HELEN OF TROY LTD
Form 10-Q
July 10, 2007

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

FORM 10-Q

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

For the quarterly period ended May 31, 2007

or

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

For the transition period from ________ to ________

Commission file number: 001-14669

HELEN OF TROY LIMITED
(Exact name of registrant as specified in its charter)

Bermuda	**74-2692550**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Clarenden House
Church Street
Hamilton, Bermuda
(Address of principal executive offices)

1 Helen of Troy Plaza **El Paso, Texas**	**79912**
(Registrant's United States Mailing Address)	(Zip Code)

(915) 225-8000
(Registrant's telephone number, including area code)

[Not Applicable]
(Former name, former address and former fiscal year, if changed since last report)

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 T No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer £ Accelerated filer T Non-accelerated filer £

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

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

Class	Outstanding at July 5, 2007
Common Shares, $0.10 par value per share	30,391,606 shares

HELEN OF TROY LIMITED AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HELEN OF TROY LIMITED AND SUBSIDIARIES
Consolidated Condensed Balance Sheets
(in thousands, except shares and par value)

	May 31, 2007 (unaudited)	February 28, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 29,169	$ 35,455
Temporary investments	30,250	55,750
Trading securities, at market value	134	189
Receivables - principally trade, less allowance of $1,075 and $1,002	111,500	115,896
Inventories	156,214	144,070
Prepaid expenses and other assets	11,105	8,379
Deferred income tax benefits	11,009	13,479
Total current assets	349,381	373,218
Property and equipment, at cost less accumulated depreciation of $37,891 and $35,325	95,405	96,669
Goodwill	212,496	201,002
Trademarks, net of accumulated amortization of $232 and $230	166,909	158,061
License agreements, net of accumulated amortization of $16,313 and $15,953	26,002	26,362
Other intangible assets, net of accumulated amortization of $4,975 and $4,561	16,573	14,653
Tax certificates	25,144	25,144
Other assets	11,040	11,163
Total assets	$ 902,950	$ 906,272
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable, principally trade	34,471	37,779
Accrued expenses and current liabilities	52,940	62,384
Income taxes payable	25,660	24,924
Total current liabilities	123,071	135,087
Long-term compensation liabilities	1,285	2,095
Long-term income taxes payable	9,313	-
Deferred income tax liability	894	1,673
Long-term debt, less current portion	240,000	240,000
Total liabilities	374,563	378,855
Commitments and contingencies (See Notes 3, 12, 14, 15 and 18)		

Stockholders' equity:				
Cumulative preferred shares, non-voting, $1.00 par. Authorized 2,000,000 shares; none issued		**-**		-
Common shares, $.10 par. Authorized 50,000,000 shares; 30,328,456 and 30,286,406 shares issued and outstanding		**3,033**		3,029
Additional paid-in-capital		**89,867**		94,951
Retained earnings		**435,209**		431,003
Accumulated other comprehensive income		**278**		(1,566)
Total stockholders' equity		**528,387**		527,417
Total liabilities and stockholders' equity	**$**	**902,950**	$	906,272

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 May 31, 2007	2006
Net sales	**$ 140,170**	$ 130,441
Cost of sales	**80,152**	72,500
Gross profit	**60,018**	57,941
Selling, general, and administrative expense	**45,717**	47,025
Operating income	**14,301**	10,916
Other income (expense):		
Interest expense	**(4,113)**	(4,506)
Other income, net	**1,254**	790
Total other income (expense)	**(2,859)**	(3,716)
Earnings before income taxes	**11,442**	7,200
Income tax expense (benefit):		
Current	**592**	939
Deferred	**733**	(418)
Net earnings	**$ 10,117**	$ 6,679
Earnings per share:		
Basic	**$ 0.33**	$ 0.22
Diluted	**$ 0.32**	$ 0.21
Weighted average common shares used in computing net earnings per share		
Basic	**30,294**	30,022
Diluted	**32,035**	31,460

See accompanying notes to consolidated condensed financial statements.

HELEN OF TROY LIMITED AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows
(unaudited)
(in thousands)

	Three Months Ended May 31,	
	2007	2006
Cash flows from operating activities:		
Net earnings	**$ 10,117**	$ 6,679
Adjustments to reconcile net earnings to net cash (used) / provided by operating activities:		
Depreciation and amortization	**3,524**	3,880
Provision for doubtful receivables	**73**	(228)
Share-based compensation expense	**190**	187
Unrealized (gain) / loss - trading securities	**55**	(60)
Deferred taxes, net	**583**	(458)
Gain on the sale of property, plant and equipment	**-**	(422)
Changes in operating assets and liabilities, net of effects of acquisitions		
Accounts receivable	**11,772**	(6,722)
Inventories	**(3,718)**	4,382
Prepaid expenses and other assets	**(4,228)**	(2,845)
Other assets	**(408)**	(298)
Accounts payable	**(3,298)**	2,352
Accrued expenses and current liabilities	**(7,843)**	(6,046)
Income taxes payable	**(1,909)**	542
Net cash provided by operating activities	**4,910**	943
Cash flows from investing activities:		
Capital, license, trademark, and other intangible expenditures	**(1,111)**	(1,700)
Acquisitions of business	**(36,500)**	-
Proceeds from the sale of property, plant and equipment	**-**	666
Purchase of temporary securities	**(57,350)**	(15,000)
Sale of temporary securities	**82,850**	15,000
Net cash used by investing activities	**(12,111)**	(1,034)
Cash flows from financing activities:		
Proceeds from debt	**-**	7,660
Proceeds from exercise of stock options, including related tax benefits	**864**	143
Share-based compensation tax benefit	**51**	40
Net cash provided by financing activities	**915**	7,843
Net (decrease) / increase in cash and cash equivalents	**(6,286)**	7,752
Cash and cash equivalents, beginning of period	**35,455**	18,320
Cash and cash equivalents, end of period	**$ 29,169**	$ 26,072
Supplemental cash flow disclosures:		
Interest paid	**$ 3,847**	$ 3,707
Income taxes paid (net of refunds)	**$ 2,516**	$ 396

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 May 31,	
	2007	2006
Net earnings, as reported	**$ 10,117**	$ 6,679
Other comprehensive income (loss), net of tax:		
Cash flow hedges - Interest Rate Swaps	**1,941**	-
Cash flow hedges - Foreign Currency	**(97)**	(922)
Comprehensive income	**$ 11,961**	$ 5,757

See accompanying notes to consolidated condensed financial statements.

HELEN OF TROY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
May 31, 2007

Note 1 - ***Basis of Presentation***

In our opinion, the accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of May 31, 2007 and February 28, 2007, and the results of our consolidated operations for the three month periods ended May 31, 2007 and 2006. The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data.

Due to the seasonal nature of our business, quarterly revenues, expenses, earnings and cash flows are not necessarily indicative of the results that may be expected for the full fiscal year. While we believe that the disclosures presented are adequate and the consolidated condensed financial statements are not misleading, these statements should be read in conjunction with the consolidated financial statements and the notes included in our latest annual report on Form 10-K, and our other reports on file with the Securities and Exchange Commission ("SEC").

We have reclassified certain prior-period amounts, and in some cases provided additional information in our consolidated condensed financial statements and accompanying footnotes to conform to the current period's presentation. These reclassifications have no impact on previously reported net earnings.

In these consolidated condensed financial statements, accompanying footnotes, and elsewhere in this report, amounts shown are in thousands of U.S. Dollars, except as otherwise indicated.

Note 2 - ***New Accounting Pronouncements***

New Accounting Standards Currently Adopted

Effects of Misstatements - In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 permits registrants to record the cumulative effect of initial adoption by recording the necessary "correcting" adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings, only if material under the dual method. We were not required to record any adjustments upon the application of SAB 108.

