall be made no later than the 15<sup>th</sup> day of the third month following the end of such taxable year of the Company. If and to the extent permitted by the Committee, and in accordance with such rules as the Committee may from time to time adopt, including compliance with Section 409A of the Code, Participants may, prior to the beginning of any Performance Period, elect to defer the payout of all or any portion of a Bonus relating to such Performance Period.

4.10. Maximum Individual Bonus. Notwithstanding any other provision hereof, no such Executive shall receive a Bonus under the Plan for any Performance Period in excess of \$4,500,000.

4.11. Form of Payment. Any Bonus shall be paid at the time and in the manner set forth in the Plan, including in accordance with Section 4.9 hereof and shall be in cash, cash equivalents or Shares, as determined by the Committee, subject to applicable withholding requirements. If and to the extent any payment of a Bonus under this Plan is made in Shares, such payment shall be made as follows:

(a) Issuance and Vesting. All Shares issued in respect of any Bonus hereunder shall be issued pursuant to the terms and conditions of the Stock Plan and shall reduce the number of Shares available for issuance thereunder. The date of grant of such Shares shall be the date the Committee certifies the Bonus pursuant to Section 4.8. The number of Shares issued in respect of any Bonus shall be equal to the amount of the Bonus, divided by the Fair Market Value of a Share on the date the Committee certifies the Bonus pursuant to Section 4.8 (rounded up to the next whole Share). No fractional Shares shall be issued in payment of any Bonus payment under the Plan. Subject to the terms and conditions of the Plan and the Stock Plan, any Shares may be subject to such terms, including vesting, as determined by the Committee.

(b) Effect of Insufficient Shares. Notwithstanding anything herein to the contrary, in the event that there are insufficient Shares available for issuance pursuant to the Stock Plan to satisfy amounts owing in respect of the Bonus, the amount of the Bonus which is not able to be satisfied in Shares shall be paid in the form of cash or cash equivalents.

(c) Compliance with Securities Law and Regulations. The issuance or delivery of Shares pursuant to the Stock Plan or the Plan shall be subject to, and shall comply with, any applicable requirements of federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, the Exchange Act, and the rules and regulations promulgated thereunder), any securities exchange upon which the Shares may be listed and any other law or regulation applicable thereto. The Company shall not be obligated to issue or deliver any Shares pursuant to the Stock Plan or the Plan if such issuance or delivery would, in the opinion of the Committee, violate any such requirements. The foregoing shall not, however, be deemed to require the Company to issue Shares in respect of amounts to be paid on account of the Bonus if a necessary listing or quotation of the Shares on a stock exchange or inter-dealer quotation system or any registration under state or federal securities laws required under the circumstances has not been accomplished.

4.12. Clawback Policy. Notwithstanding any other provision hereof, acceptance by any Participant of any Bonus or other payment pursuant to the Plan constitutes such person's acknowledgement and agreement that all Bonuses and any other payments made pursuant to the Plan shall be subject to (a) Section 304 of the Sarbanes Oxley Act of 2002 and (b) to the extent required under the rules and/or regulations issued pursuant to the Dodd-Frank Act of 2010, any clawback policy adopted by the Company pursuant to such rules and/or regulations.

## **Section 5. GENERAL PROVISIONS**

5.1. No Right to Bonus or Continued Employment. Neither the establishment of the Plan nor the provision for or payment of any amounts hereunder nor any action of the Company (including, for purposes of this Section 5.1, any predecessor or Subsidiary), the Board or the Committee in respect of the Plan, shall be held or construed to confer upon any person any legal right to receive, or any interest in, a Bonus or any other benefit under the Plan, or any legal right to be continued in the employ of the Company. The Company expressly reserves any and all rights to discharge an Executive in its sole discretion, without liability of any person, entity or governing body under the Plan or otherwise, except to the extent otherwise provided in any written employment agreement between the Company and the Executive.

5.2. Discretion of the Company, the Board and Committee. Any decision made or action taken by the Company or by the Board or by the Committee arising out of or in connection with the creation, amendment, construction, administration, interpretation and effect of the Plan shall be within the absolute discretion of such entity and shall be conclusive and binding upon all persons. No member of the Committee shall have any liability for actions taken or omitted under the Plan by the member or any other person.

5.3. Absence of Liability. A member of the Board or a member of the Committee or any officer of the Company shall not be liable for any act or inaction hereunder, whether of commission or omission.

5.4. No Funding of Plan. The Company shall not be required to fund or otherwise segregate any cash or any other assets which may at any time be paid to Participants under the Plan. The Plan shall constitute an "unfunded" plan of the Company. The Company shall not, by any provisions of the Plan, be deemed to be a trustee of any property, and any obligations of the Company to any Participant under the Plan shall be those of a debtor and any rights of any Participant or former Participant shall be limited to those of a general unsecured creditor.

5.5. Non-Transferability of Benefits and Interests. Except as expressly provided by the Committee, no benefit payable under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void and no such benefit shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of any Participant or former Participant. This Section 5.5 shall not apply to an assignment of a contingency or payment due after the death of the Executive to the deceased Executive's legal representative or beneficiary.