Uncertainty in Income Taxes - In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation 48, "Accounting for Uncertainty in Income Taxes—An Interpretation of Statement of Financial Accounting Standards No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements, and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. We adopted the provisions of FIN 48 at the beginning of the first quarter of fiscal 2008, and the details of our adoption of FIN 48 are described in Note 12.

New Accounting Standards Subject to Future Adoption

Liability Recognition on Endorsement Split-Dollar Life Insurance Arrangements - In June 2006, the EITF reached a consensus on EITF Issue No. 06-4 ("EITF 06-4"), "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements," which requires the application of the provisions of SFAS No. 106 (“SFAS 106”), “Employers’ Accounting for Postretirement Benefits Other Than Pensions” to endorsement split-dollar life insurance arrangements. SFAS 106 would require us to recognize a liability for the discounted future benefit obligation that we will have to pay upon the death of the underlying insured employee. An endorsement-type arrangement generally exists when the Company owns and controls all incidents of ownership of the underlying policies. EITF 06-4 is currently effective for fiscal years beginning after December 15, 2007. We have certain life insurance policies which may be subject to the provisions of this new pronouncement and are currently determining the effect, if any, the adoption of EITF 06-4 will have on our financial statements.

Fair Value Measurements - In September 2006, the FASB issued SFAS 157 “Fair Value Measurements.” This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this Statement does not require any new fair value measurements, but will potentially require additional disclosures regarding existing fair value measurements we currently report. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently determining the effect, if any, this pronouncement will have on our financial statements.

Fair Value Option for Financial Assets and Financial Liabilities - In February 2007, the FASB issued Statement of Financial Accounting Standards No.159 “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115” (“SFAS 159”). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. SFAS 159 also established presentation and disclosure requirements designed to facilitate comparisons that choose different measurement attributes for similar types of assets and liabilities. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently determining the effect, if any, this pronouncement will have on our financial statements.

Liability Recognition on Collateral Assignment Split-Dollar Life Insurance Arrangements - In March 2007, the EITF reached a consensus on EITF Issue No. 06-10 ("EITF 06-10"), "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements," which provides guidance to help companies determine whether a liability for the postretirement benefit associated with a collateral assignment split-dollar life insurance arrangement should be recorded in accordance with either SFAS 106 (if, in substance, a postretirement benefit plan exists), or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract). EITF 06-10 also provides guidance on how a company should recognize and measure the asset in a collateral assignment split-dollar life insurance contract. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. We have certain life insurance policies which may be subject to the provisions of this new pronouncement and are currently determining the effect, if any, the adoption of EITF 06-10 will have on our financial statements.

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe that the impact of recently issued standards that are not yet effective are either not applicable to the Company at this time, or will not have a material impact on our consolidated condensed financial statements upon adoption.

Note 3 - ***Litigation***

Securities Class Action Litigation - Class action lawsuits have been filed and consolidated into one action against the Company, Gerald J. Rubin, the Company's Chairman of the Board, President and Chief Executive Officer, and Thomas J. Benson, the Company's Chief Financial Officer, on behalf of purchasers of publicly traded securities of the Company. The Company understands that the plaintiffs allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 as amended (the "Exchange Act"), and Rule 10b-5 thereunder, on the grounds that the Company and the two officers engaged in a scheme to defraud the Company's shareholders through the issuance of positive earnings guidance intended to artificially inflate the Company's share price so that Mr. Rubin could sell almost 400,000 of the Company's common shares at an inflated price. The plaintiffs are seeking unspecified damages, interest, fees, costs, an accounting of any alleged insider trading proceeds, and injunctive relief, including an accounting of and the imposition of a constructive trust and/or asset freeze on the defendants' alleged insider trading proceeds. The class period stated in the complaint was October 12, 2004 through October 10, 2005.

The lawsuit was brought in the United States District Court for the Western District of Texas. The Company intends to defend the foregoing lawsuit vigorously, but, because the lawsuit is still in the preliminary stages, the Company cannot predict the outcome and is not currently able to evaluate the likelihood of success or the range of potential loss, if any, that might be incurred in connection with the action. However, if the Company were to lose on any issues connected with the lawsuit or if the lawsuit is not settled on favorable terms, the judgement or settlement may have a material adverse effect on the Company's consolidated financial position, results of operations and cash flows. There is a risk that such litigation could result in substantial costs and divert management's attention and resources from its business, which could adversely affect the Company's business. The Company carries insurance that provides an aggregate coverage of $20 million after a self-insured retention of $500 thousand for the period during which the claims were filed, but cannot evaluate at this time whether such coverage will be adequate to cover losses, if any, arising out of the lawsuit.

On May 15, 2006, the Company filed a motion to dismiss the aforementioned lawsuit citing numerous deficiencies with the claims asserted in the lawsuit. On May 24, 2007, the motion to dismiss was denied. The discovery phase of the litigation is now underway.

Other Matters - 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.

Note 4 - ***Earnings per Share***

Basic earnings per share is computed based upon the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based upon the weighted average number of shares of common stock plus the effects of dilutive securities. The number of dilutive securities was 1,740,309 and 1,437,418 for the three month periods ended May 31, 2007 and 2006, respectively. All dilutive securities during these periods consisted of stock options issued under our stock option plans. There were options to purchase common shares that were outstanding but not included in the computation of earnings per share because the exercise prices of such options were greater than the average market prices of our common shares. These options totaled 284,379 and 908,580 at May 31, 2007 and 2006, respectively.

Note 5 - ***Segment Information***

In the tables that follow, we present two segments: Personal Care and Housewares. Our Personal Care segment's products include hair dryers, straighteners, curling irons, hairsetters, women's shavers, mirrors, hot air brushes, home hair clippers and trimmers, paraffin baths, massage cushions, footbaths, body massagers, brushes, combs, hair accessories, liquid hair styling products, men's fragrances, men's deodorants, foot powder, body powder, and skin care products. Our Housewares segment reports the operations of OXO International ("OXO") whose products include kitchen tools, cutlery, bar and wine accessories, household cleaning tools, tea kettles, trash cans, storage and organization products, hand tools, gardening tools, kitchen mitts and trivets, barbeque tools, and rechargeable lighting products. We use outside manufacturers to produce our goods. Both our Personal Care and Housewares segments sell their products primarily through mass merchandisers, drug chains, warehouse clubs, catalogs, grocery stores and specialty stores. In addition, the Personal Care segment sells extensively through beauty supply retailers and wholesalers.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements in our 2007 Annual Report on Form 10-K.

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

THREE MONTHS ENDED MAY 31, 2007 AND 2006
(in thousands)

May 31, 2007	**Personal Care**	**Housewares**	**Total**
Net sales	$ 106,812	$ 33,358	$ 140,170
Operating income	8,872	5,429	14,301
Capital, license, trademark and other intangible expenditures	314	797	1,111
Depreciation and amortization	2,368	1,156	3,524

May 31, 2006	**Personal Care**	**Housewares**	**Total**
Net sales	$ 105,324	$ 25,117	$ 130,441
Operating income	6,192	4,724	10,916
Capital, license, trademark and other intangible expenditures	1,182	518	1,700
Depreciation and amortization	2,619	1,261	3,880

The following tables contain net assets allocable to each segment for the periods covered by our consolidated condensed balance sheets:

IDENTIFIABLE NET ASSETS AT MAY 31, 2007 AND FEBRUARY 28, 2007
(in thousands)

	Personal Care	**Housewares**	**Total**
May 31, 2007	$ 560,374	$ 342,576	$ 902,950
February 28, 2007	554,295	351,977	906,272

Operating income for each operating segment is computed based on net sales, less cost of goods sold and any selling, general, and administrative expenses ("SG&A") associated with the segment. The selling, general, and administrative

expenses used to compute each segment's operating income are comprised of SG&A directly associated with the segment, plus overhead expenses that are allocable to the operating segment.

During the first quarter of fiscal 2007, we completed the transition of our Housewares segment's operations to our internal operating systems and our new distribution facility in Southaven, Mississippi. In the last quarter of fiscal 2007, we completed the consolidation of our domestic appliance inventories into the same facility.

Throughout fiscal 2007, we conducted an evaluation of our shared cost allocation methodology given the structural and process changes that were taking place in our operations, and changed our methodology in the first quarter of fiscal 2008. We believe the new method better reflects the economics of our newly consolidated operations. The table below summarizes the expense allocations made to the Housewares segment for the three months ended May 31, 2007 compared to the same period in the previous year. Some of these expenses were previously absorbed by the Personal Care segment.

Housewares Segment Expense Allocation
(in thousands)

	Three Months Ended May 31,	
	2007	2006
Distribution and sourcing expense	**$ 2,854**	$ 1,427
Other operating and corporate overhead expense	**1,326**	998
Total allocated expenses	**$ 4,180**	$ 2,425
Expense allocation as a percentage of net sales:		
Distribution and sourcing expense	**8.6%**	5.7%
Other operating and corporate overhead expense	**4.0%**	4.0%
Total allocated expenses	**12.5%**	9.7%

Note 6 - *Property and Equipment*

A summary of property and equipment is as follows:

PROPERTY AND EQUIPMENT
(in thousands)

	Estimated Useful Lives (Years)	**May 31, 2007**	February 28, 2007
Land	-	**$ 9,537**	$ 9,537
Building and improvements	10 - 40	**62,917**	62,666
Computer and other equipment	3 - 10	**41,388**	41,265
Molds and tooling	1 - 3	**7,281**	6,538
Transportation equipment	3 - 5	**3,957**	3,912
Furniture and fixtures	5 - 15	**8,005**	7,815
Construction in process	-	**211**	261
		133,296	131,994
Less accumulated depreciation		**(37,891)**	(35,325)
Property and equipment, net		**$ 95,405**	$ 96,669

We recorded depreciation of $2,566 and $2,428 for the three month periods ended May 31, 2007 and 2006, respectively.

Note 7 - *Intangible Assets*

We do not record amortization expense on goodwill or other intangible assets that have indefinite useful lives. Amortization expense is recorded for intangible assets with definite useful lives. We also perform an annual impairment review of goodwill and other intangible assets. Any asset deemed to be impaired is to be written down to its fair value. We completed our annual impairment test during the first quarter of fiscal 2008, and have determined that none of our goodwill or other intangible assets were impaired at that time.

The following table discloses information regarding the carrying amounts and associated accumulated amortization for all intangible assets and indicates the operating segments to which they belong:

INTANGIBLE ASSETS
(in thousands)

			May 31, 2007			February 28, 2007		
Type / Description	**Segment**	**Estimated Life**	**Gross Carrying Amount**	**Accumulated Amortization (if Applicable)**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization (if Applicable)**	**Net Carrying Amount**
Goodwill:								
OXO	Housewares	Indefinite	$ 166,131	$ -	$ 166,131	$ 165,934	$ -	$ 165,934
All other goodwill	Personal Care	Indefinite	46,365	-	46,365	35,068	-	35,068
			212,496	-	212,496	201,002	-	201,002
Trademarks:								
OXO	Housewares	Indefinite	75,554	-	75,554	75,554	-	75,554
Brut	Personal Care	Indefinite	51,317	-	51,317	51,317	-	51,317
All other - definite lives	Personal Care	[1]	338	(232)	106	338	(230)	108
All other - indefinite lives	Personal Care	Indefinite	39,932	-	39,932	31,082	-	31,082
			167,141	(232)	166,909	158,291	(230)	158,061
Licenses:								
Seabreeze	Personal Care	Indefinite	18,000	-	18,000	18,000	-	18,000
All other licenses	Personal Care	8 - 25 Years	24,315	(16,313)	8,002	24,315	(15,953)	8,362
			42,315	(16,313)	26,002	42,315	(15,953)	26,362
Other:								
Patents, customer lists and non-compete agreements	Housewares	2 - 14 Years	19,313	(4,938)	14,375	19,214	(4,561)	14,653
	Personal Care	3 - 8 Years	2,235	(37)	2,198	-	-	-
			21,548	(4,975)	16,573	19,214	(4,561)	14,653
Total			$ 443,500	$ (21,520)	$ 421,980	$ 420,822	$ (20,744)	$ 400,078

[1] Includes one fully amortized trademark and one trademark with an estimated life of 30 years

The following table summarizes the amortization expense attributable to intangible assets for the three month periods ending May 31, 2007 and 2006, as well as our latest estimate of amortization expense for the fiscal years ending the last day of February 2008 through 2013.

AMORTIZATION OF INTANGIBLES
(in thousands)

Aggregate Amortization Expense		
For the three months ended		
May 31, 2007	$	776
May 31, 2006	$	815
Estimated Amortization Expense		
For the fiscal years ended		
February 2008	$	3,276
February 2009	$	3,100
February 2010	$	3,056
February 2011	$	2,372
February 2012	$	2,224
February 2013	$	2,190

NOTE 8 - ***Acquisitions And New Trademark License Agreements***

Belson Products Acquisition - Effective May 1, 2007, we acquired certain assets and liabilities of Belson Products (“Belson”), the professional salon division of Applica Consumer Products, Inc. for a cash purchase price of $36,500 plus the assumption of estimated liabilities. This transaction was accounted for as a purchase of a business and was paid for out of available cash on hand. Belson is a supplier of personal care products to the professional salon industry. Belson markets its professional products to major beauty suppliers and other major distributors under brand names including Belson®, Belson Pro®, Gold ‘N Hot®, Curlmaster®, Premiere®, Profiles®, Comare®, Mega Hot®, and Shear Technology®. Products include electrical hair care appliances, spa products and accessories, professional brushes and combs, and professional styling shears. Belson products are principally distributed throughout the United States, as well as Canada and the United Kingdom. We believe that Belson’s portfolio of professional salon products, in addition to our existing Helen of Troy professional products, will continue to strengthen our leadership position in the professional distribution channels.

Net assets acquired consist principally of accounts receivable, finished goods inventories, goodwill, patents, trademarks, tradenames, product design specifications, production know-how, certain fixed assets, distribution rights and customer lists, a covenant not-to-compete, less certain customer related operating accruals and liabilities. The following schedule presents the initial net assets of Belson acquired at closing:

Belson Products - Net Assets Acquired on May 1, 2007
(in thousands)

Accounts receivable, net	$	7,449
Inventories		8,426
Fixed assets		139
Trademarks, goodwill and other intangible assets		22,381
Total assets acquired		38,395
Less: Current liabilities assumed		(1,895)
Net assets acquired	$	36,500

We are in the process of completing our analysis of the economic lives of the assets acquired and appropriate allocation of the initial purchase price. Based on our preliminary analysis, we believe that a significant portion of the purchase price will be allocated to assets having indefinite economic lives. We expect to complete our analysis during fiscal 2008.

Bed Head® by TIGI and Toni&Guy® - On December 6, 2006, we entered into licensing arrangements with MBL/TIGI Products, L.P. and MBL/Toni&Guy Products L.P. for the use of the Bed Head® by TIGI and Toni&Guy® trademarks for personal care products in the Western Hemisphere. We plan on introducing a line of hair care appliance products under the Bed Head® by TIGI and Toni&Guy® brand names that eventually will include hair dryers, hair styling irons and straighteners, hot air brushes, hair setters, combs, brushes and hair care accessories, as well as a variety of other personal care products. We have begun marketing in the United States, and plan to market in the remainder of the Western Hemisphere. Initial domestic product shipments began during the first fiscal quarter of 2008.