5.6. Law to Govern. All questions pertaining to the construction, regulation, validity and effect of the provisions of the Plan shall be determined in accordance with the laws of the State of Texas.

5.7. Non-Exclusivity. Subject to Section 5.8, the Plan does not limit the authority of the Company, the Board or the Committee, or any Subsidiary of the Company, to grant awards or authorize any other compensation under any other plan or authority, including, without limitation, awards or other compensation based on the same Performance Target(s) used under the Plan. In addition, Executives not selected to participate in the Plan may participate in other plans of the Company.

5.8. Section 162(m) Conditions; Bifurcation of Plan. It is the intent of the Company that the Plan and Bonuses paid hereunder satisfy and be interpreted in a manner, that, in the case of Participants who are or may be persons whose compensation is subject to Section 162(m), satisfies any applicable requirements as performance-based compensation. Any provision, application or interpretation of the Plan inconsistent with this intent to satisfy the standards in Section 162(m) of the Code shall be disregarded. Notwithstanding anything to the contrary in the Plan, the provisions of the Plan may at any time be bifurcated by the Board or the Committee in any manner so that certain provisions of the Plan or any Bonus intended or required in order to satisfy the applicable requirements of Section 162(m) are only applicable to persons whose compensation is subject to Section 162(m).

5.9. Adopting Employer. Helen of Troy Nevada Corporation, a Nevada corporation, is an adopting employer to the Plan.

5.10 Section 409A of the Code. Except to the extent a Bonus is deferred pursuant to Section 4.9, the Plan and the Bonuses paid hereunder are intended to meet the "short-term deferral" exemption to the provisions of Section 409A of the Code and the Treasury regulations issued thereunder or otherwise to comply with Section 409A of the Code and the Treasury regulations and guidance issued thereunder. Notwithstanding any provision of the Plan to the contrary, the Plan shall be interpreted and construed consistent with this intent. Notwithstanding the foregoing, the Company shall not be required to assume any increased economic burden in connection therewith.

5.11 Section 457A of the Code. It is the intent of the Company that the Plan and all Bonuses paid to U.S. taxpayers hereunder will comply with Section 457A of the Code and the provisions of the Plan shall be interpreted and construed consistent with this intent. Notwithstanding the foregoing, in the event the Plan is found not to comply with Section 457A, the Company shall not be required to assume any increased economic burden in connection therewith.

5.12 Conflict. In the event of any conflict between the terms of any written agreement between the Company and the Executive and this Plan regarding the payment of the Bonus upon termination of employment with the Company, including any termination of employment following a Change in Control or upon Disability or any analogous term or the application so Section 5.11 hereof, the terms of the written

agreement shall be deemed to control. Notwithstanding the foregoing or any written agreement between the Company and the Executive, the payment of any Bonus shall be made in accordance with Sections 4.8, 4.9 and 4.10 hereof.

#### **Section 6. EFFECTIVE DATE, AMENDMENTS, SUSPENSION OR TERMINATION OF PLAN**

The Plan shall be effective as of March 1, 2014, subject to its approval by shareholders of the Company at the annual general meeting of shareholders to be held August 26, 2014, or any adjournment or postponement thereof. The Board or the Committee may from time to time amend, suspend or terminate in whole or in part, and if suspended or terminated, may reinstate, any or all of the provisions of the Plan. Notwithstanding the foregoing, no amendment may be effective without Board and/or shareholder approval if such approval is necessary to comply with the applicable rules under Section 162(m) of the Code. No additional Bonuses may be payable after termination of the Plan. Termination of the Plan shall not affect any Bonuses due and outstanding on the date of termination and such Bonuses shall continue to be subject to the terms of the Plan notwithstanding its termination.

#### **Section 7. AMENDMENT AND RESTATEMENT**

This Plan amends, restates and supersedes the provisions of the Helen of Troy Limited 2011 Annual Incentive Plan effective as of March 1, 2012, in their entirety.

**CERTIFICATION**

I, Julien R. Mininberg, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended August 31, 2016 of Helen of Troy Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 11, 2016

/s/ Julien R. Mininberg

Julien R. Mininberg  
Chief Executive Officer,  
Director and Principal Executive Officer

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**CERTIFICATION**

I, Brian L. Grass, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended August 31, 2016 of Helen of Troy Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: October 11, 2016

/s/ Brian L. Grass

Brian L. Grass  
Chief Financial Officer  
and Principal Financial Officer

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**CERTIFICATION**

In connection with the quarterly report of Helen of Troy Limited (the "Company") on Form 10-Q for the fiscal quarter ended August 31, 2016, as filed with the Securities and Exchange Commission (the "Report"), and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned, the Chief Executive Officer and Chief Financial Officer of the Company, hereby certifies that to the best of their knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: October 11, 2016

/s/ Julien R. Mininberg  
Julien R. Mininberg  
Chief Executive Officer,  
Director and Principal Executive Officer

/s/ Brian L. Grass  
Brian L. Grass  
Chief Financial Officer  
and Principal Financial Officer

This certification is not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. This certification is not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates it by reference.

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