Candela® Acquisition - On September 25, 2006, we acquired all rights to trademarks, certain patents, formulas, tooling and production processes to Vessel, Inc.'s rechargeable lighting products under various brand names, including Candela®. The products will be sold by our Housewares segment. We believe the acquired trademarks have indefinite economic lives. The following schedule presents the assets acquired at closing and management's purchase price allocation:

Assets Acquired from Vessel, Inc.
(in thousands)

Trademarks	$	354
Patents		120
Fixed Assets		26
Total assets acquired	$	500

Note 9 - *Short Term Debt*

We entered into a five year Revolving Credit Agreement ("Revolving Line of Credit Agreement"), dated as of June 1, 2004, with Bank of America, N.A. and other lenders. Borrowings under the Revolving Line of Credit Agreement accrue interest equal to the higher of the Federal Funds Rate plus 0.50 percent or Bank of America's prime rate. Alternatively, upon timely election by the Company, borrowings accrue interest based on the respective 1, 2, 3, or 6-month LIBOR rate plus a margin of 0.75 percent to 1.25 percent based upon the "Leverage Ratio" at the time of the borrowing. The "Leverage Ratio" is defined by the Revolving Line of Credit Agreement as the ratio of total consolidated indebtedness, including the subject funding on such date to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") for the period of the four consecutive fiscal quarters most recently ended. The credit line allows for the issuance of letters of credit up to $10,000. We incur loan commitment fees at a current rate of 0.30 percent per annum on the unused balance of the Revolving Line of Credit Agreement and letter of credit fees at a current rate of 1.125 percent per annum on the face value of the letter of credit. On June 7, 2007, we gave notice to permanently reduce our Revolving Line of Credit Agreement from $75,000 to $50,000. Outstanding letters of credit reduce the borrowing limit dollar for dollar. During fiscal 2007, we did not draw on the Revolving Line of Credit. As of May 31, 2007, there were no revolving loans and $1,260 of open letters of credit outstanding against this facility.

The Revolving Line of Credit Agreement requires the maintenance of certain debt/EBITDA, fixed charge coverage ratios, and other customary covenants. Certain covenants, as of the latest balance sheet date, limit our total outstanding indebtedness from all sources to no more than 3.5 times the latest twelve months' trailing EBITDA. These covenants effectively limited our ability to incur no more than $66,923 of additional debt from all sources, including draws on our Revolving Line of Credit Agreement. The agreement is unconditionally guaranteed, on a joint and several basis, by the parent company, Helen of Troy Limited, and certain subsidiaries. Any amounts outstanding under the Revolving Line of Credit Agreement will mature on June 1, 2009. As of May 31, 2007, we were in compliance with the terms of this agreement.

Note 10 - *Accrued Expenses and Current Liabilities*

A summary of accrued expenses was as follows:

ACCRUED EXPENSES AND CURRENT LIABILITIES
(in thousands)

		May 31, 2007		February 28, 2007
Accrued discounts and allowances	**$**	**22,573**	$	25,054
Accrued compensation		**3,632**		8,889

Accrued advertising		**9,145**		9,269
Accrued interest		**2,917**		2,833
Accrued royalties		**1,214**		2,549
Accrued professional fees		**1,430**		1,218
Accrued benefits and payroll taxes		**1,388**		1,438
Accrued freight		**1,297**		1,390
Accrued property, sales and other taxes		**1,351**		831
Foreign currency contracts		**789**		616
Interest rate swaps		**-**		1,501
Other		**7,204**		6,796
Total Accrued Expenses and Current Liabilities	**$**	**52,940**	$	62,384

Note 11 - ***Product Warranties***

The Company's products are under warranty against defects in material and workmanship for a maximum of two years. We have established accruals to cover future warranty costs of approximately $5,856 and $6,450 as of May 31, 2007 and February 28, 2007, respectively. We estimate our warranty accrual using historical trends, which we believe are the most reliable method by which we can estimate our warranty liability.

The following table summarizes the activity in the Company's accrual for the three month period ended May 31, 2007 and fiscal year ended February 28, 2007:

ACCRUAL FOR WARRANTY RETURNS
(in thousands)

	May 31, 2007 (Three Months)	February 28, 2007 (Year)
Balance at the beginning of the period	**$ 6,450**	$ 7,373
Additions to the accrual	**5,607**	18,080
Reductions of the accrual - payments and credits issued	**(6,201)**	(19,003)
Balance at the end of the period	**$ 5,856**	$ 6,450

Note 12 - ***Income Taxes***

Hong Kong Income Taxes - On May 10, 2006, the Inland Revenue Department (the “IRD”) of Hong Kong and the Company reached a settlement regarding tax liabilities for the fiscal years 1995 through 1997. This agreement was subsequently approved by the IRD’s Board of Review. For those tax years, we agreed to an assessment of approximately $4,019 including estimated penalties and interest. Our consolidated financial statements at May 31, 2006 and February 28, 2006 included adequate provisions for this liability. As a result of this tax settlement, in the first quarter of fiscal 2007, we reversed $192 of tax provision previously established and recorded $279 of associated interest. During the second quarter of fiscal 2007, the liability was paid with $3,282 of tax reserve certificates and the balance in cash.

For the fiscal years 1998 through 2003, the IRD has assessed a total of $25,461 (U.S.) in tax on certain profits of our foreign subsidiaries. Hong Kong is seeking to levy taxes on income earned from certain activities previously conducted in Hong Kong. Negotiations with the IRD regarding these issues and their settlement are ongoing, and it is unclear at this time when they will be resolved.

In connection with the IRD's tax assessment for the fiscal years 1998 through 2003, we have purchased tax reserve certificates in Hong Kong totaling $25,144. Tax reserve certificates represent the prepayment by a taxpayer of potential tax liabilities. The amounts paid for tax reserve certificates are refundable in the event that the value of the tax reserve certificates exceeds the related tax liability. These certificates are denominated in Hong Kong dollars and are subject to the risks associated with foreign currency fluctuations.

If the IRD were to successfully assert the same position for fiscal years after fiscal year 2003, the resulting assessment could total $18,673 (U.S.) in taxes for fiscal years 2004 and 2005. Although the final resolution of the proposed adjustments is uncertain and involves unsettled areas of the law, based on currently available information, we have provided for our best estimate of the total probable tax liability for this matter. While the resolution of the issue may result in tax liabilities that are significantly higher or lower than the reserves established for this matter, management currently believes that the resolution will not have a material effect on our consolidated financial position or liquidity. However, an unfavorable resolution could have a material effect on our consolidated results of operations or cash flows in the quarter in which an adjustment is recorded or the tax is due or paid.

Effective March 2005, we had concluded the conduct of all operating activities in Hong Kong that we believe were the basis of the IRD's assessments. Over the course of the prior year, the Company had moved these activities to China and Macao. The Company established a Macao offshore company ("MOC") and began operating from Macao in the third quarter of fiscal 2005. As a MOC, we have been granted an indefinite tax holiday and currently pay no taxes.

United States Income Taxes - The IRS is auditing our U.S. consolidated federal tax returns for fiscal years 2003 and 2004 and has provided notice of proposed adjustments of $5,953 to taxes for the years under audit. The Company is vigorously contesting these adjustments. Although the ultimate outcome of the dispute with the IRS cannot be predicted with certainty, management is of the opinion that adequate provisions for taxes in those years have been made in our consolidated financial statements.

The IRS recently began an examination of the U.S. consolidated federal tax return for fiscal year 2005. The audit is in the preliminary stages and, to date, no adjustments have been proposed.

Income Tax Provisions - We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments must be used in the calculation of certain tax assets and liabilities because of differences in the timing of recognition of revenue and expense for tax and financial statement purposes. We must assess the likelihood that we will be able to recover our deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. As changes occur in our assessments regarding our ability to recover our deferred tax assets, our tax provision is increased in any period in which we determine that the recovery is not probable.

In 1994, we engaged in a corporate restructuring that, among other things, resulted in a greater portion of our income not being subject to taxation in the United States. If such income were subject to U.S. federal income taxes, our effective income tax rate would increase materially. The American Jobs Creation Act of 2004 (the "AJCA"), included an anti-inversion provision that denies certain tax benefits to companies that have reincorporated outside the United States after March 4, 2003. We completed our reincorporation in 1994; therefore, our transaction is grandfathered by the AJCA, and we expect to continue to benefit from our current structure.

In addition to future changes in tax laws, our position on various tax matters may be challenged. Our ability to maintain our position that the parent company is not a Controlled Foreign Corporation (as defined under the U.S. Internal Revenue Code) is critical to the tax treatment of our non-U.S. earnings. A Controlled Foreign Corporation is a non-U.S. corporation whose largest U.S. shareholders (i.e., those owning 10 percent or more of its shares) together own more than 50 percent of the shares in such corporation. If a change of ownership were to occur such that the parent company became a Controlled Foreign Corporation, such a change could have a material negative effect on the largest U.S. shareholders and, in turn, on our business.

Uncertainty in Income Taxes - The calculation of our tax liabilities involves dealing with uncertainties in the application of other complex tax regulations. We recognize liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts are not probable, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer probable. We record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

Effective March 1, 2007, we adopted FIN 48, which provides guidance for the recognition, derecognition and measurement in financial statements of tax positions taken in previously filed tax returns or tax positions expected to be taken in tax returns. FIN 48 requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. If the tax position meets the more-likely-than-not recognition threshold, the tax effect is recognized at the largest amount of the benefit that has greater than a fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance for classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 requires that a liability created for unrecognized tax benefits shall be presented as a liability and not combined with deferred tax liabilities or assets.

Upon adopting FIN 48, we recorded a $12,055 increase in the liability for unrecognized tax benefits (including interest and penalties), and corresponding reductions to retained earnings and additional paid-in-capital in the amounts of $5,911 and $6,144, respectively. Amounts charged against additional paid-in-capital related to the tax effect of stock compensation expense that was originally recorded as an increase to paid-in-capital.

Upon adoption of FIN 48, we had approximately $39,387 of total gross unrecognized tax benefits, of which $32,913 would impact the effective tax rate, if recognized. With the adoption of FIN 48, we recognize interest and penalties accrued related to unrecognized tax benefits in the provision for income taxes. Included in our total gross unrecognized tax benefits we had approximately $4,783 accrued for penalties and $307 accrued for interest, net of tax benefits. We file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. As of March 1, 2007, tax years under examination or still subject to examination by major tax jurisdictions, for our most significant subsidiaries were as follows:

Jurisdicton	Examinations in Process	Open Years
Hong Kong	1998- 2003	2004 - 2007
Mexico	- None -	2003 - 2007
United Kingdom	2005	2006 - 2007
United States	2003- 2005	2006 - 2007

We anticipate that it is reasonably possible that the total amount of unrecognized tax benefits may materially change by the end of fiscal 2008 due to issues pending settlement with the IRS. Depending on the outcome of the settlement negotiations, estimates including accrued penalties and interest, net of tax benefits where applicable, range from a $7,600 decrease to a $11,600 increase in unrecognized tax benefits.

Note 13 - ***Long Term-Debt***

A summary of long-term debt was as follows:

LONG TERM DEBT
(in thousands)

	Original Date Borrowed	**Range of Interest Rates** **Quarter Ended May 31, 2007**	Fiscal 2007	**Latest Rate Payable**	**Matures**	**May 31, 2007**	February 28, 2007
$40,000 unsecured Senior Note Payable at a fixed interest rate of 7.01%. Interest payable quarterly, principal of $10,000 payable annually beginning on January 2005.	01/96	**7.01%**	7.01%	**7.01%**	01/08	**$ 10,000**	$ 10,000
$15,000 unsecured Senior Note Payable at a fixed interest rate of 7.24%. Interest payable quarterly, principal of $3,000 payable annually beginning on July 2008.	07/97	**7.24%**	7.24%	**7.24%**	07/12	**15,000**	15,000
$100,000 unsecured floating interest rate 5 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1)	06/04	**5.89%**	5.37% to 6.35%	**5.89%**	06/09	**100,000**	100,000
$50,000 unsecured floating interest rate 7 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1)	06/04	**5.89%**	5.37% to 6.35%	**5.89%**	06/11	**50,000**	50,000

$75,000 unsecured floating interest rate 10 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 90 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1)	06/04	**6.01%**	5.42% to 6.40%	**6.01%**	06/14	**75,000**	75,000
						250,000	250,000
Less current portion of long-term debt						**(10,000)**	(10,000)
Long-term debt, less current portion						**$ 240,000**	$ 240,000

(1) Floating interest rates have been hedged with interest rate swaps to effectively fix interest rates as discussed later in this note.

On September 28, 2006, we entered into interest rate hedge agreements in conjunction with our outstanding unsecured floating interest rate $100,000, 5 year; $50,000, 7 year; and $75,000, 10 year Senior Notes (the “swaps”). The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on the Senior Notes.

The swaps effectively fix the interest rates on the 5, 7 and 10 Year Senior Notes at 5.89, 5.89 and 6.01 percent, respectively, beginning September 29, 2006. Under our swaps, we agree with other parties to exchange quarterly the difference between fixed-rate and floating-rate interest amounts calculated by reference to notional amounts that perfectly match our underlying debt. Under these swap agreements, we pay the fixed rates and receive the floating rates. The swaps settle quarterly and terminate upon maturity of the related debt. The swaps are considered cash flow hedges because they are intended to hedge, and are effective as a hedge, against variable cash flows.

All of our long-term debt is unconditionally guaranteed by either the parent company, Helen of Troy Limited, and/or certain subsidiaries on a joint and several basis and has customary covenants covering Debt/EBITDA ratios, fixed charge coverage ratios, consolidated net worth levels, and other financial requirements. Certain covenants as of the latest balance sheet date, limit our total outstanding indebtedness from all sources to no more than 3.5 times the latest twelve months trailing EBITDA. These covenants effectively limited our ability to incur no more than $66,923 of additional debt from all sources, including draws on our Revolving Line of Credit Agreement. Additionally, our debt agreements restrict us from incurring liens on any of our properties, except under certain conditions. As of May 31, 2007, we are in compliance with all the terms of these agreements.

The following table contains a summary of the components of our interest expense for the periods covered by our consolidated condensed statements of income:

INTEREST EXPENSE
(in thousands)

	Three Months Ended May 31,	
	2007	2006
Interest and commitment fees	**$ 4,098**	$ 4,317
Deferred finance costs	**182**	189
Interest rate swap settlements	**(167)**	-
Total interest expense	**$ 4,113**	$ 4,506

Note 14 - ***Contractual Obligations***

Our contractual obligations and commercial commitments, as of May 31, 2007 were:

PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED MAY 31:
(in thousands)

	Total	**2008 1 year**	**2009 2 years**	**2010 3 years**	**2011 4 years**	**2012 5 years**	**After 5 years**
Term debt - fixed rate	$ 25,000	$ 10,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Term debt - floating rate (1) (2)	225,000	-	-	100,000	-	50,000	75,000
Long-term incentive plan payouts	2,614	1,611	843	160	-	-	-
Interest on floating rate debt (1)	56,226	13,343	13,343	7,943	7,453	4,753	9,391
Interest on fixed rate debt	3,861	1,553	896	679	462	244	27
Open purchase orders	80,096	80,096	-	-	-	-	-
Minimum royalty payments	69,713	2,636	6,840	8,393	8,110	7,800	35,934
Advertising and promotional	72,921	9,237	5,797	7,542	7,199	7,366	35,780
Operating leases	11,692	1,915	1,170	1,236	928	943	5,500
Open letters of credit pending settlement	1,063	1,063	-	-	-	-	-
Other	250	250	-	-	-	-	-
Total contractual obligations	$ 548,436	$ 121,704	$ 31,889	$ 128,953	$ 27,152	$ 74,106	$ 164,632

(1) The future obligation for interest on our variable rate debt has historically been estimated assuming the rates in effect as of the end of the latest fiscal quarter on which we are reporting. As mentioned above in Note 13, on September 28, 2006, the Company entered into interest rate hedge agreements in conjunction with its outstanding unsecured floating interest rate $100,000, 5 year; $50,000, 7 year; and $75,000, 10 year Senior Notes (the “swaps”). The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on the Senior Notes. The swaps effectively fix the interest rates on the 5, 7 and 10 year Senior Notes at 5.89, 5.89 and 6.01 percent, respectively, beginning September 29, 2006. Accordingly, the future interest obligations related to this debt has been estimated using these rates. On June 8, 2007, we amended our interest rate swap agreement, concurrent with a notice to prepay $25,000 of our $100,000 5 year floating rate Senior notes, reducing the notional amount of the swap contracts from $100,000 to $75,000, and recording a gain of $163 upon the liquidation of our position in $25,000 of swaps. The gain will be recorded as a component of “Interest expense” for the fiscal quarter ending August 31, 2007. The remaining interest rate swaps are considered highly effective and will continue to be accounted for as cash flow hedges.

(2) On June 8, 2007, we gave notice to prepay $25,000 of our $100,000, 5 year floating rate Senior Notes without penalty. This prepayment was made on June 29, 2007. The amount prepaid will reduce the amount due in June 2009 from $100,000 to $75,000.

We lease certain facilities, equipment and vehicles under operating leases, which expire at various dates through fiscal 2017. Certain of the leases contain escalation clauses and renewal or purchase options.

Rent expense related to our operating leases was $675 and $1,073 for the three month periods ended May 31, 2007 and 2006, respectively.

Note 15 - ***Foreign Currency Contracts and Interest Rate Swaps***

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 month periods ended May 31, 2007 and 2006, we transacted approximately 15 percent of our net sales in foreign currencies. These sales were primarily denominated in the British Pound, the Euro, the Canadian Dollar, the Brazilian Real and the Mexican Peso. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases.

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 also hedge against foreign currency exchange rate-risk by using a series of forward contracts designated as cash flow hedges to protect against the foreign currency exchange risk inherent in our forecasted transactions denominated in currencies other than the U.S. Dollar. In these transactions, we execute a forward currency contract that will settle at the end of a forecasted period. Because the size and terms of the forward contract are designed so that its fair market value will move in the opposite direction and approximate magnitude of the underlying foreign currency's forecasted exchange gain or loss during the forecasted period, a hedging relationship is created. To the extent we forecast the expected foreign currency cash flows from the period the forward contract is entered into 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.

For transactions designated as foreign currency cash flow hedges, the effective portion of the change in the fair value (arising from the change in the spot rates from period to period) is deferred in other comprehensive income. These amounts are subsequently recognized in "Selling, general, and administrative expense" in the consolidated statements of income in the same period as the forecasted transactions close out over the remaining balance of their terms. The ineffective portion of the change in fair value (arising from the change in the difference between the spot rate and the forward rate) is recognized in the period it occurred. These amounts are also recognized in "Selling, general, and administrative expense" in the consolidated statements of income. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes.

During the third quarter of fiscal 2007, we decided to manage our floating rate debt using interest rate swaps (the "swaps"). We entered into three interest rate swaps that converted an aggregate notional principal of $225,000 from floating interest rate payments under our 5, 7 and 10 year Senior Notes to fixed interest rate payments ranging from 5.89 to 6.01 percent. In these transactions, we executed three contracts to pay fixed rates of interest on an aggregate notional principal amount of $225,000 at rates ranging from 5.04 to 5.11 percent while simultaneously receiving floating rate interest payments set at 5.35 percent as of May 31, 2007 on the same notional amount. The fixed rate side

of the swap will not change over the life of the swap. The floating rate payments are reset quarterly based on three month LIBOR. The resets are concurrent with the interest payments made on the underlying debt. These swaps are used to reduce the Company's risk of the possibility of increased interest costs; however, should interest rates drop significantly, we could also lose the benefit that floating rate debt can provide in a declining interest rate environment.

The swaps are considered highly effective. Unrealized gains and losses related to the swaps, net of related tax effects are reported as a component of "Accumulated other comprehensive income" and will not be reclassified into earnings until the conclusion of the hedge. A partial net settlement occurs quarterly concurrent with interest payments made on the underlying debt. The settlement is the net difference between the fixed rates payable and the floating rates receivable over the quarter under the swap contracts. The settlement is recognized as a component of "Interest expense" in the consolidated statements of income.

The following table summarizes the various foreign currency contracts and interest rate swap contracts we designated as cash flow hedges that were open at May 31, 2007 and February 28, 2007:

CASH FLOW HEDGES

May 31, 2007

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	Range of Maturities To	Spot Rate at Contract Date	Spot Rate at May 31, 2007	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at May 31, 2007	Market Value of the Contract in U.S. Dollars (Thousands)
Foreign Currency Contracts										
Sell	Pounds	£10,000,000	5/12/2006	12/14/2007	2/14/2008	1.8940	1.9796	1.9010	1.9709	($699)
Sell	Pounds	£5,000,000	11/28/2006	12/11/2008	1/15/2009	1.9385	1.9796	1.9242	1.9550	($154)
Sell	Pounds	£5,000,000	4/17/2007	2/17/2009	8/17/2009	2.0000	1.9796	1.9644	1.9517	$64
Subtotal										($789)
Interest Rate Swap Contracts										
Swap	Dollars	$100,000,000	9/28/2006		6/29/2009	(Pay fixed rate at 5.04%, receive floating rate at 5.35%)				$359
Swap	Dollars	$50,000,000	9/28/2006		6/29/2011	(Pay fixed rate at 5.04%, receive floating rate at 5.35%)				$330
Swap	Dollars	$75,000,000	9/28/2006		6/29/2014	(Pay fixed rate at 5.11%, receive floating rate at 5.35%)				$750
Subtotal										$1,439
Fair Value of Cash Flow Hedges										$650

February 28, 2007

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	Range of Maturities To	Spot Rate at Contract Date	Spot Rate at Feb. 28, 2007	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at Feb. 28, 2007	Market Value of the Contract in U.S. Dollars (Thousands)
Foreign Currency Contracts										

Sell	Pounds	£10,000,000	5/12/2006	12/14/2007	2/14/2008	1.8940	1.9636	1.9010	1.9543	($533)
Sell	Pounds	£5,000,000	11/28/2006	12/11/2008	1/15/2009	1.9385	1.9636	1.9242	1.9408	($83)
Subtotal										($616)
Interest Rate Swap Contracts										
Swap	Dollars	$100,000,000	9/28/2006	6/29/2009		(Pay fixed rate at 5.04%, receive floating rate at 5.36%)				($326)
Swap	Dollars	$50,000,000	9/28/2006	6/29/2011		(Pay fixed rate at 5.04%, receive floating rate at 5.36%)				($342)
Swap	Dollars	$75,000,000	9/28/2006	6/29/2014		(Pay fixed rate at 5.11%, receive floating rate at 5.36%)				($833)
Subtotal										($1,501)
Fair Value of Cash Flow Hedges										($2,117)

The Company is exposed to credit risk in the event of non-performance by the other party (a large financial institution) to its current existing forward and swap contracts. However, the Company does not anticipate non-performance by the other party.

Note 16 - *Repurchase of Helen of Troy Shares*

During the quarter ended August 31, 2003, our Board of Directors approved a resolution authorizing the purchase, in open market or through private transactions, of up to 3,000,000 common shares over an initial period extending through May 31, 2006. On April 25, 2006, our Board of Directors approved a resolution to extend the existing plan to May 31, 2009. During the fiscal quarters ended May 31, 2007 and 2006, respectively, we did not repurchase any common shares. From September 1, 2003 through May 31, 2007, we have repurchased 1,563,836 shares at a total cost of $45,612, or an average price per share of $29.17. An additional 1,436,164 shares remain authorized for purchase under this plan.

Note 17 - ***Share-Based Compensation Plans***

The Company has equity awards outstanding under four share-based compensation plans. The plans consist of two employee stock option and restricted stock plans, a non-employee director stock option plan, and an employee stock purchase plan. The plans are generally administered by the Compensation Committee of the Board of Directors, consisting of non-employee directors.

Under stock option and restricted stock plans adopted in 1994 and 1998, as amended (the "1994 Plan" and the "1998 Plan," respectively), we have reserved a total of 14,750,000 common shares for issuance to key officers and employees. Under these plans, we grant options to purchase our common shares at a price equal to or greater than the fair market value on the grant date. Both plans contain provisions for incentive stock options, non-qualified stock options and restricted share grants. Generally, options granted under the 1994 Plan and the 1998 Plan become exercisable immediately or over one-, four-, or five-year vesting periods and expire on dates ranging from seven to ten years from the date of grant. As of May 31, 2007, 238,786 shares remained available for issue under the 1998 plan and options for 6,685,808 common shares were outstanding under these plans. The 1998 Plan will terminate in August of 2008.

Under a stock option plan for non-employee directors (the "Directors’ Plan") adopted in fiscal 1996, we reserved a total of 980,000 of our common shares for issuance to non-employee members of the Board of Directors. We granted options under the Directors' Plan at a price equal to the fair market value of our common shares at the date of grant. Options granted under the Directors' Plan vest one year from the date of issuance and expire ten years after issuance. The Directors’ Plan expired by its terms on June 6, 2005. As of May 31, 2007, options for 260,000 common shares were outstanding under this plan.

Under an employee stock purchase plan (the "Stock Purchase Plan"), we have reserved a total of 500,000 common shares for issuance to our employees, nearly all of whom are eligible to participate. Under the terms of the Stock Purchase Plan, employees authorize the withholding of up to 15 percent of their wages or salaries to purchase our common shares. The purchase price for shares acquired under the Stock Purchase Plan is equal to the lower of 85 percent of the share’s fair market value on either the first day of each option period or the last day of each period. No shares were issued during the fiscal quarter ended May 31, 2007, and as of that date, 307,386 shares remained available for future issue under the plan. The Stock Purchase Plan will terminate in July of 2008.

The Company recorded stock-based compensation expense in selling, general and administrative expense for the three months ended May 31, 2007 and 2006, respectively, as follows:

SHARE BASED PAYMENT EXPENSE
(in thousands, except per share data)

	Three Months Ended May 31,			
		2007		2006
Stock options	**$**	**190**	$	187
Employee stock purchase plan		**-**		-
Share-based payment expense	**$**	**190**	$	187
Share-based payment expense, net of income tax benefits of $51 and $40 for the three months ended May 31, 2007 and 2006, respectively.	**$**	**139**	$	147
Earnings per share impact of share based payment expense:				
Basic	$	0.00	$	0.00
Diluted	$	0.00	$	0.00

The fair value of all share-based payment awards are estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values for the three month periods ended May 31, 2007 and 2006:

FAIR VALUE OF AWARDS AND ASSUMPTIONS USED

	Three Months Ended May 31,			
		2007		2006
Weighted average fair value of grants *(in dollars)*	**$**	**9.23**	$	8.22
Risk free interest rate		**4.65%**		4.32%
Dividend yield		**0.00%**		0.00%
Expected volatility		**37.21%**		40.21%
Weighted average expected life *(in years)*		**3.89**		4.32

The following describes how certain assumptions affecting the estimated fair value of options or discounted employee share purchases ("share based payments") are determined. The risk-free interest rate is based on U.S. Treasury securities with maturities equal to the expected life of the share based payments. The dividend yield is computed as zero because the Company has not historically paid dividends nor does it expect to at this time. Expected volatility is based on a weighted average of the market implied volatility and historical volatility over the expected life of the underlying share based payments. The Company uses its historical experience to estimate the expected life of each stock-option grant and also to estimate the impact of exercise, forfeitures, termination and holding period behavior for fair value expensing purposes.

Employee share purchases vest immediately at the time of purchase. Accordingly, the fair value award associated with their discounted purchase price is expensed at the time of purchase.

A summary of option activity as of May 31, 2007, and changes during the three months then ended is as follows:

SUMMARY OF STOCK OPTION ACTIVITY
(in thousands, except contractual term and per share data)

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at February 28, 2007	6,751	$ 15.01	$ 5.57	3.87	$ 56,211
Granted	245	26.14			
Exercised	(42)	(18.23)			336
Forfeited / expired	(8)	(16.10)			
Outstanding at May 31, 2007	6,946	$ 15.39	$ 5.70	3.78	$ 83,162
Exerciseable at May 31, 2007	6,378	$ 14.75	$ 5.47	3.41	$ 80,439

A summary of non-vested option activity as of May 31, 2007, and changes during the three month period then ended is as follows:

NON-VESTED STOCK OPTION ACTIVITY
(in thousands, except per share data)

	Non-Vested Options	Weighted Average Grant Date Fair Value
Outstanding at February 28, 2007	344	$ 7.41
Granted	245	9.23
Vested or forfeited	(21)	(5.04)
Outstanding at May 31, 2007	568	$ 8.28

A summary of the Company's total unrecognized share-based compensation cost as of May 31, 2007 is as follows:

UNRECOGNIZED SHARE BASED COMPENSATION EXPENSE
(in thousands, except weighted average expense period data)

	Unearned Compensation	Weighted Average Remaining Period of Expense Recognition (in months)
Stock options	$ 3,794	49.5

Note 18 - ***Prepayment of Debt, Reduction of Revolving Line of Credit Commitment and Associated Transactions***

On June 8, 2007, we gave notice to prepay $25,000 of our $100,000, 5 year floating rate Senior Notes without penalty. This prepayment was made on June 29, 2007. On June 8, concurrent with the notice to prepay, we amended a related interest rate swap agreement, reducing the notional amount of the swap contracts from $100,000 to $75,000, and recording a gain of $163 upon the liquidation of our position in $25,000 of swaps. The gain will be recorded as a component of "Interest expense" for the fiscal quarter ending August 31, 2007. The remaining interest rate swaps are considered highly effective and will continue to be accounted for as cash flow hedges.

Also, on June 7, 2007, based upon a review of our expected cash flows, we gave notice to permanently reduce our Revolving Line of Credit Agreement commitment by $25,000 to $50,000. The reduction of the commitment will result in a proportionate decline in the future cost of associated commitment fees under the facility.

In connection with the prepayment of debt and the reduction of our Revolving Line of Credit, we will write off $282 in associated unamortized deferred finance fees. This expense will be recorded as a component of "Interest expense" for the fiscal quarter ending August 31, 2007.

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

This discussion contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially due to a number of factors, including those discussed in Part I, Item 3. "Quantitative and Qualitative Disclosures about Market Risk", "Information Regarding Forward Looking Statements", Part II, Item 1A, “Risk Factors” and in the Company's most recent Annual Report on Form 10-K. This discussion should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2007.

OVERVIEW OF THE QUARTER'S ACTIVITIES:

Our first fiscal quarter of each year is our seasonal low point in terms of overall activity, with sales tending to average approximately 20 percent of the year's total on a historical basis. Our second fiscal quarter is normally characterized by stable sales between June and the first half of July with increasing sales in the second half of July through August as we build towards a peak shipping season in the third quarter.

We evaluate opportunities to grow our business and brand portfolio by acquiring well-recognized brands from larger consumer products companies, as well as other brands from smaller private companies. Historically, the brands we have purchased from larger consumer products companies have a track record of support and brand development. We believe that at the time we acquired them they were considered “non-core” by their previous owners and did not benefit from focused management or strong marketing support. When we acquire brands from smaller private companies, we usually do so because we believe they have been constrained by the limited resources of their prior owners. After acquiring a brand, we seek to increase its sales, market share and distribution in both existing and new channels. We pursue this growth through increased spending on advertising and promotion, new marketing strategies, improved packaging and formulations, and innovative new products.

Effective May 1, 2007, we acquired certain assets and liabilities of Belson Products (“Belson”), the professional salon division of Applica Consumer Products, Inc. for a cash purchase price of $36,500 plus the assumption of certain liabilities. This transaction was accounted for as a purchase of business and was paid for out of available cash on hand. Belson is a supplier of personal care products to the professional salon industry. Belson markets its professional products to major beauty suppliers and other major distributors under brand names, including Belson®, Belson Pro®, Gold ‘N Hot®, Curlmaster®, Premiere®, Profiles®, Comare®, Mega Hot®, and Shear Technology®. Products include electrical hair care appliances, spa products and accessories, professional brushes and combs, and professional styling shears. Belson products are principally distributed throughout the United States, as well as Canada and the United Kingdom. We are currently integrating the Belson operation into our business structure and systems and expect to have the integration substantially completed by the end of the current fiscal year. We believe that Belson’s portfolio of professional salon products, in addition to our existing Helen of Troy professional products, will continue to strengthen our leadership position in the professional distribution channels.

After a year of focus on our domestic distribution infrastructure, we believe we are now starting to see the benefits of our investment. Our overall distribution cost as a percentage of net sales was 5.2% for the fiscal quarter ended May 31, 2007 compared to 6.2% for the fiscal quarter ended May 31, 2006. Domestic distribution will continue to remain an area of focus in fiscal 2008 as we determine the best long-term strategy for managing the additional inventory we acquired through the Belson acquisition.

In the first fiscal quarter of 2008, we began efforts to streamline our supply chain and simplify new product development procedures, particularly in our Far East operations. In the Personal Care segment, we are evaluating the sourcing of certain fragrance and grooming products in China. In the Housewares segment, we are gradually transitioning some of our U.S. based sourcing infrastructure to our existing supply chain operations in the Far East.

Over the long term, we believe these efforts are opportunities to improve our cost structure while maintaining our commitment to offer high quality, affordability, and effective customer service with the products we ship. However, we do not expect to realize any material cost savings through these efforts during fiscal 2008.

Highlights of the three months ended May 31, 2007 follow:

- Consolidated net sales for the fiscal quarter ended May 31, 2007 increased 7.5 percent to $140,170 compared to $130,441 for the same period last year. Our Housewares segment contributed $8,241 or 6.3 percentage points to net sales growth, while our Personal Care segment contributed $1,488 or 1.2 percentage points of net sales growth. Our Housewares segment's first fiscal quarter performance compares to a weak first fiscal quarter in the prior fiscal year when distribution center shipping issues resulted in an estimated loss of between $4.5 to $5 million in net sales for the prior year fiscal quarter. A portion of these sales were subsequently shipped in the second fiscal quarter of the prior year.

- Consolidated gross profit margin as a percentage of net sales for the fiscal quarter ended May 31, 2007 decreased 1.6 percentage points to 42.8 percent compared to 44.4 percent for the same period last year. Gross margins in our core personal care appliance category were relatively flat when compared to the same period last year. Gross margins in grooming, skin care, and hair products, and brushes, combs, and accessories categories were lower when compared to the same period last year due to the impact of higher raw materials costs combined with pricing pressures, including increased customer incentives. Gross margins for the Housewares segment were lower due primarily to product mix shifts and higher cost of goods.

- Selling, general and administrative expense as a percentage of net sales for the fiscal quarter ended May 31, 2007 decreased 3.5 percentage points to 32.6 percent compared to 36.1 percent for the same period last year. The improvement for the three months ended May 31, 2007 compared to the same period last year is mostly due to an improved distribution cost structure, outbound freight cost improvements, and lower information technology outsourcing costs.

- Our financial position continues to strengthen when compared to our financial position at May 31, 2006. Total assets increased 4.0 percent, or $34,456 to $902,950 at May 31, 2007 when compared with May 31, 2006. Our working capital position improved $28,179 to $226,310 at May 31, 2007 compared with May 31, 2006. Total current and long-term debt outstanding at May 31, 2007 was $250,000 compared to $272,634 outstanding at May 31, 2006. Total stockholders' equity was $528,387 at May 31, 2007 compared to $481,515 at May 31, 2006.

RESULTS OF OPERATIONS

Comparison of fiscal quarter ended May 31, 2007 to the same period ended May 31, 2006.

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

SELECTED OPERATING DATA

(dollars in thousands)

	Quarter Ended May 31,				**% of Net Sales**	
	2007	2006	**$ Change**	**% Change**	**2007**	2006
Net sales						
Personal Care Segment	**$ 106,812**	$ 105,324	$ 1,488	1.4%	76.2%	80.7%
Housewares Segment	**33,358**	25,117	8,241	32.8%	23.8%	19.3%
Total net sales	**140,170**	130,441	9,729	7.5%	100.0%	100.0%
Cost of sales	**80,152**	72,500	7,652	10.6%	57.2%	55.6%
Gross profit	**60,018**	57,941	2,077	3.6%	42.8%	44.4%
Selling, general, and administrative expense	**45,717**	47,025	(1,308)	-2.8%	32.6%	36.1%
Operating income	**14,301**	10,916	3,385	31.0%	10.2%	8.4%
Other income (expense):						
Interest expense	**(4,113)**	(4,506)	393	-8.7%	-2.9%	-3.5%
Other income, net	**1,254**	790	464	58.7%	0.9%	0.6%
Total other income (expense)	**(2,859)**	(3,716)	857	-23.1%	-2.0%	-2.8%
Earnings before income taxes	**11,442**	7,200	4,242	58.9%	8.2%	5.5%
Income tax expense	**1,325**	521	804	154.3%	0.9%	0.4%
Net earnings	**$ 10,117**	$ 6,679	$ 3,438	51.5%	7.2%	5.1%

Consolidated Sales

Consolidated net sales for the first fiscal quarter ending May 31, 2007 increased 7.5 percent to $140,170 compared with $130,441 for the same period last year. Core business growth (business owned and operated over the same fiscal period last year) contributed $6,276, or 4.8 percent, to consolidated net sales growth while new product acquisitions contributed $3,453, or 2.7 percent, to our consolidated net sales growth for the fiscal quarter ending May 31, 2007. New product acquisitions consisted of one month's net sales of Belson line of professional appliances, acquired as of May 1, 2007, and a small amount of royalty revenue from our Candela® line of portable cordless lighting products. The following table sets forth the impact acquisitions had on our net sales: