

HELEN OF TROY LTD
Form 10-Q
October 09, 2008
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended August 31, 2008

or

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

For the transition period from to ..

Commission file number: 001-14669

HELEN OF TROY LIMITED

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of
incorporation or organization)

74-2692550

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

Clarendon House

Church Street

Hamilton, Bermuda

(Address of principal executive offices)

1 Helen of Troy Plaza

El Paso, Texas

(Registrant's United States Mailing Address)

79912

(Zip Code)

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(915) 225-8000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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 | Outstanding at October 3, 2008 |
|---|--------------------------------|
| Common Shares, \$0.10 par value per share | 30,232,241 shares |

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HELEN OF TROY LIMITED AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HELEN OF TROY LIMITED AND SUBSIDIARIES****Consolidated Condensed Balance Sheets***(in thousands, except shares and par value)*

| | August 31, | | February 29, | |
|--|--------------------|---------|---------------------|---------|
| | 2008 | | 2008 | |
| | (unaudited) | | | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ | 58,249 | \$ | 57,851 |
| Temporary investments | | - | | 63,825 |
| Trading securities, at market value | | 29 | | 36 |
| Receivables - principally trade, less allowance of \$1,027 and \$1,331 | | 116,059 | | 105,615 |
| Inventories | | 166,393 | | 144,867 |
| Prepaid expenses | | 5,532 | | 6,290 |
| Income taxes receivable | | 6,414 | | 861 |
| Deferred income tax benefits | | 10,979 | | 16,419 |
| Total current assets | | 363,655 | | 395,764 |
| Property and equipment, net of accumulated depreciation of \$48,500 and \$44,524 | | 87,765 | | 91,611 |
| Goodwill | | 212,621 | | 212,922 |
| Trademarks, net of accumulated amortization of \$237 and \$235 | | 154,656 | | 161,922 |
| License agreements, net of accumulated amortization of \$17,892 and \$17,343 | | 23,927 | | 24,972 |
| Other intangible assets, net of accumulated amortization of \$7,425 and \$6,432 | | 14,749 | | 15,544 |
| Long-term investments | | 45,025 | | - |
| Other assets, net of accumulated amortization of \$3,152 and \$2,865 | | 9,514 | | 9,258 |
| Total assets | \$ | 911,912 | \$ | 911,993 |

Liabilities and Stockholders' Equity

Current liabilities:

| | | | | |
|--|----|---------|----|---------|
| Current portion of long-term debt | \$ | 78,000 | \$ | 3,000 |
| Accounts payable, principally trade | | 38,891 | | 42,763 |
| Accrued expenses and other current liabilities | | 64,353 | | 73,697 |
| Total current liabilities | | 181,244 | | 119,460 |

| | | | | |
|--|--|---------|--|---------|
| Long-term compensation and other liabilities | | 2,520 | | 2,566 |
| Long-term income taxes payable | | 8,300 | | 9,181 |
| Deferred income tax liability | | 6 | | 410 |
| Long-term debt, less current portion | | 134,000 | | 212,000 |

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| | | |
|--|-------------------|-------------------|
| Total liabilities | 326,070 | 343,617 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Cumulative preferred shares, non-voting, \$1.00 par. Authorized 2,000,000 shares; none issued | - | - |
| Common shares, \$0.10 par. Authorized 50,000,000 shares; 30,218,359 and 30,374,703 shares issued and outstanding | 3,022 | 3,038 |
| Additional paid-in-capital | 101,732 | 100,328 |
| Retained earnings | 486,557 | 473,361 |
| Accumulated other comprehensive loss | (5,469) | (8,351) |
| Total stockholders' equity | 585,842 | 568,376 |
| Total liabilities and stockholders' equity | \$ 911,912 | \$ 911,993 |

See accompanying notes to consolidated condensed financial statements.

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

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|---|--------------------------------------|-------------|------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net sales | \$ 153,543 | \$ 157,924 | \$ 298,546 | \$ 298,094 |
| Cost of sales | 88,399 | 89,698 | 170,381 | 169,850 |
| Gross profit | 65,144 | 68,226 | 128,165 | 128,244 |
| Selling, general, and administrative expense | 50,290 | 52,728 | 95,885 | 98,445 |
| Operating income before impairment | 14,854 | 15,498 | 32,280 | 29,799 |
| Impairment charges | - | - | 7,760 | - |
| Operating income | 14,854 | 15,498 | 24,520 | 29,799 |
| Other income (expense): | | | | |
| Interest expense | (3,484) | (3,820) | (6,937) | (7,933) |
| Other income, net | 754 | 221 | 1,669 | 1,475 |
| Total other income (expense) | (2,730) | (3,599) | (5,268) | (6,458) |
| Earnings before income taxes | 12,124 | 11,899 | 19,252 | 23,341 |
| Income tax expense / (benefit): | | | | |
| Current | (1,184) | (5,572) | (605) | (4,980) |
| Deferred | 2,710 | (782) | 3,701 | (49) |
| Net earnings | \$ 10,598 | \$ 18,253 | \$ 16,156 | \$ 28,370 |
| Earnings per share: | | | | |
| Basic | \$ 0.35 | \$ 0.60 | \$ 0.53 | \$ 0.93 |
| Diluted | \$ 0.34 | \$ 0.56 | \$ 0.52 | \$ 0.88 |
| Weighted average common shares used in computing net earnings per share | | | | |
| Basic | 30,206 | 30,521 | 30,212 | 30,408 |
| Diluted | 31,241 | 32,445 | 31,129 | 32,240 |

See accompanying notes to consolidated condensed financial statements.

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

| | Six Months Ended August 31, | |
|--|------------------------------------|-------------|
| | 2008 | 2007 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 16,156 | \$ 28,370 |
| Adjustments to reconcile net earnings to net cash (used) / provided by operating activities: | | |
| Depreciation and amortization | 7,070 | 7,151 |
| Provision for doubtful receivables | (304) | (61) |
| Share-based compensation | 660 | 546 |
| Write off of deferred finance costs due to early extinguishment of debt | - | 282 |
| Unrealized loss on securities | 7 | 171 |
| Deferred taxes, net | 3,662 | (300) |
| Gain on the sale of property and equipment | (124) | (11) |
| Impairment charges | 7,760 | - |
| Changes in operating assets and liabilities, net of effects of acquisition of business: | | |
| Accounts receivable | (9,981) | 1,041 |
| Inventories | (21,384) | (16,061) |
| Prepaid expenses | 758 | (2,552) |
| Other assets | (599) | (408) |
| Accounts payable | (3,872) | 6,196 |
| Accrued expenses | (3,427) | 4,738 |
| Income taxes payable | (5,533) | (9,791) |
| Net cash (used) provided by operating activities | (9,151) | 19,311 |
| Cash flows from investing activities: | | |
| Capital, license, trademark, and other intangible expenditures | (4,007) | (2,666) |
| Business acquisition | - | (36,500) |
| Purchase of investments | - | (87,350) |
| Sale of investments | 16,400 | 131,100 |
| Proceeds from the sale of property and equipment | 2,593 | 94 |
| Net cash provided by investing activities | 14,986 | 4,678 |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (3,000) | (25,000) |
| Proceeds from exercise of stock options, net | 198 | 4,209 |
| Proceeds from employee stock purchase plan | 212 | 210 |
| Common share repurchases | (2,886) | (4,505) |
| Share-based compensation tax benefit | 39 | 153 |
| Net cash used by financing activities | (5,437) | (24,933) |
| Net increase (decrease) in cash and cash equivalents | 398 | (944) |
| Cash and cash equivalents, beginning of period | 57,851 | 35,455 |
| Cash and cash equivalents, end of period | \$ 58,249 | \$ 34,511 |
| Supplemental cash flow disclosures: | | |
| Interest paid | \$ 6,553 | \$ 7,610 |
| Income taxes paid (net of refunds) | \$ 4,891 | \$ 2,847 |
| Common shares received as exercise price of options | \$ - | \$ 15,938 |

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements Of Comprehensive Income (unaudited)

(in thousands)

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|--|--------------------------------------|-------------|------------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings, as reported | \$ 10,598 | \$ 18,253 | \$ 16,156 | \$ 28,370 |
| Other comprehensive income (loss), net of tax: | | | | |
| Cash flow hedges - Interest rate swaps | (397) | (1,799) | 3,241 | 142 |
| Cash flow hedges - Foreign currency | 1,170 | (518) | 1,226 | (615) |
| Unrealized losses - Auction rate securities | (589) | - | (1,585) | - |
| Comprehensive income | \$ 10,782 | \$ 15,936 | \$ 19,038 | \$ 27,897 |

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

August 31, 2008

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 August 31, 2008 and February 29, 2008, and the results of our consolidated operations for the three- and six-month periods ended August 31, 2008 and 2007. 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).

In this report and these accompanying consolidated condensed financial statements and notes, unless the context suggests otherwise or otherwise indicated, references to the Company, our Company, Helen of Troy, we, us or our refer to Helen of Troy Limited and its subsidiaries.

Note 2 *New Accounting Pronouncements*

New Accounting Standards Currently Adopted

Liability Recognition on Endorsement Split-Dollar Life Insurance Arrangements - In June 2006, the Emerging Issues Task Force of the FASB (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 (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). SFAS 106 would require us to recognize a liability for the discounted value of the future premium benefits that we will incur through the death of the underlying insureds. An endorsement-type arrangement generally exists when the Company owns and controls all incidents of ownership of the underlying policies. EITF 06-4 became effective for fiscal years beginning after December 15, 2007. We adopted the provisions of EITF 06-4 at the beginning of fiscal 2009. The Company reviewed an endorsement-type policy agreement it currently maintains and believes that all subject policies fall outside the scope of EITF 06-4 because the agreement will not survive the retirement of the affected employee. Accordingly, the adoption of EITF 06-4 had no impact on our consolidated condensed 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 became effective for fiscal years beginning after December 15, 2007. We adopted the provisions of EITF 06-10 at the beginning of fiscal 2009. We have certain policies that fall within the scope of

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the new pronouncement, however, the effects of recording the resulting \$0.66 million liability as a cumulative effect adjustment to retained earnings at adoption was not material to our consolidated condensed financial statements.

Fair Value Measurements - In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 - Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. At the beginning of fiscal 2009, we adopted the provisions of SFAS 157 related to financial assets and liabilities. These provisions, which have been applied prospectively, did not have a material impact on the Company's consolidated financial statements. Certain other provisions of SFAS 157 related to other nonfinancial assets and liabilities will be effective for the Company at the beginning of fiscal 2010, and will be applied prospectively. We are currently determining the effect the provisions of SFAS 157 related to nonfinancial assets and liabilities will have, if any, on our consolidated condensed financial statements. See Note 15 for current required disclosures related to SFAS 157.

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. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We adopted the provisions of SFAS 159 at the beginning of fiscal 2009 and did not elect the fair value option established by the standard. As such, the adoption had no impact on our consolidated condensed financial statements.

New Accounting Standards Subject to Future Adoption

Accounting for Business Combinations - In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)), which establishes the principles and requirements for how an acquirer: (1) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (2) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (3) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and will have no impact on our transactions recorded to date.

Disclosures about Derivative Instruments and Hedging Activities - In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161), Disclosures About Derivative Instruments and Hedging Activities, which amends SFAS 133 and expands disclosures to include information about the fair value of derivatives, related credit risks and a company's strategies and objectives for using derivatives. SFAS 161 is effective for fiscal periods beginning on or after November 15, 2008. Early adoption is encouraged. We are currently determining the effect, if any, this pronouncement will have on our consolidated condensed financial statements.

Hierarchy of Generally Accepted Accounting Principles - In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162 (SFAS 162), The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are

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presented in conformity with GAAP (the GAAP hierarchy). SFAS 162 will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of

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Present Fairly in Conformity With Generally Accepted Accounting Principles. The adoption of SFAS 162 is not expected to have a material effect on our consolidated condensed financial statements.

Note 3 *Litigation*

Securities Class Action Litigation An agreement has been reached to settle the consolidated class action lawsuits filed on behalf of purchasers of publicly traded securities of the Company 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. In the consolidated action, the plaintiffs alleged 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. 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.

On June 19, 2008, the Court held a hearing at which it approved the terms of the settlement, the certification of the class for purposes of the settlement, and the award of attorney's fees and costs related to the lawsuit. The order approving the settlement became final on July 19, 2008. Under the settlement, the lawsuit has been dismissed with prejudice in exchange for a cash payment of \$4.5 million. The Company's insurance carrier paid the settlement amount and the Company's remaining legal and related fees associated with defending the lawsuit because the Company had met its self-insured retention obligation. The Company and the two officers of the Company named in the lawsuit have denied any and all allegations of wrongdoing and have received a full release of all claims.

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 outstanding during the period plus the effect of dilutive securities. The number of common shares underlying dilutive securities was 1,034,945 and 917,474 for the three- and six-month periods ended August 31, 2008, respectively, and 1,923,200 and 1,831,755 for the three- and six-month periods ended August 31, 2007, respectively. All dilutive securities during these periods consisted of stock options which were 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 were exercisable for a total of 1,223,593 common shares and 444,396 common shares at August 31, 2008 and 2007, respectively.

Note 5 *Segment Information*

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In the tables that follow, we present two segments: Personal Care and Housewares. Our Personal Care segment's products include hair dryers, straighteners, curling irons, hairsetters, 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, food storage containers, 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.

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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 annual report on Form 10-K for the fiscal year ended February 29, 2008.

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

THREE MONTHS ENDED AUGUST 31, 2008 AND 2007

(in thousands)

| August 31, 2008 | Personal Care | Housewares | Total |
|---|--------------------------|-------------------|--------------|
| Net sales | \$ 106,409 | \$ 47,134 | \$ 153,543 |
| Operating income | 7,406 | 7,448 | 14,854 |
| Capital, license, trademark and other intangible expenditures | 770 | 765 | 1,535 |
| Depreciation and amortization | 2,333 | 1,292 | 3,625 |

| August 31, 2007 | Personal Care | Housewares | Total |
|---|--------------------------|-------------------|--------------|
| Net sales | \$ 118,502 | \$ 39,422 | \$ 157,924 |
| Operating income | 6,931 | 8,567 | 15,498 |
| Capital, license, trademark and other intangible expenditures | 596 | 959 | 1,555 |
| Depreciation and amortization | 2,391 | 1,236 | 3,627 |

SIX MONTHS ENDED AUGUST 31, 2008 AND 2007

(in thousands)

| August 31, 2008 | Personal Care | Housewares | Total |
|---|--------------------------|-------------------|--------------|
| Net sales | \$ 212,940 | \$ 85,606 | \$ 298,546 |
| Operating income | 14,603 | 9,917 | 24,520 |
| Capital, license, trademark and other intangible expenditures | 1,386 | 2,621 | 4,007 |
| Depreciation and amortization | 4,572 | 2,498 | 7,070 |

| August 31, 2007 | Personal Care | Housewares | Total |
|---|--------------------------|-------------------|--------------|
| Net sales | \$ 225,314 | \$ 72,780 | \$ 298,094 |
| Operating income | 15,803 | 13,996 | 29,799 |
| Capital, license, trademark and other intangible expenditures | 910 | 1,756 | 2,666 |
| Depreciation and amortization | 4,759 | 2,392 | 7,151 |

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. The

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

IDENTIFIABLE NET ASSETS AT AUGUST 31, 2008 AND FEBRUARY 29, 2008

(in thousands)

| | Personal Care | Housewares | Total |
|-------------------|------------------|------------|------------|
| August 31, 2008 | \$ 559,174 | \$ 352,738 | \$ 911,912 |
| February 29, 2008 | 552,329 | 359,664 | 911,993 |

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On May 2, 2008, Linens Holding Co., the operator of Linens n Things retail chain (Linens), filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Our accounts receivable balance with Linens at the date of bankruptcy was \$4.17 million. For the fiscal quarter ended May 31, 2008, a bad debt provision charge of \$3.88 million was made to SG&A and we established a specific allowance of the same amount to account for the portion of the receivable we estimated to be uncollectible. The Linens accounts receivable are unsecured and there is uncertainty as to the amount of the balance that the Company may ultimately recover, if any. These circumstances, when evaluated with additional information surrounding the bankruptcy that became available, led us to believe that these adjustments were appropriate. For the fiscal quarter ended August 31, 2008, we charged the remaining \$0.29 million unreserved balance of Linens' pre-petition accounts receivables to our bad debt provision and wrote off the resulting 100 percent reserved balance as uncollectable. Linens is a significant customer of the Company with fiscal 2008 net sales of approximately \$1.30 million and \$17.30 million, for our Personal Care and Housewares segments, respectively. Linens' contribution to the Company's net sales for the six months ended August 31, 2008 totaled \$0.44 million and \$5.74 million for the Personal Care and Housewares segments, respectively, compared to net sales of \$0.84 million and \$8.80 million, respectively, for the same period last year.

Note 7 Property and Equipment

A summary of property and equipment is as follows:

PROPERTY AND EQUIPMENT

(in thousands)

| | Estimated Useful Lives (Years) | August 31, 2008 | February 29, 2008 |
|-------------------------------|--------------------------------------|--------------------|----------------------|
| Land | - | \$ 9,073 | \$ 9,073 |
| Building and improvements | 10 - 40 | 65,243 | 62,832 |
| Computer and other equipment | 3 - 10 | 43,179 | 42,461 |
| Molds and tooling | 1 - 3 | 8,889 | 8,299 |
| Transportation equipment | 3 - 5 | 337 | 3,991 |
| Furniture and fixtures | 5 - 15 | 8,379 | 8,168 |
| Construction in process | - | 1,165 | 1,311 |
| | | 136,265 | 136,135 |
| Less accumulated depreciation | | (48,500) | (44,524) |
| Property and equipment, net | | \$ 87,765 | \$ 91,611 |

In addition to certain minor asset dispositions during the quarter ended May 31, 2008, we sold a fractional share of a corporate jet for \$0.97 million and recognized a pretax gain of \$0.10 million. During the quarter ended August 31, 2008, we sold the last remaining fractional share of a corporate jet for \$1.60 million and recognized a pretax gain of \$0.01 million.

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Depreciation expense was \$2.71 million and \$5.24 million for the three- and six-month periods ended August 31, 2008, respectively, and \$2.59 million and \$5.16 million for the three- and six-month periods ended August 31, 2007, respectively.

Note 8 *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 written down to its fair value.

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The Company has historically completed its analysis of the carrying value of our goodwill and other intangible assets and our analysis of the remaining useful economic lives of our intangible assets other than goodwill during the first quarter of each fiscal year. As a result of this fiscal year's analysis, we recorded pretax impairment charges of \$7.76 million on certain intangible assets associated with our Personal Care segment. The charges were recorded in the Company's consolidated condensed income statement for the fiscal quarter ended May 31, 2008 as a component of operating income. The impairment charges reflect the amounts by which the carrying values of the associated assets exceeded their estimated fair values, determined by their estimated future discounted cash flows.

We cannot predict the occurrence of certain events that might adversely affect the reported value of goodwill or other intangible assets. Such events may include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on the Company's customer base, or a material negative change in the Company's relationships with significant customers.

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

INTANGIBLE ASSETS

(in thousands)

| Type / Description | Segment | Estimated Life | Gross Carrying Amount at February 29, 2008 | Six Months Ended August 31, 2008 | | | Accumulated Amortization | Net Book Value at August 31, 2008 |
|--|---------------|----------------|--|----------------------------------|-------------|-------------------------|--------------------------|-----------------------------------|
| | | | | Additions | Impairments | Acquisition Adjustments | | |
| Goodwill: | | | | | | | | |
| OXO | Housewares | Indefinite | \$ 166,131 | \$ - | \$ - | \$ - | \$ - | \$ 166,131 |
| All other goodwill | Personal Care | Indefinite | 46,791 | - | - | (301) | - | 46,490 |
| | | | 212,922 | - | - | (301) | - | 212,621 |
| Trademarks: | | | | | | | | |
| OXO | Housewares | Indefinite | 75,554 | - | - | - | - | 75,554 |
| Brut | Personal Care | Indefinite | 51,317 | - | - | - | - | 51,317 |
| All other - definite lives | Personal Care | [1] | 338 | - | - | - | (237) | 101 |
| All other - indefinite lives | Personal Care | Indefinite | 34,948 | - | (7,264) | - | - | 27,684 |
| | | | 162,157 | - | (7,264) | - | (237) | 154,656 |
| Licenses: | | | | | | | | |
| Seabreeze | Personal Care | Indefinite | 18,000 | - | (377) | - | - | 17,623 |
| All other licenses | Personal Care | 8 - 25 Years | 24,315 | - | (119) | - | (17,892) | 6,304 |
| | | | 42,315 | - | (496) | - | (17,892) | 23,927 |
| Other: | | | | | | | | |
| Patents, customer lists and non-compete agreements | Housewares | 2 - 14 Years | 19,741 | 198 | - | - | (6,835) | 13,104 |
| | Personal Care | 3 - 8 Years | 2,235 | - | - | - | (590) | 1,645 |
| | | | 21,976 | 198 | - | - | (7,425) | 14,749 |
| Total | | | \$ 439,370 | \$ 198 | \$ (7,760) | \$ (301) | \$ (25,554) | \$ 405,953 |

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

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The following table summarizes the amortization expense attributable to intangible assets for the three- and six-month periods ended August 31, 2008 and 2007, as well as our latest estimate of amortization expense for the fiscal years ending the last day of each February from 2009 through 2014.

AMORTIZATION OF INTANGIBLES

(in thousands)

**Aggregate amortization expense
For the three months ended**

| | | |
|-----------------|----|-----|
| August 31, 2008 | \$ | 773 |
| August 31, 2007 | \$ | 850 |

**Aggregate amortization expense
For the six months ended**

| | | |
|-----------------|----|-------|
| August 31, 2008 | \$ | 1,544 |
| August 31, 2007 | \$ | 1,626 |

**Estimated amortization expense
For the fiscal years ended**

| | | |
|---------------|----|-------|
| February 2009 | \$ | 3,091 |
| February 2010 | \$ | 3,046 |
| February 2011 | \$ | 2,370 |
| February 2012 | \$ | 2,256 |
| February 2013 | \$ | 2,223 |
| February 2014 | \$ | 2,056 |

NOTE 9 - Acquisitions And New Trademark License Agreements

Belson Products Acquisition - Effective May 1, 2007, we acquired certain assets of Belson Products (Belson), formerly the professional salon division of Applica Consumer Products, Inc., for a cash purchase price of \$36.50 million plus the assumption of certain liabilities. This transaction was accounted for as a purchase of a business and was paid for using 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 U.S., as well as Canada and the United Kingdom.

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. We have completed our analysis of the economic lives of all the assets acquired and determined the appropriate allocation of the initial purchase price based on an independent appraisal. The following schedule presents the 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 |
| Goodwill | | 11,296 |
| Trademarks and other intangible assets | | 11,085 |
| Total assets acquired | | 38,395 |
| Less: Current liabilities assumed | | (1,895) |
| Net assets acquired | \$ | 36,500 |

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Subsequent to the acquisition, we made certain post-closing adjustments which cumulatively increased goodwill by \$0.13 million.

Note 10 *Short Term Debt*

We entered into a five year revolving Credit Agreement (*Revolving Line of Credit Agreement*), dated as of June 1, 2004, between Helen of Troy L.P., as borrower, and 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 million. We incur loan commitment fees at a current rate of 0.25 percent per annum on the unused balance of the Revolving Line of Credit Agreement and letter of credit fees at a current rate of 1.0 percent per annum on the face value of the letter of credit. During the second quarter of fiscal 2008, we permanently reduced the commitment under our Revolving Line of Credit Agreement from \$75 million to \$50 million, which has resulted in a proportionate decline in the cost of associated commitment fees under the facility. Outstanding letters of credit reduce the borrowing limit dollar for dollar. During the first six months of fiscal 2009 and all of fiscal 2008, we did not draw on the Revolving Line of Credit facility. As of August 31, 2008, there were no revolving loans and \$1.10 million of open letters of credit outstanding under this facility. The commitment under the Revolving Line of Credit Agreement terminates on June 1, 2009.

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. As of August 31, 2008, these covenants effectively limited our ability to incur no more than \$134.97 million of additional debt from all sources, including draws on our Revolving Line of Credit Agreement. The agreement is guaranteed, on a joint and several basis, by the parent company, Helen of Troy Limited, and certain subsidiaries. Additionally, our debt agreements restrict us from incurring liens on any of our properties, except under certain conditions. As of August 31, 2008, we were in compliance with the terms of our agreements.

Table of Contents**Note 11** *Accrued Expenses and Current Liabilities*

A summary of accrued expenses and other current liabilities is as follows:

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)

| | August 31, 2008 | February 29, 2008 |
|--|----------------------------|----------------------|
| Accrued sales returns, discounts and allowances | \$ 24,477 | \$ 24,969 |
| Accrued compensation | 6,253 | 11,675 |
| Accrued advertising | 8,970 | 6,917 |
| Accrued interest | 2,189 | 2,092 |
| Accrued royalties | 2,493 | 3,029 |
| Accrued professional fees | 1,023 | 1,273 |
| Accrued benefits and payroll taxes | 1,350 | 1,431 |
| Accrued freight | 2,077 | 1,446 |
| Accrued property, sales and other taxes | 1,660 | 1,196 |
| Foreign currency contracts | (1,470) | (83) |
| Interest rate swaps | 7,539 | 12,449 |
| Other | 7,792 | 7,303 |
| Total accrued expenses and other current liabilities | \$ 64,353 | \$ 73,697 |

Note 12 *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 \$8.30 million and \$7.64 million as of August 31, 2008 and February 29, 2008, respectively. We estimate our warranty accrual using historical trends, which we believe is the most reliable method by which we can estimate our warranty liability. This liability is included in the line entitled "Accrued sales returns, discounts and allowances" in Note 11.

The following table summarizes the activity in the Company's accrual for the three- and six-month periods ended August 31, 2008 and fiscal year ended February 29, 2008:

ACCRUAL FOR WARRANTY RETURNS

(in thousands)

| | August 31, 2008 | February 29, |
|--|------------------------|--------------|
| | (Three Months) | 2008 |
| | (Six Months) | (Year) |

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| | | | | | | |
|---|----|----------------|----|----------------|----|----------|
| Balance at the beginning of the period | \$ | 7,447 | \$ | 7,635 | \$ | 6,450 |
| Additions to the accrual | | 5,306 | | 9,700 | | 22,722 |
| Reductions of the accrual - payments and credits issued | | (4,457) | | (9,039) | | (21,537) |
| Balance at the end of the period | \$ | 8,296 | \$ | 8,296 | \$ | 7,635 |

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Note 13 *Income Taxes*

Hong Kong Income Taxes On August 24, 2007, the Inland Revenue Department of Hong Kong (the "IRD") and the Company reached a settlement regarding tax liabilities assessed for fiscal years 1998 through 2003. Concurrent with these settlement negotiations, we reached an agreement regarding fiscal years 2004 and 2005, for which we had not previously been assessed a tax liability. The amounts due related to the tax settlement for years 1998 through 2003, and the agreement for years 2004 and 2005, were settled with previously acquired tax reserve certificates. We received a cash refund, including interest, of \$4.54 million. During the second quarter of fiscal 2008, in connection with the settlement, we:

- reversed \$5.41 million representing a portion of the tax provision previously established for those years and recorded \$0.20 million of interest income related to tax reserve certificates in excess of the settlement amount; and
- reversed \$1.94 million of a tax provision and \$0.40 million of estimated penalties established for this jurisdiction for future years ending after fiscal 2005, on the basis of the settlement for previous years.

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. The Company established a Macao offshore company ("MOC") and began similar activities in Macao and China in the third quarter of fiscal 2005. As a MOC, we have been granted an indefinite tax holiday and pay no taxes.

United States Income Taxes - The IRS recently completed its audit of our U.S. consolidated federal tax returns for fiscal years 2003 and 2004. We previously disclosed that the IRS provided notice of proposed adjustments of \$5.95 million to taxes for the years under audit. In April 2008, we resolved all outstanding tax issues resulting in no adjustments to either year. As a result of the settlement, in the fourth quarter of fiscal 2008 we reversed \$3.68 million of tax provisions, including interest and penalties, previously established for those years. Of the \$3.68 million, \$1.36 million was credited to the fiscal year 2008 tax provision and \$2.32 million was credited to additional paid-in-capital. The amount credited to additional paid-in-capital was for the tax effects of prior year stock compensation expense that was deemed to be deductible under the audit, and when originally accrued, was charged against additional paid-in-capital.

The IRS is currently examining our U.S. consolidated federal tax return for fiscal year 2005. On March 31, 2008, the IRS provided notice of a proposed adjustment of \$7.75 million to taxes for the year under audit. The Company is vigorously contesting this adjustment. To date, this is the only adjustment that has been proposed, however, the audit has not yet been concluded. Although the ultimate outcome of the dispute with the IRS cannot be predicted with certainty, management believes that an adequate provision for taxes has been made in our consolidated condensed financial statements.

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.

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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 U.S. 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 U.S. after March 4, 2003. We completed our reincorporation in 1994; therefore, our transaction is

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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 complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. 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 is 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 FASB Interpretation No. 48 (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 separate liability and not combined with deferred tax liabilities or assets.

As of August 31, 2008, tax years under examination or still subject to examination by major tax jurisdictions, for our most significant subsidiaries were as follows:

| Jurisdiction | Examinations in Process | | Open Years | |
|---------------------|--------------------------------|-------------|-------------------|-------------|
| Hong Kong | - None - | 2006 | - | 2008 |
| Mexico | - None - | 2003 | - | 2007 |
| United Kingdom | - None - | 2006 | - | 2008 |
| United States | 2005 | 2006 | - | 2008 |

The following table summarizes the net change to unrecognized tax benefits during the first six months of fiscal 2009:

UNRECOGNIZED TAX BENEFITS

(in thousands)

| | | |
|--|-----------|--------------|
| February 29, 2008 | \$ | 9,181 |
| Changes in tax positions taken during a prior year | | (838) |
| May 31, 2008 | \$ | 8,343 |
| Changes in tax positions taken during a prior year | | (43) |

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August 31, 2008

\$

8,300

When there is uncertainty in a tax position taken or expected to be taken in a tax return, FIN 48 requires a liability to be recorded for the amount of the position that could be challenged and overturned through any combination of audit, appeals or litigation process. This amount is determined through criteria and a methodology prescribed by FIN 48 and is referred to as an Unrecognized Tax Benefit.

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We believe that it is reasonably possible that the total amount of unrecognized tax benefits may materially change during the next twelve months due to certain issues pending settlement with the IRS. Depending on the outcome of the settlement negotiations, the Company estimates that the impact on the Company's ultimate tax liability could range from a \$4.90 million decrease to a \$7.38 million increase.

The Company's income tax expense and resulting effective tax rate are based upon the respective estimated annual effective tax rates applicable for the respective years adjusted for the effect of items required to be treated as discrete interim period items. The effective tax rates for the three- and six-month periods ended August 31, 2008 were expenses of 12.6 and 16.1 percent compared to credits of 53.4 and 21.5 percent, respectively, for the three- and six-month periods ended August 31, 2007.

The tax credits incurred during fiscal 2008 resulted from recording tax settlements with the IRD for fiscal years 1998 through 2003, and tax agreements for fiscal years 2004 and 2005.

In any given period, there may be significant transactions or events that are incidental to our core businesses and that by a combination of their nature and jurisdiction, can have a disproportionate impact on our reported effective tax rates. Without these transactions, the trend in our effective tax rates would follow a more normalized pattern.

The following table shows the comparative impact of these items on our pretax earnings, tax expense and our overall effective tax rates, for three- and six-month periods ended August 31, 2008 and 2007:

IMPACT OF SIGNIFICANT ITEMS ON PRETAX EARNINGS, TAX EXPENSE AND EFFECTIVE TAX RATES

(dollars in thousands)

| | Three Months Ended August 31, | | | | | |
|---|-------------------------------|-------------|---------------------|----------------------------|-------------|---------------------|
| | 2008 - Increase (Decrease) | | | 2007 - Increase (Decrease) | | |
| | Pretax Earnings | Tax Expense | Effective Tax rates | Pretax Earnings | Tax Expense | Effective Tax rates |
| Tax benefit of HK IRD Settlement, including interest income and reversal of penalties | \$ - | \$ - | 0.0% | \$ - | \$ (7,950) | -66.8% |

| | Six Months Ended August 31, | | | | | |
|---|-----------------------------|-------------|---------------------|----------------------------|-------------|---------------------|
| | 2008 - Increase (Decrease) | | | 2007 - Increase (Decrease) | | |
| | Pretax Earnings | Tax Expense | Effective Tax rates | Pretax Earnings | Tax Expense | Effective Tax rates |
| Tax benefit of HK IRD Settlement, including interest income and reversal of penalties | \$ - | \$ - | 0.0% | \$ - | \$ (7,950) | -34.1% |
| Impairment charges | (7,760) | (155) | 3.9% | - | - | 0.0% |

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| | | | | | | |
|--|----------------|----------------|--------------|---|---|------|
| Charge to allowance for doubtful accounts due to customer bankruptcy | (3,876) | (1,360) | -2.6% | - | - | 0.0% |
| Gain on casualty insurance settlements | 2,702 | 67 | -1.3% | - | - | 0.0% |

For the three- and six-month periods ended August 31, 2008, the net effect of the significant items shown above had no material impact on our effective tax rate.

In addition to the items shown above, other shifts in our effective tax rates for the periods presented are generally attributable to shifts in the mix of taxable income earned between the various high and low tax rate jurisdictions in which we conduct our business.

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A summary of long-term debt was as follows:

LONG-TERM DEBT

(in thousands)

| | Original Date Borrowed | Interest Rates | Matures | August 31, 2008 | February 29, 2008 |
|---|------------------------------|-------------------|---------|--------------------|----------------------|
| \$15 million unsecured Senior Note Payable at a fixed interest rate of 7.24%. Interest payable quarterly, principal of \$3 million payable annually beginning July 2008. | 07/97 | 7.24% | 07/12 | \$ 12,000 | \$ 15,000 |
| \$75 million 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% | 06/09 | 75,000 | 75,000 |
| \$50 million 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% | 06/11 | 50,000 | 50,000 |
| \$75 million unsecured floating interest rate 10 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 90 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1) | 06/04 | 6.01% | 06/14 | 75,000 | 75,000 |
| Total long-term debt | | | | 212,000 | 215,000 |
| Less current portion of long-term debt | | | | (78,000) | (3,000) |
| Long-term debt, less current portion | | | | \$ 134,000 | \$ 212,000 |

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

Interest rate hedge agreements (the swaps) are in place for our floating interest rate \$75 million, 5 year; \$50 million, 7 year; and \$75 million, 10 year Senior Notes (the Senior Notes). The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on these 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. Under the 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.

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All of our long-term debt is unconditionally guaranteed by 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

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the latest twelve months trailing EBITDA. These covenants effectively limited our ability to incur no more than \$134.97 million 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 August 31, 2008, we are in compliance with 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 August 31, 2008 | | Six Months Ended August 31, 2007 | |
|---|---------------------------------------|-------|-------------------------------------|-------|
| Interest and commitment fees | \$ | 2,179 | \$ | 7,772 |
| Deferred finance costs | | 143 | | 364 |
| Interest rate swap settlements | | 1,162 | | (322) |
| Reduction of debt and revolving credit agreement commitment | | - | | 119 |
| Total interest expense | \$ | 3,484 | \$ | 7,933 |

Note 15 Fair Value

In the first quarter of fiscal 2009, we adopted SFAS 157, which defines fair value, establishes a framework for measuring fair value under GAAP, and requires expanded disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather generally applies to other accounting pronouncements that require or permit fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow), and the cost approach (cost to replace the service capacity of an asset or replacement cost). These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. SFAS 157 utilizes a fair value hierarchy that prioritizes inputs to fair value measurement techniques into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices for identical assets or liabilities in active markets.
- Level 2: Observable inputs other than quoted prices that are directly or indirectly observable for the asset or liability, including quoted prices for similar assets or liabilities in active markets; quoted prices for similar or identical assets or liabilities in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

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- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The FASB issued FSP 157-2 which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until the beginning of our fiscal 2010 year. The Company's financial assets and liabilities adjusted to fair value at August 31, 2008 are its commercial paper investments included in cash and cash equivalents, money market accounts, auction rate securities, trading securities, foreign currency contracts and interest rate swaps. These assets and liabilities are subject to the measurement and disclosure requirements of SFAS 157. The Company adjusts the value of these instruments to fair value each reporting period. No adjustment to retained earnings resulted from the adoption of SFAS 157.

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

(in thousands)

| Description | Fair Value at August 31, 2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Market Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|------------------------------|----------------------------------|---|---|--|
| Assets | | | | |
| Commercial paper investments | \$ 3,057 | \$ 3,057 | \$ - | \$ - |
| Money market accounts | 48,156 | 48,156 | - | - |
| Trading securities | 29 | 29 | - | - |
| Auction rate securities | 45,025 | - | - | 45,025 |
| Foreign currency contracts | 1,470 | - | 1,470 | - |
| Total | \$ 97,737 | \$ 51,242 | \$ 1,470 | \$ 45,025 |
| Liabilities | | | | |
| Interest rate swaps | \$ 7,539 | \$ - | \$ 7,539 | \$ - |

Commercial paper investments and money market accounts are included in cash and cash equivalents on the accompanying consolidated condensed balance sheets and are classified as Level 1 assets. Trading securities are also classified as Level 1 assets because they consist of certain publicly traded stocks which are stated on our consolidated condensed balance sheets at market value, as determined by the most recent trading price of each security as of the balance sheet date.

We hold investments in auction rate securities (ARS) collateralized by student loans (with underlying maturities from 20.1 to 39.2 years). Substantially all such collateral in the aggregate is guaranteed by the U.S. government under the Federal Family Education Loan Program. Liquidity for these securities was normally dependent on an auction process that resets the applicable interest rate at pre-determined intervals, ranging from 7 to 35 days. Beginning in February 2008, the auctions for the ARS held by us and others were unsuccessful, requiring us to hold them beyond their typical auction reset dates. Auctions fail when there is insufficient demand. However, this does not represent a default by the issuer of the security. Upon an auction's failure, the interest rates reset based on a formula contained in the security. The rate is generally equal to or higher than the current market rate for similar securities. The securities will continue to accrue interest and be auctioned until one of the following occurs: the auction succeeds; the issuer calls the securities; or the securities mature.

At February 29, 2008, these securities were valued at their original cost and classified as current assets in the consolidated condensed balance sheet under the heading Temporary investments, which we believed appropriate based on the circumstances and level of information we had at that time. Between February 29, 2008 and August 31, 2008, we have liquidated \$16.40 million of these securities with no gain or loss. Each of the remaining securities in our portfolio has been subject to failed auctions. These failures in the auction process have affected our ability to access these funds in the near term. We intend to reduce our remaining holdings as soon as practicable, but currently believe it is unlikely that we will be able to liquidate some of our holdings over the next twelve months. Accordingly, at May 31, 2008, we re-classified all remaining ARS as non-current assets held for sale under the heading Long-term investments in our consolidated condensed balance sheet and the Company determined that original cost no longer approximates fair value.

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As a result of the lack of liquidity in the ARS market, in the first quarter of fiscal 2009 we recorded a pre-tax temporary unrealized loss on our ARS of \$1.51 million, which is reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet, net of related tax effects of \$0.51 million. Our estimate of fair value as of May 31, 2008 was based upon a survey of recent write-downs reported by a sample of public companies with similar investment holdings in student loan backed auction rate securities. The recording of this

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unrealized loss was not a result of the quality of the underlying collateral, but rather a temporary markdown reflecting a lack of liquidity and other current market conditions.

During the quarter ended August 31, 2008, we developed a series of discounted cash flow models and began using them to value our ARS. Based on these models, in the quarter ended August 31, 2008, we recorded an additional pre-tax temporary unrealized loss on our ARS of \$0.89 million, which is reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet, net of related tax effects of \$0.30 million.

Some of the inputs into the discounted cash flow models we use are unobservable in the market and have a significant effect on valuation. Therefore, in the quarter ended August 31, 2008, we reclassified our ARS holdings from Level 2 to Level 3 assets under SFAS 157. The assumptions used in preparing the models include, but are not limited to, periodic coupon rates, market required rate of returns and the expected term of each security. The coupon rate was estimated using implied forward rate data on interest rate swaps and U.S. treasuries, and limited where necessary by any contractual maximum rate paid under a scenario of continuing auction failures. We believe implied forward rates inherently account for a lack of liquidity. In making assumptions of the required rates of return, we considered risk-free interest rates and credit spreads for investments of similar credit quality. The expected term was based on a weighted probability-based estimate of the time the principal will become available to us. The principal can become available under three different scenarios: (1) the ARS is called; (2) the market has returned to normal and auctions have recommenced and are successful; and (3) the principal has reached maturity.

We use derivatives for hedging purposes pursuant to SFAS 133, and our derivatives are primarily foreign currency contracts and interest rate swaps. We determine the fair value of our derivative instruments based on Level 2 inputs in the SFAS 157 fair value hierarchy.

Note 16 Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments as of August 31, 2008 were:

PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED AUGUST 31:

(in thousands)

| | Total | 2009 1 year | 2010 2 years | 2011 3 years | 2012 4 years | 2013 5 years | After 5 years |
|------------------------------------|-----------|----------------|-----------------|-----------------|-----------------|-----------------|------------------|
| Term debt - fixed rate | \$ 12,000 | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ - | \$ - |
| Term debt - floating rate (1) | 200,000 | 75,000 | - | 50,000 | - | - | 75,000 |
| Long-term incentive plan payouts | 4,350 | 2,023 | 2,327 | - | - | - | - |
| Interest on floating rate debt (1) | 38,321 | 11,134 | 7,453 | 6,962 | 4,508 | 4,508 | 3,756 |
| Interest on fixed rate debt | 2,063 | 842 | 624 | 407 | 190 | - | - |
| Open purchase orders | 113,273 | 113,273 | - | - | - | - | - |
| Minimum royalty payments | 75,892 | 4,747 | 6,420 | 6,074 | 5,263 | 4,853 | 48,535 |
| Advertising and promotional | 85,814 | 6,917 | 6,096 | 5,605 | 5,755 | 5,445 | 55,996 |

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| | | | | | | | |
|-----------------------------------|------------|------------|-----------|-----------|-----------|-----------|------------|
| Operating leases | 12,326 | 2,062 | 1,913 | 1,391 | 1,027 | 992 | 4,941 |
| Capital spending commitments | 237 | 237 | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total contractual obligations (2) | \$ 544,276 | \$ 219,235 | \$ 27,833 | \$ 73,439 | \$ 19,743 | \$ 15,798 | \$ 188,228 |

(1) As mentioned above in Note 14, the Company uses interest rate hedge agreements (the swaps) in conjunction with its unsecured floating interest rate \$75 million, 5 year; \$50 million, 7 year; and \$75 million, 10 year Senior Notes. The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on these 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. Accordingly, the future interest obligations related to this debt have been estimated using these rates.

(2) In addition to the contractual obligations and commercial commitments in the table above, as of August 31, 2008, we have recorded \$1.89 million of net income tax liabilities, including the provision for our uncertain

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tax positions. While we expect to settle certain of these issues over the near term, we are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, we have excluded all tax liabilities from the table above.

We lease certain facilities, equipment and vehicles under operating leases, which expire at various dates through fiscal 2018. Certain leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was \$0.48 million and \$1.22 million for the three- and six-month periods ended August 31, 2008, respectively, and \$0.68 million and \$1.35 million for the three- and six-month periods ended August 31, 2007, respectively.

Note 17 *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-month periods ended August 31, 2008, we transacted approximately 15 and 16 percent, respectively, of our net sales in foreign currencies. During the three- and six-month periods ended August 31, 2007, we transacted approximately 15 percent of our net sales in foreign currencies. These sales were primarily denominated in the Canadian Dollar, British Pound, Euro, Brazilian Real, Venezuelan Bolivares Fuertes 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.

We enter into these type of agreements where we believe we have meaningful exposure to foreign currency exchange risk. It is simply 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.

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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 (loss) (OCI). 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 condensed statements of income. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes. See Note 21 for information about our hedging activities which took place subsequent to August 31, 2008.

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Interest Rate Risk Fluctuation in interest rates can cause variation in the amount of interest that we can earn on our available cash, cash equivalents and investments and the amount of interest expense we incur on any short-term and long-term borrowings. Interest on our long-term debt outstanding as of August 31, 2008 is both floating and fixed. Fixed rates are in place on \$12 million of senior notes at 7.24 percent and floating rates are in place on \$200 million of debt which reset as described in Note 14, but have been effectively converted to fixed rate debt using the interest rate swaps described below.

We manage our floating rate debt using interest rate swaps (the "swaps"). We have three interest rate swaps that convert an aggregate notional principal of \$200 million 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 have three contracts to pay fixed rates of interest on an aggregate notional principal amount of \$200 million at rates ranging from 5.04 to 5.11 percent while simultaneously receiving floating rate interest payments set at 2.80 percent as of August 31, 2008 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. Changes in the spread between the fixed rate payment side of the swap and the floating rate receipt side of the swap offset 100 percent of the change in any period of the underlying debt's floating rate payments. These swaps are used to reduce the Company's risk of increased interest costs; however, should floating interest rates drop significantly, we lose the benefit that floating rate debt can provide in a declining interest rate environment. The swaps are considered 100 percent effective. Gains and losses related to the swaps, net of related tax effects are reported as a component of Accumulated other comprehensive loss in the accompanying consolidated condensed balance sheet 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 condensed statements of income.

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The following table summarizes the various foreign currency contracts and interest rate swap contracts we designated as cash flow hedges that were open at August 31, 2008 and February 29, 2008:

CASH FLOW HEDGES

| August 31, 2008 | | | | | | | | | | | |
|---------------------------------------|------------|--------------|------------|---------------------|-----------|--|--------------|--------|--------------|---------------|--------------|
| | | | | | | | | | Weighted | Market | |
| | | | | | | | | | Weighted | Average | Value of the |
| | | | | Range of Maturities | | Spot Rate at | Spot Rate at | | Average | Forward Rate | Contract in |
| Contract | Currency | Notional | Contract | | | Contract | August 31, | | Forward Rate | at August 31, | U.S. Dollars |
| Type | to Deliver | Amount | Date | From | To | Date | 2008 | | at Inception | 2008 | (Thousands) |
| Foreign Currency Contracts | | | | | | | | | | | |
| Sell | Pounds | £5,000,000 | 11/28/2006 | 12/11/2008 | 1/15/2009 | 1.9385 | 1.8177 | 1.9242 | 1.8035 | \$ | 604 |
| Sell | Pounds | £5,000,000 | 4/17/2007 | 2/17/2009 | 8/17/2009 | 2.0000 | 1.8177 | 1.9644 | 1.7912 | \$ | 866 |
| Subtotal | | | | | | | | | | \$ | 1,470 |
| Interest Rate Swap Contracts | | | | | | | | | | | |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2009 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (1,312) |
| Swap | Dollars | \$50,000,000 | 9/28/2006 | 6/29/2011 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (2,048) |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2014 | | (Pay fixed rate at 5.11%, receive floating 3-month LIBOR rate) | | | | \$ | (4,179) |
| Subtotal | | | | | | | | | | \$ | (7,539) |
| Fair Value of Cash Flow Hedges | | | | | | | | | | | \$ (6,069) |

| February 29, 2008 | | | | | | | | | | | |
|---------------------------------------|------------|--------------|------------|---------------------|-----------|--|--------------|--------|--------------|--------------|--------------|
| | | | | | | | | | Weighted | Market | |
| | | | | | | | | | Weighted | Average | Value of the |
| | | | | Range of Maturities | | Spot Rate at | Spot Rate at | | Average | Forward Rate | Contract in |
| Contract | Currency | Notional | Contract | | | Contract | Feb. 29, | | Forward Rate | at Feb. 29, | U.S. Dollars |
| Type | to Deliver | Amount | Date | From | To | Date | 2008 | | at Inception | 2008 | (Thousands) |
| Foreign Currency Contracts | | | | | | | | | | | |
| Sell | Pounds | £5,000,000 | 11/28/2006 | 12/11/2008 | 1/15/2009 | 1.9385 | 1.9885 | 1.9242 | 1.9440 | \$ | (99) |
| Sell | Pounds | £5,000,000 | 4/17/2007 | 2/17/2009 | 8/17/2009 | 2.0000 | 1.9885 | 1.9644 | 1.9281 | \$ | 182 |
| Subtotal | | | | | | | | | | \$ | 83 |
| Interest Rate Swap Contracts | | | | | | | | | | | |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2009 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (2,506) |
| Swap | Dollars | \$50,000,000 | 9/28/2006 | 6/29/2011 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (3,462) |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2014 | | (Pay fixed rate at 5.11%, receive floating 3-month LIBOR rate) | | | | \$ | (6,481) |
| Subtotal | | | | | | | | | | \$ | (12,449) |
| Fair Value of Cash Flow Hedges | | | | | | | | | | | \$ (12,366) |

See Note 21 for additional information regarding certain additional hedging activity that took place on September 3, 2008.

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

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Risks Inherent in Cash, Cash Equivalents and Investment Holdings Our cash, cash equivalents and investments are subject to interest rate risk, credit risk and liquidity risk. Cash consists of both interest bearing and non-interest bearing operating disbursement accounts. Cash equivalents consist of commercial paper and money market investment accounts. Temporary and long-term investments consist of AAA auction rate notes that we would normally seek to dispose of within 35 or fewer days (auction rate securities or ARS).

The following table summarizes the cash, cash equivalents and investments we held at August 31, 2008 and February 29, 2008:

CASH, CASH EQUIVALENTS AND INVESTMENTS HOLDINGS

(in thousands)

| | August 31, 2008 | | February 29, 2008 | |
|--|-----------------|-------------------------|-------------------|-------------------------|
| | Carrying Amount | Range of Interest Rates | Carrying Amount | Range of Interest Rates |
| Cash and cash equivalents | | | | |
| Cash held in interest and non interest-bearing operating accounts - unrestricted | \$6,025 | 0.00 to 4.75% | \$6,872 | 0.00 to 5.40% |
| Cash held in interest and non interest-bearing operating accounts - restricted | 1,011 | 0.00 to 11.00% | 701 | - |
| Commercial paper | 3,057 | 2.38 to 2.56% | 1,785 | 3.15 to 3.19% |
| Money market accounts | 48,156 | 2.00 to 6.00% | 48,493 | 2.00 to 6.00% |
| Total cash and cash equivalents | \$58,249 | | \$57,851 | |
| Auction rate securities - collateralized by student loans | \$45,025 | 1.14 to 3.99% | \$63,825 | 4.50 to 9.90% |

Our cash balances at August 31, 2008 and February 29, 2008 include restricted cash of \$1.01 million and \$0.70 million, respectively, denominated in Venezuelan Bolivars Fuertes, shown above under the heading Cash held in interest and non interest-bearing operating accounts restricted. The balances are primarily a result of favorable operating cash flows within the Venezuelan market. Due to current Venezuelan government restrictions on transfers of cash out of the country and control of exchange rates, the Company has not yet received approval of its applications to repatriate this cash, and cannot repatriate it at this time.

Most of our cash equivalents and investments are in money market accounts, commercial paper and auction rate securities with frequent rate resets, therefore, we believe there is no material interest rate risk. In addition, our commercial paper and auction rate securities are purchased from issuers with high credit ratings, therefore, we believe the credit risk is relatively low.

We hold investments in auction rate securities collateralized by student loans (with underlying remaining maturities from 20.1 to 39.2 years). Substantially all such collateral in the aggregate is guaranteed by the U.S. government under the Federal Family Education Loan Program. Liquidity for these securities was normally dependent on an auction process that resets the applicable interest rate at pre-determined intervals, ranging from 7 to 35 days. Beginning in February 2008, the auctions for the ARS held by us and others were unsuccessful, requiring us to hold them beyond their typical auction reset dates. Auctions fail when there is insufficient demand. However, this does not represent a default by the issuer of the security. Upon an auction's failure, the interest rates reset based on a formula contained in the security. The rate is generally equal to or higher than the current market rate for similar securities. The securities will continue to accrue interest and be auctioned until one of the following occurs: the auction succeeds; the issuer calls the securities; or the securities mature.

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At February 29, 2008, these securities were valued at their original cost and classified as current assets in the consolidated condensed balance sheet under the heading Temporary investments, which we believed appropriate based on the circumstances and level of information we had at that time. Between February 29, 2008 and August 31, 2008, we liquidated \$16.40 million of these securities with no gain or loss. Each of the remaining securities in our portfolio has been subject to failed auctions. These failures in the auction process have affected our ability to access these funds in the near term. We intend to reduce our remaining holdings as soon as practicable, but currently believe it is unlikely that we will be able to liquidate some of our holdings over the next twelve months. Accordingly, at May 31, 2008, we re-classified all remaining ARS as non-current assets held for sale under the heading Long-term investments in our consolidated condensed balance sheet and the Company determined that original cost no longer approximates fair value.

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As a result of the lack of liquidity in the ARS market, in the first quarter of fiscal 2009 we recorded a pre-tax temporary unrealized loss on our ARS of \$1.51 million, which is reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet, net of related tax effects of \$0.51 million. During the second quarter of fiscal 2009, we recorded an additional pre-tax temporary unrealized loss on our ARS of \$0.89 million, which is reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet, net of related tax effects of \$0.30 million. The recording of these unrealized losses is not a result of the quality of the underlying collateral, but rather a temporary markdown reflecting a lack of liquidity and other current market conditions.

Note 18 *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 quarter ended May 31, 2008, we purchased and retired 187,505 common shares under this resolution at a total purchase price of \$2.89 million, for a \$15.39 per share average price. We did not repurchase any common shares during the three months ended August 31, 2008. During the fiscal quarter ended August 31, 2007, a key employee tendered 728,500 common shares having a market value of \$20.27 million as payment for the exercise price and related federal tax obligations arising from the exercise of options. We accounted for this activity as a purchase and retirement of the shares at a \$27.83 per share average price. From September 1, 2003 through August 31, 2008, we have repurchased 2,846,733 common shares at a total cost of \$74.50 million, or an average price per share of \$26.17. An additional 153,267 common shares remain authorized for purchase under this plan as of August 31, 2008.

Note 19 *Share-Based Compensation Plans*

We have equity awards outstanding under three expired share-based compensation plans. The expired plans consist of an employee stock option and restricted stock plan adopted in 1998 (the 1998 Plan), a non-employee director stock option plan adopted in 1995 (the 1995 Directors' Plan), and an employee stock purchase plan adopted in 1998 (the 1998 Stock Purchase Plan). During fiscal 2008, the last stock options outstanding under a stock option and restricted stock plan adopted in 1994 were exercised. Therefore, this plan is no longer in effect.

On August 19, 2008, at our Annual General Meeting of the Shareholders, our shareholders approved three new share based compensation plans. The new plans consist of the Helen of Troy Limited 2008 Stock Incentive Plan, an employee stock option and restricted stock plan (the 2008 Stock Incentive Plan), the Helen of Troy Limited 2008 Non-Employee Directors Stock Incentive Plan, a non-employee director restricted stock plan (the 2008 Directors' Plan), and the Helen of Troy Limited 2008 Employee Stock Purchase Plan (the 2008 Stock Purchase Plan). These plans are described below. The plans are administered by the Compensation Committee of the Board of Directors, which consists of non-employee directors who are independent under the Nasdaq Stock Market listing standards.

Expired Plans

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The 1998 Plan covered a total of 6,750,000 common shares for issuance to key officers and employees. The 1998 Plan provided for the grant of options to purchase our common shares at a price equal to or greater than the fair market value on the grant date. The 1998 Plan contained provisions for incentive stock options, non-qualified stock options and restricted share grants. Generally, options granted under 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. The 1998 Plan expired by its terms on August 25, 2008. As of August 31, 2008, 5,808,083 common shares subject to options were outstanding under the plan.

The 1995 Directors' Plan covered 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 1995 Directors' Plan at a price equal to the fair

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market value of our common shares at the date of grant. Options granted under the 1995 Directors' Plan vest one year from the date of issuance and expire ten years after issuance. The 1995 Directors' Plan expired by its terms on June 6, 2005. As of August 31, 2008, options to purchase 232,000 common shares were outstanding under the plan.

The 1998 Stock Purchase Plan initially covered a total of 500,000 common shares for issuance to our employees. Under the terms of the 1998 Stock Purchase Plan, employees authorized 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 1998 Stock Purchase Plan is equal to the lower of 85 percent of the shares' fair market value on either the first day of each option period or the last day of each period. The 1998 Stock Purchase Plan expired by its own terms on July 17, 2008. During the second quarter of fiscal 2009, plan participants acquired 15,261 common shares at a price of \$13.78 per share. As of August 31, 2008, 234,889 common shares had been issued under the plan. No additional common shares may be issued under the plan.

Recently Approved Plans

The 2008 Stock Incentive Plan covers a total of 750,000 common shares for issuance to key officers, employees and consultants of the Company. The plan provides for the grant of options to purchase our common shares at a price equal to or greater than the fair market value on the grant date. The plan contains provisions for incentive stock options, non-qualified stock options and restricted share grants. Gerald J. Rubin, the Company's Chairman of the Board, Chief Executive Officer and President, is not eligible to participate in the plan. The maximum number of shares with respect to which awards of any and all types may be granted during a calendar year to any participant is limited, in the aggregate, to 250,000 shares. Generally, options granted under the 2008 Stock Incentive Plan will become exercisable over four or five-year vesting periods and will expire on dates ranging from seven to ten years from the date of grant. As of August 31, 2008, no shares have been issued under the 2008 Stock Incentive Plan. The plan will expire by its terms on August 19, 2018.

The 2008 Directors' Plan covers a total of 175,000 of our common shares for issuance of restricted stock, restricted stock units or other stock-based awards to non-employee members of the Board of Directors. Shares granted under the 2008 Directors' Plan will be subject to vesting schedules and other terms and conditions as determined by the Compensation Committee of the Company's Board of Directors. As of August 31, 2008, no shares have been issued under the 2008 Directors' Plan. The plan will expire by its terms on August 19, 2018.

The 2008 Stock Purchase Plan covers a total of 350,000 common shares for issuance to our employees. Under the terms of the 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 2008 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. As of August 31, 2008, no common shares have been issued under the 2008 Stock Purchase Plan. The plan will expire by its terms on September 1, 2018.

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The Company recorded stock-based compensation expense in selling, general and administrative expense for the three- and six-months ended August 31, 2008 and 2007, respectively, as follows:

SHARE BASED PAYMENT EXPENSE

(in thousands, except per share data)

| | Three Months Ended August 31, | | | | Six Months Ended August 31, | | | |
|---|-------------------------------|------|------|-------|-----------------------------|------|------|-------|
| | 2008 | | 2007 | | 2008 | | 2007 | |
| Stock options | \$ | 309 | \$ | 267 | \$ | 578 | \$ | 457 |
| Employee stock purchase plan | | 82 | | 89 | | 82 | | 89 |
| Share-based payment expense | | 391 | | 356 | | 660 | | 546 |
| Less income tax benefits | | (20) | | (102) | | (39) | | (153) |
| Share-based payment expense, net of income tax benefits | \$ | 371 | \$ | 254 | \$ | 621 | \$ | 393 |
| Earnings per share impact of share based payment expense: | | | | | | | | |
| Basic | \$ | 0.01 | \$ | 0.01 | \$ | 0.02 | \$ | 0.01 |
| Diluted | \$ | 0.01 | \$ | 0.01 | \$ | 0.02 | \$ | 0.01 |

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- and six-month periods ended August 31, 2008 and 2007:

FAIR VALUE OF AWARDS AND ASSUMPTIONS USED

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|--|-------------------------------|---------|-----------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Weighted average fair value of grants (in dollars) | \$ 8.68 | \$ 9.75 | \$ 8.66 | \$ 9.25 |
| Risk free interest rate | 2.81% | 4.85% | 2.81% | 4.68% |
| Dividend yield | 0.00% | 0.00% | 0.00% | 0.00% |
| Expected volatility | 46.19% | 41.02% | 46.19% | 37.73% |
| Weighted average expected life (in years) | 3.81 | 4.16 | 3.80 | 3.93 |

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.

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Common shares purchased under the 1998 Stock Purchase Plan and the 2008 Stock Purchase Plan 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.

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A summary of option activity as of the period ended August 31, 2008, and changes during the six months then ended are as follows:

SUMMARY OF STOCK OPTION ACTIVITY

(in thousands, except contractual term and per share data)

| | Options | Weighted Average Exercise Price (per share) | Weighted Average Grant Date Fair Value (per share) | Weighted Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value |
|----------------------------------|---------|---|--|---|---------------------------------|
| Outstanding at February 29, 2008 | 5,823 | \$ 15.34 | \$ 5.58 | 3.69 | \$ 14,171 |
| Granted | 250 | 22.46 | | | |
| Exercised | (16) | (10.42) | | | 116 |
| Forfeited / expired | (17) | (22.39) | | | |
| Outstanding at August 31, 2008 | 6,040 | \$ 15.62 | \$ 5.70 | 3.39 | \$ 52,426 |
| Exercisable at August 31, 2008 | 5,288 | \$ 14.60 | \$ 5.31 | 2.81 | \$ 50,985 |

A summary of non-vested option activity as of August 31, 2008, and changes during the six months then ended are as follows:

NON-VESTED STOCK OPTION ACTIVITY

(in thousands, except per share data)

| | Non-Vested Options | Weighted Average Grant Date Fair Value (per share) |
|----------------------------------|-----------------------|--|
| Outstanding at February 29, 2008 | 545 | \$ 8.38 |
| Granted | 250 | 8.66 |
| Exercised | (16) | (4.15) |
| Vested or forfeited | (26) | (11.94) |
| Outstanding at August 31, 2008 | 753 | \$ 8.44 |

A summary of the Company's total unrecognized share-based compensation cost as of August 31, 2008 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 | \$ | 4,866 | 43.7 |

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Note 20 *Gain on Casualty Insurance Settlements*

On March 6, 2008, a fire at a third-party managed distribution facility in Vitoria, Brazil destroyed personal care products inventory with a recorded value of \$1.01 million. As a result, we experienced some Personal Care segment sales disruptions in the Brazilian market through the balance of the first and second quarters of fiscal 2009, but believe we can replace the inventories and restore our ability to appropriately service sales over the second half of fiscal 2009. The impact on our quarterly and annual results in fiscal 2009 due to lost revenue and associated costs was and will be significant from the perspective of our Latin American region's operating results. We filed claims with our casualty insurance carrier on this inventory and recorded a gain on casualty insurance settlement of \$2.46 million in SG&A for the fiscal quarter ended May 31, 2008. Also, during the same quarter, we recorded an additional gain in SG&A on certain other loss claims of \$0.24 million.

Note 21 *Foreign Currency Contracts Subsequent Discontinuation of a Cash Flow Hedge*

On September 3, 2008, the Company entered into a series of foreign exchange forward contracts to sell U.S. Dollars for British Pounds in notional amounts and terms that effectively froze the then \$1.82 million fair value of our existing forward contracts to sell British Pounds for U.S. Dollars. The new forward contracts also had the effect of eliminating the foreign currency hedge created by the original forward currency contracts on certain forecasted transactions denominated in British pounds referred to in Note 17 to these consolidated condensed financial statements.

These forward contracts had originally been designated as cash flow hedges. In accordance with Derivatives Implementation Group (DIG) Issue No. G3 - Discontinuation of a Cash Flow Hedge, the net gain related to the discontinued cash flow hedges will continue to be reported in OCI as it is probable that the forecasted transactions will occur generally by the originally specified time period. Therefore, the deferred gains related to the combined group of derivatives will remain in OCI and are currently expected to be reclassified into earnings when the underlying contracts settle over dates ranging from December 11, 2008 through August 17, 2009.

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

This discussion contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially due to a number of factors, including those discussed in Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk, Information Regarding Forward Looking Statements, 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 Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2008.

OVERVIEW OF THE QUARTER'S ACTIVITIES:

Our second fiscal quarter's net sales traditionally average 23 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.

Net sales for the three- and six month periods ended August 31, 2008 were down 2.8 percent and up 0.2 percent, respectively, when compared to the same periods last year.

Net sales in our Personal Care segment were down 10.2 percent for the quarter and 5.5 percent for the six months ended August 31, 2008, when compared to the same periods last year. The economic slow-down experienced in North American markets has begun to spread globally. We are beginning to experience a slowing of Personal Care sales in Europe and Latin America. We believe that recent credit market instability, extraordinary stock market volatility and the uncertainty regarding potential U.S. government intervention on behalf of the financial services sector continues to fuel consumer uncertainty. In addition, the following factors are influencing declines in Personal Care segment sales:

- Difficult domestic and international retail environments, in which many of our retail partners have faced slowing same store sales trends resulting from such economic factors as high gasoline prices, anticipation of higher home heating prices, tight credit markets, the continuing sub-prime mortgage crisis, the overall slowdown in the U.S. housing market, increases in unemployment rates and declines in consumer confidence.
- A number of our key retail partners reduced their inventory levels, resulting in lower sales orders during the first half of the current fiscal year. Domestic retailers are buying very conservatively as the stimulus from the U.S. tax rebates fade.
- In our retail and professional personal care appliance categories, replacement of branded merchandise with private label merchandise by certain customers is negatively impacting our net sales and presents a challenge to our branded sales growth.

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- Certain of our suppliers in China have closed operations and/or exited the business due to conditions discussed further below. This has caused disruptions in delivery and has adversely affected appliance sales across all our business units including lost sales on key appliance items. We believe that the contraction in suppliers has become a widespread issue in our industry.

In contrast, our Housewares segment continues to experience record net sales as a result of product line and geographic expansion. Sales are also being helped by the emerging trend of consumers dining and entertaining more at home in the face of economic uncertainty and higher restaurant food prices. Net sales in the segment were up approximately 19.6 and 17.6 percent for the three- and six-month periods ended August 31, 2008, respectively, when compared to the same periods last year. Future sales growth in this segment of our

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business will depend on new product innovation, product line expansion, new sources of distribution, and geographic expansion. Domestically, our Housewares segment's market opportunities are maturing and its current customer base amongst most tiers of retailers is extensive. Also, we are uncertain as to the impact that known and potential losses of sources of supply in China may begin to have. Additionally, certain domestic competitors have significantly increased closeout selling in response to the impact of slowing consumer demand on retail order levels. This may negatively impact sales volume and price levels realized over the next few fiscal quarters as many of the Housewares segment's retailers, including Linens n Things (Linens), are struggling to maintain year over year sales levels. With respect to Linens, future levels of revenue from this customer may continue to be significantly reduced or eliminated, depending on the ultimate resolution of Linens' bankruptcy proceedings. Accordingly, we are cautious about our ability to maintain the same pace of sales growth in the future.

Global economic conditions continue to put upward pressure on our product and operating costs. These conditions include:

- o High energy costs, rising transportation costs and volatility in the costs of the basic materials used to manufacture our products, namely plastic resins, copper, stainless steel, and other metals.
- o World-wide contractions in the availability of credit.
- o Declining labor availability and evolving government labor regulations and associated compliance standards are causing increases in labor costs in China, where we source a significant portion of our products. These conditions, coupled with rising credit costs and increased borrowing constraints have forced certain of our suppliers to exit the business, leading to supply shortages and added tooling costs.
- o The recent appreciation of the Chinese Renminbi with respect to the U.S. Dollar, which will likely increase future product costs.

Highlights of the three- and six-month periods ended August 31, 2008 follow:

- Consolidated net sales for the fiscal quarter ended August 31, 2008 decreased 2.8 percent to \$153.54 million compared to \$157.92 million for the same period last year. Consolidated net sales for the six month period ending August 31, 2008 increased 0.2 percent to \$298.55 million compared to \$298.09 million for the same period last year. Our Housewares segment contributed growth of \$7.71 million and \$12.83 million, or 4.9 and 4.3 percentage points to consolidated net sales for the three- and six-month periods ending August 31, 2008, respectively, when compared to the same periods last year. Growth in our Housewares segment's net sales were offset by declines in our Personal Care segment's net sales. These declines totaled \$12.09 million and \$12.37 million or 7.7 and 4.1 percentage points to consolidated net sales for the three- and six-month periods ending August 31, 2008, respectively, when compared to the same periods last year.
- Consolidated gross profit margin as a percentage of net sales for the fiscal quarter ended August 31, 2008 decreased 0.8 percentage points to 42.4 percent compared to 43.2 percent for the same period last year. Consolidated gross profit margin as a percentage of net sales for the six month period ending August 31, 2008 decreased 0.1 percentage point to 42.9 percent compared to 43.0 percent for the same period last year.

- Selling, general, and administrative expense (SG&A) as a percentage of net sales for the fiscal quarter ended August 31, 2008 decrease 0.6 percentage points to 32.8 percent compared to 33.4 percent for the same period last year. SG&A expense as a percentage of net sales for the six month period ended August 31, 2008 decreased 0.9 percentage points to 32.1 percent compared to 33.0 percent for the same period last year. SG&A expense includes a \$3.88 million charge recorded in the first quarter of fiscal 2009 to bad debt expense due to the bankruptcy of a significant customer partially offset by \$2.70 million in gains on casualty insurance settlements, which was also recorded in the first quarter of

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fiscal 2009. For further information regarding the bankruptcy and the insurance settlements, see Notes 6 and 20, respectively, in the accompanying consolidated condensed financial statements.

- As more fully described below in our Personal Care segment analysis, during the first quarter of fiscal 2009, we recorded pretax impairment charges totaling \$7.76 million (\$7.60 million after tax) on certain intangible assets.
- We liquidated \$1.15 and \$16.4 million of auction rate securities (ARS) during the three- and six-month periods ended August 31, 2008, respectively. As a result of the ongoing lack of liquidity in the market for these securities, in the first quarter of fiscal 2008, we reclassified our remaining ARS as long-term investments. We have recorded temporary pretax unrealized losses of \$0.89 and \$2.40 million during the three- and six-month periods ended August 31, 2008, respectively. These losses are reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet at August 31, 2008, net of related tax effects of \$0.81 million.
- Our working capital position decreased \$33.26 million to \$182.41 million at August 31, 2008 compared to \$215.67 million at August 31, 2007. The decrease was due mostly to \$75 million of long-term debt scheduled to mature in June 2009, which became classified as a current liability during the quarter just ended. Total current and long-term debt outstanding at August 31, 2008 was \$212 million compared to \$225 million outstanding at August 31, 2007. Total stockholders' equity was \$585.84 million at August 31, 2008 compared to \$543.90 million at August 31, 2007.

Table of Contents**RESULTS OF OPERATIONS****Comparison of three- and six-month periods ended August 31, 2008 to the same periods ended August 31, 2007.**

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.

SELECTED OPERATING DATA

(dollars in thousands)

| | Quarter Ended August 31, | | \$ Change | % Change | % of Net Sales | |
|--|---------------------------------|-------------|------------------|-----------------|-----------------------|-------------|
| | 2008 | 2007 | | | 2008 | 2007 |
| Net sales | | | | | | |
| Personal Care Segment | \$ 106,409 | \$ 118,502 | \$ (12,093) | -10.2% | 69.3% | 75.0% |
| Housewares Segment | 47,134 | 39,422 | 7,712 | 19.6% | 30.7% | 25.0% |
| Total net sales | 153,543 | 157,924 | (4,381) | -2.8% | 100.0% | 100.0% |
| Cost of sales | 88,399 | 89,698 | (1,299) | -1.4% | 57.6% | 56.8% |
| Gross profit | 65,144 | 68,226 | (3,082) | -4.5% | 42.4% | 43.2% |
| Selling, general, and administrative expense | 50,290 | 52,728 | (2,438) | -4.6% | 32.8% | 33.4% |
| Operating income | 14,854 | 15,498 | (644) | -4.2% | 9.7% | 9.8% |
| Other income (expense): | | | | | | |
| Interest expense | (3,484) | (3,820) | 336 | -8.8% | -2.3% | -2.4% |
| Other income, net | 754 | 221 | 533 | * | 0.5% | 0.1% |
| Total other income (expense) | (2,730) | (3,599) | 869 | -24.1% | -1.8% | -2.3% |
| Earnings before income taxes | 12,124 | 11,899 | 225 | 1.9% | 7.9% | 7.5% |
| Income tax expense (benefit) | 1,526 | (6,354) | 7,880 | * | 1.0% | -4.0% |
| Net earnings | \$ 10,598 | \$ 18,253 | \$ (7,655) | -41.9% | 6.9% | 11.6% |

| | Six Months Ended August 31, | | \$ Change | % Change | % of Net Sales | |
|-----------------------|------------------------------------|-------------|------------------|-----------------|-----------------------|-------------|
| | 2008 | 2007 | | | 2008 | 2007 |
| Net sales | | | | | | |
| Personal Care Segment | \$ 212,940 | \$ 225,314 | \$ (12,374) | -5.5% | 71.3% | 75.6% |
| Housewares Segment | 85,606 | 72,780 | 12,826 | 17.6% | 28.7% | 24.4% |
| Total net sales | 298,546 | 298,094 | 452 | 0.2% | 100.0% | 100.0% |
| Cost of sales | 170,381 | 169,850 | 531 | 0.3% | 57.1% | 57.0% |
| Gross profit | 128,165 | 128,244 | (79) | -0.1% | 42.9% | 43.0% |

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| | | | | | | |
|--|------------------|-----------|-------------|--------|-------|-------|
| Selling, general, and administrative expense | 95,885 | 98,445 | (2,560) | -2.6% | 32.1% | 33.0% |
| Operating income before impairment | 32,280 | 29,799 | 2,481 | 8.3% | 10.8% | 10.0% |
| Impairment charges | 7,760 | - | 7,760 | * | 2.6% | 0.0% |
| Operating income | 24,520 | 29,799 | (5,279) | -17.7% | 8.2% | 10.0% |
| Other income (expense): | | | | | | |
| Interest expense | (6,937) | (7,933) | 996 | -12.6% | -2.3% | -2.7% |
| Other income, net | 1,669 | 1,475 | 194 | 13.2% | 0.6% | 0.5% |
| Total other income (expense) | (5,268) | (6,458) | 1,190 | -18.4% | -1.8% | -2.2% |
| Earnings before income taxes | 19,252 | 23,341 | (4,089) | -17.5% | 6.4% | 7.8% |
| Income tax expense (benefit) | 3,096 | (5,029) | 8,125 | * | 1.0% | -1.7% |
| Net earnings | \$ 16,156 | \$ 28,370 | \$ (12,214) | -43.1% | 5.4% | 9.5% |

* Calculation is not meaningful

Table of Contents*Consolidated sales*

Consolidated net sales for the second fiscal quarter ended August 31, 2008 decreased 2.8 percent to \$153.54 million compared with \$157.92 million for the same period last year. Consolidated net sales for the six month period ending August 31, 2008 increased 0.2 percent to \$298.55 million compared with \$298.09 million for the same period last year. New product acquisitions provided no net sales growth for the three month period ended August 31, 2008 when compared to the same period last year. New product acquisitions accounted for 1.4 percent, or \$4.13 million of the net sales growth for the six month period ended August 31, 2008 when compared to the same period last year. This growth was offset by net sales declines of 2.8 and 1.2 percent, respectively, or \$4.38 million and \$3.68 million, respectively, in our core business (business that we operated over the same fiscal periods last year) for the three- and six-month periods ended August 31, 2008 when compared to the same periods last year. New product acquisitions for the six month period ended August 31, 2008 consisted of two month's net sales of the Belson line of professional appliances. Belson was acquired as of May 1, 2007. The following table sets forth the impact acquisitions had on our net sales:

IMPACT OF ACQUISITION ON NET SALES*(in thousands)*

| | Three Months Ended August 31, | |
|---|--------------------------------------|-------------|
| | 2008 | 2007 |
| Prior year's net sales for the same period | \$ 157,924 | \$ 147,172 |
| Components of net sales change | | |
| Core business net sales change | (4,381) | 4,225 |
| Net sales from acquisitions (non-core business net sales) | - | 6,527 |
| Change in net sales | (4,381) | 10,752 |
| Net sales | \$ 153,543 | \$ 157,924 |
| Total net sales growth | -2.8% | 7.3% |
| Core business net sales change | -2.8% | 2.9% |
| Net sales change from acquisitions (non-core business net sales change) | 0.0% | 4.4% |

| | Six Months Ended August 31, | |
|---|------------------------------------|-------------|
| | 2008 | 2007 |
| Prior year's net sales for the same period | \$ 298,094 | \$ 277,613 |
| Components of net sales change | | |
| Core business net sales change | (3,678) | 10,501 |
| Net sales from acquisitions (non-core business net sales) | 4,130 | 9,980 |
| Change in net sales | 452 | 20,481 |
| Net sales | \$ 298,546 | \$ 298,094 |

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| | | |
|---|--------------|------|
| Total net sales growth | 0.2% | 7.4% |
| Core business net sales change | -1.2% | 3.8% |
| Net sales change from acquisitions (non-core business net sales change) | 1.4% | 3.6% |

During the three- and six-month periods ended August 31, 2008, approximately 15 and 16 percent, respectively, of our net sales were in foreign currencies. During the three- and six-month periods ended August 31, 2007, we transacted approximately 15 percent of our net sales in foreign currencies. These sales were primarily denominated in the Canadian Dollar, British Pound, Euro, Brazilian Real, Venezuelan Bolivares Fuertes and the Mexican Peso. The overall net impact of foreign currency changes provided approximately \$0.89 million

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and \$2.18 million of additional sales in U.S. dollars for the three- and six-month periods ended August 31, 2008, when compared to the same periods in the prior year.

Segment net sales

Personal Care Segment - Net sales in the Personal Care segment for the second quarter of fiscal 2009 decreased 10.2 percent to \$106.41 million compared with \$118.50 million for the same period last year. Net sales for the six month period ending August 31, 2008 decreased 5.5 percent to \$212.94 million compared with \$225.31 million for the same period last year. For the three- and six-month periods ending August 31, 2008, sales increases in grooming, skin care, and hair products were more than offset by a decrease in appliances and brushes, combs, and accessories net sales, when compared to the same period last year.

Domestically, we operate in mature markets where we compete on product innovation, price, quality and customer service. We continuously adjust our product mix, pricing and marketing programs with the objective of maintaining, and acquiring additional retail shelf space. Recent price increases of raw materials such as copper, steel, plastics and alcohol continue to impact the cost of merchandise that we sell. In addition, inbound transportation costs have been escalating, and may continue to escalate, as a result of continued volatility in petroleum prices. We continuously evaluate the need and ability to raise product prices with our customers. In some cases, we have been successful raising prices to our customers, or passing on cost increases by moving customers to newer product models with enhancements that justify a higher price. Sales price increases and product enhancements can have long lead times before their impact is realized.

Our Personal Care segment has three major product categories and comments specific to each category follow:

- **Appliances.** Products in this group include hair dryers, straighteners, curling irons, hairsetters, women's shavers, mirrors, hot air brushes, home hair clippers and trimmers, paraffin baths, massage cushions, footbaths and body massagers. With the increasing uncertainty in the economy, consumers are moving away from higher price point goods and opting towards more value oriented mid- and entry-level price points. Net sales of appliances for the three- and six-month periods ended August 31, 2008 declined 12.7 percent and 7.0 percent, respectively, when compared to the same periods last year.

For the quarter ended August 31, 2008, increases in sales prices and changes in product mix contributed approximately 6.2 percent to net sales growth, while decreases in sales volume had a negative 18.9 percent impact on net sales growth. For the six month period ended August 31, 2008, increases in sales prices and changes in product mix contributed approximately 6.5 percent to net sales growth, while decreases in sales volume had a negative 13.5 percent impact on net sales growth. The principal factors contributing to the decrease in sales volume were:

- o Certain of our suppliers in China have closed operations and/or exited the business due to declining labor availability, evolving government labor regulations and associated compliance standards causing increases in labor costs, rising credit costs and increased borrowing constraints. This has caused disruptions in delivery and has adversely affected appliance sales across all our business units including lost sales on key appliance items.

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- o Lost placement on certain items with large customers due to branded competition and moves to private label. Certain of these actions have been in response to price increases we have requested.

- o The combined impacts of lower consumer demand, particularly at higher price points, and increasingly conservative retailer inventory management policies.

- o Last year, we decided to reduce new product offerings in certain wellness appliance categories with a history of low profitability. We did not replace that lost volume this year. We believe it was the right decision as several key retailers have curtailed their emphasis on this category.

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o In the second fiscal quarter of last year, we introduced our Bed Head® line of products and shipped initial fill orders, providing a difficult year-over-year comparison.

o In Europe, geographic appliance sales growth outside of the UK was offset by the weakening UK economic conditions resulting from the spillover effect of the financial turmoil and economic slow-down experienced in the U.S. Delivery disruptions compounded UK issues as several product launches slated to begin in the second fiscal quarter had to be delayed.

o In Latin America, appliance volume was down due to the combined effects of a weakening local economy in Mexico and the continued impact of sales disruptions in the Brazilian market due to lack of product availability as a result of a fire at a third-party managed distribution facility in Vitoria, Brazil, as further discussed in Note 20 in our accompanying consolidated condensed financial statements. We expect Brazilian appliance sales volumes to regain historical pre-fire levels during the second half of the current fiscal year.

Revlon®, Vidal Sassoon®, Hot Tools®, Bed Head®, Dr. Scholl's®, Gold N Hot®, Wigo®, Toni&Guy®, Sunbeam®, Fusion Tools and Health o Meter® were key selling brands in this product line.

- Grooming, Skin Care, and Hair Products. Products in this line include liquid hair styling products, men's fragrances, men's deodorants, foot powder, body powder, and skin care products. Our grooming, skin care, and hair care brand portfolio includes the Brut®, Sea Breeze®, Vitalis®, Condition® 3-in-1, Ammens®, Final Net® and Skin Milk® brand names. Net sales for the three- and six-month periods ended August 31, 2008 increased 5.6 percent and 4.4 percent when compared against the same periods last year.

For the quarter ended August 31, 2008, increases due to sales prices and product mix, contributed approximately 4.7 percent to net sales growth, while a small increase in sales volume contributed 0.9 percent to net sales growth. For the six months ended August 31, 2008, increases due to sales prices and product mix, contributed approximately 5.3 percent to net sales growth, while an overall decrease in sales volume had a negative 0.8 percent impact on net sales growth.

Sales during the quarter were essentially flat in our Latin American region, impacted by a weakening Mexican economy, when compared to the same quarter in the prior year, while quarter-over-quarter net sales in our North American region improved as a result of price increases and increased closeout sales volume. On a year-to-date basis, net sales in the North American region were lower than the prior year while net sales increases over the prior year in Latin American region remained in the low double digits. In the Latin American region, net sales growth is being driven primarily by the performance of our Brut® and Ammens® brands. Within these core brands, our strategy of developing product line and geographic extensions continues to help to generate sales growth.

- Brushes, Combs and Accessories. Net sales for the three- and six-month periods ended August 31, 2008 declined 23.4 percent and 15.7 percent, respectively, when compared to the same periods last year as a result of sales mix impacts on average unit price, unit volume declines, and the impact of increased close-out sales. In this category, lower price point merchandise and brushes continue to sell well; however, higher price fashion accessory sales have declined at retail and we experienced a higher level of customer returns during the second quarter of fiscal 2009. Unit prices were also affected by increased closeout sales earlier in season in order to preemptively reduce our inventory levels and adjust product mix for the latest shifts in consumer demand. Vidal Sassoon®, Revlon®, Karina® and Belson Comare® were the key selling

brands in this line.

Housewares Segment - Our Housewares segment reports the operations of OXO International (OXO) whose products include kitchen tools, cutlery, bar and wine accessories, household cleaning tools, food storage containers, tea kettles, trash cans, storage and organization products, gardening tools, kitchen mitts and trivets, barbeque tools, and rechargeable lighting products.

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Net sales for the three- and six-month periods ended August 31, 2008 increased 19.6 and 17.6 percent to \$47.13 million and \$85.61 million, respectively, over the same periods in the prior year. For the three- and six-month periods ended August 31, 2008, increases in unit sales volume contributed approximately 30.7 and 28.9 percent, respectively, to net sales growth, offset by decreases in average selling prices, which had a negative 11.2 and 11.3 percent impact, respectively, on net sales. Unit volume increases were due to growth with existing accounts and our continued expansion of net sales in the United Kingdom and Japan. New products, particularly our Good Grips® POP modular line of food storage containers and other line extensions, are contributing to sales growth. Average unit prices decreased due to product mix, including significant declines in unit sales of higher priced trash cans.

In this segment, sales have been helped by the emerging trend of consumers dining and entertaining more at home in the face of economic uncertainty and higher restaurant food prices. While the Housewares segment has continued its trend of double digit sales growth during this current year, future sales growth in this segment will continue to depend on new product innovation, product line expansion, new sources of distribution, and geographic expansion. Domestically, our Housewares segment's market opportunities are maturing and its current customer base amongst most tiers of retailers is extensive. Also, we are uncertain as to the impact that known and potential losses of sources of supply in China may begin to have. Additionally, certain domestic competitors have significantly increased closeout selling in response to the impact of slowing consumer demand on retail order levels. This may negatively impact sales volume and price levels realized over the next few fiscal quarters as many of the Housewares segment's retailers, including Linens n Things, are struggling to maintain year over year sales levels. With respect to Linens, future levels of revenue from this customer may continue to be significantly reduced or eliminated, depending on the ultimate resolution of Linens' bankruptcy proceedings. Accordingly, we are cautious about our ability to maintain the same pace of sales growth in the future.

OXO Good Grips®, OXO SoftWorks® and OXO Steel® were the key selling brands in this product group.

Consolidated gross profit margins

Consolidated gross profit as a percentage of net sales for the three- and six-month periods ended August 31, 2008, decreased 0.8 and 0.1 percentage points, respectively, to 42.4 and 42.9 percent.

Gross margins declined on a quarter and year-to-date basis across all product categories except for grooming, skin care and hair products. Margin declines resulted from the impact of increased product costs out of the Far East, driven by higher raw materials costs, labor and inbound transportation costs and the impact of the continued appreciation of the Chinese Renminbi with respect to the U.S. Dollar. We may be unable to raise prices in the short term to sufficiently cover all these cost increases.

In our grooming, skin care, and hair products category, margin improvements were the result of price increases and product mix changes, including the introduction of Brut XT® body sprays and deodorants in Latin America.

Selling, general, and administrative expense

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SG&A as a percentage of net sales for the fiscal quarter ended August 31, 2008 decreased 0.6 percentage points to 32.8 percent compared to 33.4 percent for the same period last year. SG&A as a percentage of net sales for the six month period ended August 31, 2008 decreased 0.9 percentage points to 32.1 percent compared to 33.0 percent for the same period last year. SG&A in fiscal 2009 includes the first quarter impact of a \$3.88 million charge to bad debt expense due to the bankruptcy of a significant customer, net of \$2.70 million in gains on casualty insurance settlements, as further discussed in Notes 6 and 20, respectively, to the accompanying consolidated condensed financial statements. Improvement over the same periods last year is largely due to our improved warehouse cost structure, sourcing and engineering cost improvements, and lower advertising expenses, partially offset by increased outbound freight costs. The decrease in advertising expenses were primarily in our domestic grooming, skin care and hair care products category.

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These decreases reflect a strategic decision to reduce media advertising and promotional sponsorship expenditures, many of which were no longer needed to support new product introductions. Advertising levels in other parts of our business have remained relatively constant on a percentage of sales basis.

Impairment charges

The Company historically has completed its analysis of the carrying value of its goodwill and other intangible assets and its analysis of the remaining useful economic lives of its intangible assets other than goodwill during the first quarter of each fiscal year. As a result of this year's analysis, in the first quarter of fiscal 2009, we recorded pretax impairment charges of \$7.76 million on certain intangible assets associated with our Personal Care segment. The charges were recorded in the Company's income statement for the fiscal quarter ended May 31, 2008 as a component of operating income. The impairment charges reflect the amounts by which the carrying values of the associated assets exceeded their estimated fair values, determined by their estimated future discounted cash flows.

Operating income by segment

The following table sets forth, for the periods indicated, our operating income by segment, as a year-over-year percentage change, and as a percentage of net sales:

OPERATING INCOME BY SEGMENT

(dollars in thousands)

| | Quarter Ended August 31, | | | | | % of Segment Net Sales | |
|------------------------|--------------------------|-----------|----------|-----------|----------|------------------------|-------|
| | 2008 | 2007 | | \$ Change | % Change | 2008 | 2007 |
| Personal Care | \$ 7,406 | \$ 6,931 | \$ 475 | 6.9% | | 7.0% | 5.8% |
| Housewares | 7,448 | 8,567 | (1,119) | -13.1% | | 15.8% | 21.7% |
| Total operating income | \$ 14,854 | \$ 15,498 | \$ (644) | -4.2% | | 9.7% | 9.8% |

| | Six Months Ended August 31, | | | | % of Segment Net Sales | | |
|------------------------|-----------------------------|-----------|------------|----------|------------------------|-------|--|
| | 2008 | 2007 | \$ Change | % Change | 2008 | 2007 | |
| Personal Care | \$ 14,603 | \$ 15,803 | \$ (1,200) | -7.6% | 6.9% | 7.0% | |
| Housewares | 9,917 | 13,996 | (4,079) | -29.1% | 11.6% | 19.2% | |
| Total operating income | \$ 24,520 | \$ 29,799 | \$ (5,279) | -17.7% | 8.2% | 10.0% | |

Operating income in the Personal Care segment for the three month period ended August 31, 2008 increased primarily due to lower SG&A costs. For the six month period ended August 31, 2008, operating income in the Personal Care segment included the impact of \$7.76 million of impairment charges and a \$2.70 million gain on casualty insurance settlements, as described above. The impact of these items reduced the

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Personal Care segment's operating income by \$5.06 million for the first quarter of fiscal 2009.

Operating income in the Housewares segment for the three month period ended August 31, 2008 decreased primarily due to gross margin pressures, higher bad debt expense and higher allocated distribution center costs. Operating income in the Housewares segment for the six month period ended August 31, 2008 is lower on a percentage of sales basis principally due to gross margin declines and a charge to bad debt expense resulting from the bankruptcy of a significant customer, as further discussed in Note 6 to the accompanying consolidated condensed financial statements. The Housewares segment's share of the bad debt expense charge was \$3.72 million.

Operating income for each operating segment is computed based on net sales, less cost of goods sold, SG&A, and impairment charges associated with the segment. The SG&A 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.

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Interest expense and other income / (expense)

Interest expense for the three- and six-month periods ended August 31, 2008 decreased to \$3.48 million and \$6.94 million, respectively, compared to \$3.82 million and \$7.93 million, respectively, for the same periods in the prior year. The decrease in interest expense was due to lower amounts of debt outstanding, when compared to the same periods last year.

Other income, net, for the three- and six-month periods ended August 31, 2008 was \$0.75 million and \$1.67 million, respectively, compared to \$0.22 million and \$1.48 million, respectively, for the same periods in the prior year. The following table sets forth, for the periods indicated, the key components of other income and expense, as a percentage of net sales, and as a year-over-year percentage change:

OTHER INCOME (EXPENSE)

(dollars in thousands)

| | Quarter Ended August 31, | | | | | | % of Net Sales | |
|---------------------------------|---------------------------------|-------------|--------|------------------|-----------------|--|-----------------------|-------------|
| | 2008 | 2007 | | \$ Change | % Change | | 2008 | 2007 |
| Interest income | \$ 776 | \$ 475 | \$ 301 | 63.4% | | | 0.5% | 0.3% |
| Unrealized losses on securities | (8) | (116) | 108 | * | | | 0.0% | -0.1% |
| Miscellaneous other income | | | | | | | | |
| (expense) | (14) | (138) | 124 | * | | | 0.0% | -0.1% |
| Total other income (expense) | \$ 754 | \$ 221 | \$ 533 | * | | | 0.5% | 0.1% |

| | Six Months Ended August 31, | | | | | | % of Net Sales | |
|---------------------------------|------------------------------------|-------------|--------|------------------|-----------------|--|-----------------------|-------------|
| | 2008 | 2007 | | \$ Change | % Change | | 2008 | 2007 |
| Interest income | \$ 1,694 | \$ 1,557 | \$ 137 | 8.8% | | | 0.6% | 0.5% |
| Unrealized losses on securities | (7) | (171) | 164 | * | | | 0.0% | -0.1% |
| Miscellaneous other income | | | | | | | | |
| (expense) | (18) | 89 | (107) | * | | | 0.0% | 0.0% |
| Total other income (expense) | \$ 1,669 | \$ 1,475 | \$ 194 | 13.2% | | | 0.6% | 0.5% |

* Calculation is not meaningful

Interest income was higher for the three- and six-months ended August 31, 2008, when compared to the same periods last year due to higher levels of investments.

Table of Contents***Income tax expense***

Income tax expense for the three- and six-month periods ended August 31, 2008 was \$1.53 million and \$3.10 million, or 12.6 and 16.1 percent of earnings before income taxes, respectively, versus benefits of \$6.35 and \$5.03, respectively, or (53.4) and (21.5) percent of earnings before income taxes, respectively, for the same periods in the previous year.

In any given period, there may be significant transactions or events that are incidental to our core businesses and that by a combination of their nature and jurisdiction, can have a disproportionate impact on our reported effective tax rates. Without these transactions, the trend in our effective tax rates would follow a more normalized pattern. The following table shows the comparative impact of these items on our pretax earnings, tax expense and effective tax rates, for each of the periods covered by this report.

IMPACT OF SIGNIFICANT ITEMS ON EFFECTIVE TAX RATES

(dollars in thousands)

| | Three Months Ended August 31, | | | | | | | | | | | | | | | |
|---|-------------------------------|--------|--|---------|-------|--|-----------|------|----------|--------|--|---------|---------|--|-----------|--|
| | 2008 | | | | | | | 2007 | | | | | | | | |
| | Pretax | | | Tax | | | Effective | | Pretax | | | Tax | | | Effective | |
| | Earnings | | | Expense | | | Tax Rate | | Earnings | | | Expense | | | Tax Rate | |
| Pretax earnings and tax expense, as reported | \$ | 12,124 | | \$ | 1,526 | | 12.6% | | \$ | 11,899 | | \$ | (6,354) | | -53.4% | |
| | | | | | | | | | | | | | | | | |
| Tax benefit of HK IRD Settlement, including interest income and reversal of penalties | | - | | | - | | 0.0 % | | | - | | | 7,950 | | * | |
| Pretax earnings and tax expense, without significant items | \$ | 12,124 | | \$ | 1,526 | | 12.6% | | \$ | 11,899 | | \$ | 1,596 | | 13.4% | |

| | | Six Months Ended August 31, | | | | | | | | | | | | | | |
|---|--|-----------------------------|--------|--|---------|-------|--|----------|------|----|----------|--|----|-----------|--|--------|
| | | 2008 | | | | | | | 2007 | | | | | | | |
| | | Pretax | | | Tax | | | Pretax | | | Tax | | | Effective | | |
| | | Earnings | | | Expense | | | Tax Rate | | | Earnings | | | Tax Rate | | |
| Pretax earnings and tax expense, as reported | | \$ | 19,252 | | \$ | 3,096 | | 16.1% | | \$ | 23,341 | | \$ | (5,029) | | -21.5% |
| | | | | | | | | | | | | | | | | |
| Tax benefit of HK IRD Settlement, including interest income and reversal of penalties | | | | | | | | | | | | | | | | |
| | | | - | | | - | | 0.0 % | | | - | | | 7,950 | | * |
| | | | | | | | | | | | | | | | | |
| Impairment charges | | | 7,760 | | | 155 | | 2.0% | | | - | | | - | | 0.0% |
| | | | | | | | | | | | | | | | | |

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| | | | | | | | | | | | | |
|--|----|---------|----|-------|--|-------|----|--------|----|-------|--|-------|
| Charge to allowance for doubtful accounts due to customer bankruptcy | | 3,876 | | 1,360 | | 35.1% | | - | | - | | 0.0% |
| | | | | | | | | | | | | |
| Gain on casualty insurance settlements | | (2,702) | | (67) | | 2.5% | | - | | - | | 0.0% |
| Pretax earnings and tax expense, without significant items | \$ | 28,186 | \$ | 4,544 | | 16.1% | \$ | 23,341 | \$ | 2,921 | | 12.5% |
| | | | | | | | | | | | | |
| * Calculation is not meaningful | | | | | | | | | | | | |

Excluding the impact of significant items shown above, the fluctuations in our effective tax rates for the periods presented are generally attributable to shifts in the mix of taxable income earned between the various high tax rate and low tax rate jurisdictions in which we conduct our business.

The table above reports non-GAAP pre-tax earnings and tax expense, which excludes specified significant items. Non-GAAP pre-tax earnings and tax expense, as discussed in the preceding table, may be considered non-GAAP financial information as contemplated by SEC Regulation G, Rule 100. The preceding table reconciles these measures to their corresponding GAAP-based measures presented in our consolidated condensed statements of income. The Company believes that its non-GAAP earnings and tax expense, provides useful information to management and investors regarding financial and business trends relating to its financial condition and results of operations. The Company believes that this non-GAAP pre-tax earnings and tax expense, in combination with the Company's financial results calculated in accordance with GAAP, provides investors with additional perspective regarding the impact of certain significant items on earnings and tax expense. The Company also believes that the non-GAAP measures provided by the Company facilitate a more direct comparison of its performance with its competitors. The Company further believes that the excluded significant items do not accurately reflect the underlying performance of its continuing operations for the period in which

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they are incurred, even though some of these excluded items may be incurred and reflected in the Company's GAAP financial results in the foreseeable future. The material limitation associated with the use of the non-GAAP financial measures is that the non-GAAP measures do not reflect the full economic impact of the Company's activities. The Company's non-GAAP pre-tax earnings and tax expense is not prepared in accordance with GAAP, is not an alternative to GAAP financial information, and may be calculated differently than non-GAAP financial information disclosed by other companies. Accordingly, undue reliance should not be placed on non-GAAP information.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Selected measures of our liquidity and capital resources as of August 31, 2008 and 2007 are shown below:

SELECTED MEASURES OF OUR LIQUIDITY AND CAPITAL RESOURCES

| | 2008 | As of August 31, | 2007 |
|---|------|------------------|------------|
| Accounts Receivable Turnover (Days) (1) | | 69.4 | 70.7 |
| Inventory Turnover (Times) (1) | | 2.4 | 2.3 |
| Working Capital (<i>in thousands</i>) | \$ | 182,411 | \$ 215,667 |
| Current Ratio | | 2.0 : 1 | 2.5 : 1 |
| Ending Debt to Ending Equity Ratio (2) | | 36.2% | 41.4% |
| Return on Average Equity (1) | | 8.7% | 11.7% |

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

(2) Total debt is defined as all debt outstanding at the balance sheet date. This includes the sum of the following lines when they appear on our consolidated condensed balance sheets: Revolving line of credit, Current portion of long-term debt and Long-term debt, less current portion.

Operating activities

Operating activities consumed \$9.15 million of cash during the first six months of fiscal 2009, compared to \$19.31 million of cash provided during the same period in fiscal 2008. The decrease in operating cash flow was primarily due to a combination of lower net income and the timing of fluctuations in working capital components, particularly in accounts receivable, accounts payable and accrued expenses.

Accounts receivable increased \$10.44 million to \$116.06 million as of August 31, 2008, compared to \$105.62 million at the end of fiscal 2008. The accounts receivable increase is due to normal seasonal changes. Accounts receivable turnover improved to 69.4 days at August 31, 2008,

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from 70.7 days at August 31, 2007. This calculation is based on a rolling five quarter accounts receivable balance.

Inventories increased \$21.53 million to \$166.39 million as of August 31, 2008, compared to \$144.87 million at the end of fiscal 2008. The inventory increase is due to normal seasonal changes as we prepare for our peak shipping season. Inventory turnover improved to 2.4 times at August 31, 2008 compared to 2.3 times for the same period at August 31, 2007.

Working capital decreased to \$182.41 million at August 31, 2008, compared to \$215.67 million at August 31, 2007. Our current ratio decreased to 2.0:1 at August 31, 2008, compared to 2.5:1 at August 31, 2007. The decline in our working capital and current ratio was mostly caused by \$75 million of long-term debt scheduled to mature in June 2009, which became classified as a current liability during the quarter just ended. Absent the impact of this change, our working capital position over the past year would have improved as a result of the

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strength of our cash flow, active receivables management, and a reduction in income taxes payable resulting from tax settlements. Over the last twelve months this allowed us to use \$9.05 million of cash for capital, trademark and other intangible asset acquisitions, pay down \$13 million of debt, and increase our cash, investments and trading securities by \$56.74 million.

Investing activities

Investing activities provided \$14.99 million of cash during the six months ended August 31, 2008. Listed below are some significant highlights of our investing activities for the year-to-date:

- We spent \$0.67 million on molds and tooling, \$0.99 million on information technology infrastructure and \$1.84 million on building improvements, primarily for new office space for our Housewares segment.
- We liquidated \$16.40 million of investments in auction rate securities.
- We received net proceeds from the sale of property, plant and equipment, primarily from the sale of fractional shares in corporate jets, of approximately \$2.59 million.

Financing activities

Financing activities used \$5.44 million of cash during the six months ended August 31, 2008. Highlights of those activities for the year-to-date follow:

- We repaid \$3 million of debt.
- Employees exercised options to purchase 15,900 common shares, providing \$0.17 million of cash and \$0.03 million in related tax benefits.
- In July 2008, purchases through our employee stock purchase plan provided \$0.21 million of cash.

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- We repurchased and retired 187,505 common shares at a total purchase price of \$2.89 million, for a \$15.39 per share average price.

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Table of Contents***Contractual obligations and commercial commitments***

Our contractual obligations and commercial commitments, as of August 31, 2008, were:

PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED AUGUST 31:

(in thousands)

| | Total | 2009 1 year | 2010 2 years | 2011 3 years | 2012 4 years | 2013 5 years | After 5 years |
|------------------------------------|--------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Term debt - fixed rate | \$ 12,000 | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ 3,000 | \$ - | \$ - |
| Term debt - floating rate (1) | 200,000 | 75,000 | - | 50,000 | - | - | 75,000 |
| Long-term incentive plan payouts | 4,350 | 2,023 | 2,327 | - | - | - | - |
| Interest on floating rate debt (1) | 38,321 | 11,134 | 7,453 | 6,962 | 4,508 | 4,508 | 3,756 |
| Interest on fixed rate debt | 2,063 | 842 | 624 | 407 | 190 | - | - |
| Open purchase orders | 113,273 | 113,273 | - | - | - | - | - |
| Minimum royalty payments | 75,892 | 4,747 | 6,420 | 6,074 | 5,263 | 4,853 | 48,535 |
| Advertising and promotional | 85,814 | 6,917 | 6,096 | 5,605 | 5,755 | 5,445 | 55,996 |
| Operating leases | 12,326 | 2,062 | 1,913 | 1,391 | 1,027 | 992 | 4,941 |
| Capital spending commitments | 237 | 237 | - | - | - | - | - |
| Other | - | - | - | - | - | - | - |
| Total contractual obligations (2) | \$ 544,276 | \$ 219,235 | \$ 27,833 | \$ 73,439 | \$ 19,743 | \$ 15,798 | \$ 188,228 |

(1) As mentioned above in Note 14 to the accompanying consolidated condensed financial statements, the Company uses interest rate hedge agreements (the swaps) in conjunction with its unsecured floating interest rate \$75 million, 5 year; \$50 million, 7 year; and \$75 million, 10 year Senior Notes. The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on these 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. Accordingly, the future interest obligations related to this debt have been estimated using these rates.

(2) In addition to the contractual obligations and commercial commitments in the table above, as of August 31, 2008, we have recorded \$1.89 million of net income tax liabilities, including the provision for our uncertain tax positions. While we expect to settle certain of these issues over the near term, we are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, we have excluded all 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

As of August 31, 2008, we have no outstanding borrowings and \$1.10 million of open letters of credit under our Revolving Line of Credit Agreement. We have not drawn on this facility during the current fiscal year.

At August 31, 2008, we held \$45.03 million of our investments in auction rate securities collateralized by student loans. At this time, there is very limited demand for these securities and limited acceptable alternatives to liquidate such securities. As a result, we may not be able to liquidate these auction rate notes at their recorded values. If we are unable to sell the notes on a timely basis as cash needs arise, we would be required to rely on cash on hand, cash from operations and available amounts under our Revolving Line of Credit Agreement in order to meet those needs. For more information, see Item 1A. Risk Factors in this Quarterly Report on Form 10-Q and the Company's annual report on Form 10-K for the fiscal year ended February 29, 2008.

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On May 2, 2008, Linens Holding Co., the operator of Linens 'n Things retail chain ("Linens"), filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Linens is a significant customer of the Company with fiscal 2008 net sales of approximately \$1.30 million and \$17.30 million, for our Personal Care and Housewares segments, respectively. Linens' contribution to the Company's net sales for the six months ended August 31, 2008 totaled \$0.44 million and \$5.74 million for the Personal Care and Housewares segments, respectively, compared to net sales of \$0.84 million and \$8.80 million, respectively, for the same period last year. Future levels of revenue from this customer may continue to be significantly reduced or eliminated, depending on the ultimate resolution of Linens bankruptcy proceedings.

Based on our current financial condition, current operations and the potential impact of the issues discussed in the two paragraphs above, 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 June 2009, our five-year \$50 million Revolving Line of Credit facility, and \$75 million of five-year, unsecured floating rate senior debt will mature. Continued disruption in U.S. and international credit markets may adversely affect our ability to renew this credit facility and any renewed facility may be under terms that are not as favorable as past credit agreements. While management has not committed to a specific course of action to repay the \$75 million unsecured floating rate senior debt due June 29, 2009, we are currently working on having sufficient borrowing capacity in place, when combined with available cash and investment balances, to repay the debt principal on or before its maturity.

In addition, we continue to evaluate acquisition opportunities on a regular basis and may augment our internal growth with acquisitions of complementary businesses or product lines. We may finance acquisition activity with available cash, the issuance of common shares, 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 elect to repurchase additional common shares from time to time based upon its assessment of its liquidity position and market conditions at the time, and subject to limitations contained in its debt agreements. For additional information, see Part II, Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds in the Company's most recent annual report on Form 10-K filed with the SEC.

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. Except for the discussion which follows regarding ARS, there have been no material changes to the Company's critical accounting policies from the information provided in 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, 2008.

Auction rate securities - As a result of the market failure and lack of liquidity in the current ARS market, our ARS at May 31, 2008 were valued using an estimate of fair value based upon a survey of recent write-downs reported by a sample of public companies with similar investment holdings in student loan backed ARS. We believe the survey constituted a fair value determination derived from indirectly observable market based information and required classification of our ARS holdings as a long-term investment. During second quarter of fiscal 2009, we developed a series of discounted cash flow models and began using them to value our ARS's. Some of the inputs into the new discounted cash flow models are unobservable in the market and have a significant effect on valuation. The assumptions used in preparing the models include, but are not limited to, periodic coupon rates, market required rate of returns and the expected term of each security. The coupon rate was

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estimated using implied forward rate data on interest rate swaps and U.S. treasuries, and limited where necessary by any contractual maximum rate paid under a scenario of continuing auction failures. We believe implied forward rates inherently account for a lack of liquidity. In making assumptions of the required rates of return, we

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considered risk-free interest rates and credit spreads for investments of similar credit quality. The expected term was based on a weighted probability based estimate of the time the principal will become available to us. The principal can become available under three different scenarios: (1) the ARS is called; (2) the market has returned to normal and auctions have recommenced and are successful; and (3) the principal has reached maturity.

For a more comprehensive list of our accounting policies, read Note 1 Summary of Significant Accounting Policies, accompanying the consolidated financial statements included in our latest annual report on Form 10-K for the year ended February 29, 2008. Note 1 to the consolidated financial statements included with Form 10-K contains several other policies, including policies governing the timing of revenue recognition, that are important to the preparation of our consolidated condensed financial statements, but do not meet the SEC's definition of critical accounting policies because they do not involve subjective or complex judgments.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 New Accounting Pronouncements, to the accompanying consolidated condensed financial statements of this Quarterly Report on Form 10-Q, for a discussion of the status and potential impact of new accounting pronouncements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in currency exchange rates, interest rates and the liquidity of our investments 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-month periods ended August 31, 2008, we transacted approximately 15 and 16 percent, respectively, of our net sales in foreign currencies. During the three- and six-month periods ended August 31, 2007, we transacted approximately 15 percent of our net sales in foreign currencies. These sales were primarily denominated in the Canadian Dollar, British Pound, Euro, Brazilian Real, Venezuelan Bolivares Fuertes and the Mexican Peso. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases. For the three- and six-month periods ended August 31, 2008, we incurred net foreign exchange losses of \$0.61 million and \$0.34 million, respectively. During the same fiscal periods in the prior year, we incurred a net foreign exchange loss of \$0.15 million and a net foreign exchange gain of \$0.51 million, respectively.

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.

We enter into these type of agreements where we believe we have meaningful exposure to foreign currency exchange risk. It is simply 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.

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 OCI. 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

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condensed statements of income. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes. See Note 21 to the accompanying consolidated condensed financial statements for information about our hedging activities which took place subsequent to August 31, 2008.

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Interest rate risk

Fluctuation in interest rates can cause variation in the amount of interest that we can earn on our available cash, cash equivalents and investments and the amount of interest expense we incur on any short-term and long-term borrowings. Interest on our long-term debt outstanding as of August 31, 2008 is both floating and fixed. Fixed rates are in place on \$12 million of senior notes at 7.24 percent and floating rates are in place on \$200 million of debt which reset as described in Note 14 to the accompanying consolidated condensed financial statements, but have been effectively converted to fixed rate debt using the interest rate swaps described below.

We manage our floating rate debt using interest rate swaps (the "swaps"). We have three interest rate swaps that convert an aggregate notional principal of \$200 million 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 have three contracts to pay fixed rates of interest on an aggregate notional principal amount of \$200 million at rates ranging from 5.04 to 5.11 percent while simultaneously receiving floating rate interest payments set at 2.80 percent as of August 31, 2008 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. Changes in the spread between the fixed rate payment side of the swap and the floating rate receipt side of the swap offset 100 percent of the change in any period of the underlying debt's floating rate payments. These swaps are used to reduce the Company's risk of increased interest costs; however, should floating interest rates drop significantly, we lose the benefit that floating rate debt can provide in a declining interest rate environment. The swaps are considered 100 percent effective. Gains and losses related to the swaps, net of related tax effects are reported as a component of "Accumulated other comprehensive loss" in the accompanying consolidated condensed balance sheet 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 condensed statements of income.

Our levels of debt, certain additional draws against our Revolving Line of Credit Agreement (whose interest rates can vary with the term of each draw) and the uncertainty regarding the level of future interest rates increase our risk profile.

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The following table summarizes the various foreign currency contracts and interest rate swap contracts we designated as cash flow hedges that were open at August 31, 2008 and February 29, 2008:

CASH FLOW HEDGES

| August 31, 2008 | | | | | | | | | | | |
|---------------------------------------|------------|--------------|------------|---------------------|-----------|--|--------------|--------|--------------|---------------|--------------|
| | | | | | | | | | Weighted | Market | |
| | | | | | | | | | Weighted | Average | Value of the |
| | | | | Range of Maturities | | Spot Rate at | Spot Rate at | | Average | Forward Rate | Contract in |
| Contract | Currency | Notional | Contract | | | Contract | August 31, | | Forward Rate | at August 31, | U.S. Dollars |
| Type | to Deliver | Amount | Date | From | To | Date | 2008 | | at Inception | 2008 | (Thousands) |
| Foreign Currency Contracts | | | | | | | | | | | |
| Sell | Pounds | £5,000,000 | 11/28/2006 | 12/11/2008 | 1/15/2009 | 1.9385 | 1.8177 | 1.9242 | 1.8035 | \$ | 604 |
| Sell | Pounds | £5,000,000 | 4/17/2007 | 2/17/2009 | 8/17/2009 | 2.0000 | 1.8177 | 1.9644 | 1.7912 | \$ | 866 |
| Subtotal | | | | | | | | | | \$ | 1,470 |
| Interest Rate Swap Contracts | | | | | | | | | | | |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2009 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (1,312) |
| Swap | Dollars | \$50,000,000 | 9/28/2006 | 6/29/2011 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (2,048) |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2014 | | (Pay fixed rate at 5.11%, receive floating 3-month LIBOR rate) | | | | \$ | (4,179) |
| Subtotal | | | | | | | | | | \$ | (7,539) |
| Fair Value of Cash Flow Hedges | | | | | | | | | | | \$ (6,069) |

| February 29, 2008 | | | | | | | | | | | |
|---------------------------------------|------------|--------------|------------|---------------------|-----------|--|--------------|--------|--------------|--------------|--------------|
| | | | | | | | | | Weighted | Market | |
| | | | | | | | | | Weighted | Average | Value of the |
| | | | | Range of Maturities | | Spot Rate at | Spot Rate at | | Average | Forward Rate | Contract in |
| Contract | Currency | Notional | Contract | | | Contract | Feb. 29, | | Forward Rate | at Feb. 29, | U.S. Dollars |
| Type | to Deliver | Amount | Date | From | To | Date | 2008 | | at Inception | 2008 | (Thousands) |
| Foreign Currency Contracts | | | | | | | | | | | |
| Sell | Pounds | £5,000,000 | 11/28/2006 | 12/11/2008 | 1/15/2009 | 1.9385 | 1.9885 | 1.9242 | 1.9440 | \$ | (99) |
| Sell | Pounds | £5,000,000 | 4/17/2007 | 2/17/2009 | 8/17/2009 | 2.0000 | 1.9885 | 1.9644 | 1.9281 | \$ | 182 |
| Subtotal | | | | | | | | | | \$ | 83 |
| Interest Rate Swap Contracts | | | | | | | | | | | |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2009 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (2,506) |
| Swap | Dollars | \$50,000,000 | 9/28/2006 | 6/29/2011 | | (Pay fixed rate at 5.04%, receive floating 3-month LIBOR rate) | | | | \$ | (3,462) |
| Swap | Dollars | \$75,000,000 | 9/28/2006 | 6/29/2014 | | (Pay fixed rate at 5.11%, receive floating 3-month LIBOR rate) | | | | \$ | (6,481) |
| Subtotal | | | | | | | | | | \$ | (12,449) |
| Fair Value of Cash Flow Hedges | | | | | | | | | | | \$ (12,366) |

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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. See Note 21 to the accompanying consolidated condensed financial statements for information about our hedging activities which took place subsequent to August 31, 2008.

Counterparty credit risk

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

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Table of Contents***Risks inherent in cash, cash equivalents and investment holdings***

Our cash, cash equivalents and investments are subject to interest rate risk, credit risk and liquidity risk. Cash consists of both interest bearing and non-interest bearing operating disbursement accounts. Cash equivalents consist of commercial paper and money market investment accounts. Temporary and long-term investments consist of AAA auction rate notes that we would normally seek to dispose of within 35 or fewer days (auction rate securities or ARS).

The following table summarizes the cash, cash equivalents and investments we held at August 31, 2008 and February 29, 2008:

CASH, CASH EQUIVALENTS AND INVESTMENTS HOLDINGS

(in thousands)

| | August 31, 2008 | | February 29, 2008 | |
|--|-----------------|-------------------------|-------------------|-------------------------|
| | Carrying Amount | Range of Interest Rates | Carrying Amount | Range of Interest Rates |
| Cash and cash equivalents | | | | |
| Cash held in interest and non interest-bearing operating accounts - unrestricted | \$ 6,025 | 0.00 to 4.75% | \$ 6,872 | 0.00 to 5.40% |
| Cash held in interest and non interest-bearing operating accounts - restricted | 1,011 | 0.00 to 11.00% | 701 | - |
| Commercial paper | 3,057 | 2.38 to 2.56% | 1,785 | 3.15 to 3.19% |
| Money market accounts | 48,156 | 2.00 to 6.00% | 48,493 | 2.00 to 6.00% |
| Total cash and cash equivalents | \$ 58,249 | | \$ 57,851 | |
| Auction rate securities - collateralized by student loans | \$ 45,025 | 1.14 to 3.99% | \$ 63,825 | 4.50 to 9.90% |

Our cash balances at August 31, 2008 and February 29, 2008 include restricted amounts of \$1.01 million and \$0.70 million, respectively, denominated in Venezuelan Bolivares Fuertes, shown above under the heading Cash held in interest and non interest-bearing operating accounts restricted. The balances are primarily a result of favorable operating cash flows within the Venezuelan market. Due to current Venezuelan government restrictions on transfers of cash out of the country and control of exchange rates, the Company has not yet received approval of its applications to repatriate this cash, and cannot repatriate it at this time.

Most of our cash equivalents and investments are in money market accounts, commercial paper and auction rate securities with frequent rate resets, therefore, we believe there is no material interest rate risk. In addition, our commercial paper and auction rate securities are purchased from issuers with high credit ratings, therefore, we believe the credit risk is relatively low.

Recent credit market instability, extraordinary stock market volatility and general instability in the financial services sector have increased the risk that access to funds in traditional temporary investment vehicles, such as money market accounts and commercial paper may become temporarily unavailable for purchase, temporarily illiquid or subject to losses in net asset value. We are watching developments in these markets carefully, and to the extent practical, we continue to seek temporary investments that we believe will preserve capital and meet our liquidity

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needs. However, given the financial conditions mentioned above, we can make no assurances our objectives will be met.

We hold investments in auction rate securities collateralized by student loans (with underlying maturities from 20.1 to 39.2 years). Substantially all such collateral in the aggregate is guaranteed by the U.S. government under the Federal Family Education Loan Program. Liquidity for these securities was normally dependent on an auction process that resets the applicable interest rate at pre-determined intervals, ranging from 7 to 35 days. Beginning in February 2008, the auctions for the ARS held by us and others were unsuccessful, requiring us to hold them beyond their typical auction reset dates. Auctions fail when there is insufficient demand. However, this does not represent a default by the issuer of the security. Upon an auction's failure, the interest rates reset based on a formula contained in the security. The rate is generally equal to or higher than the current market rate for similar securities. The securities will continue to accrue interest and be auctioned until one of the following occurs: the auction succeeds; the issuer calls the securities; or the securities mature.

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At February 29, 2008, these securities were valued at their original cost and classified as current assets in the consolidated condensed balance sheet under the heading Temporary investments, which we believed appropriate based on the circumstances and level of information we had at that time. Between February 29, 2008 and August 31, 2008, we liquidated \$16.40 million of these securities with no gain or loss. Each of the remaining securities in our portfolio has been subject to failed auctions. These failures in the auction process have affected our ability to access these funds in the near term. We intend to reduce our remaining holdings as soon as practicable, but currently believe it is unlikely that we will be able to liquidate some of our holdings over the next twelve months. Accordingly, at May 31, 2008, we re-classified all remaining ARS as non-current assets held for sale under the heading Long-term investments in our consolidated condensed balance sheet and the Company determined that original cost no longer approximates fair value.

As a result of the lack of liquidity in the ARS market, in the first quarter of fiscal 2009 we recorded a pre-tax temporary unrealized loss on our ARS of \$1.51 million, which is reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet, net of related tax effects of \$0.51 million. During the second quarter of fiscal 2009, we recorded an additional pre-tax temporary unrealized loss on our ARS of \$0.89 million, which is reflected in accumulated other comprehensive loss in our consolidated condensed balance sheet, net of related tax effects of \$0.30 million. The recording of these unrealized losses is not a result of the quality of the underlying collateral, but rather a temporary markdown reflecting a lack of liquidity and other current market conditions.

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 SEC, in press releases, and in certain other oral and written presentations. Generally, the words anticipates, believes, expects, plans, may, will, seeks, estimates, project, predict, potential, continue, intends, and other similar words identify forward-looking statements. All statements 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 the Company's current expectations and various assumptions. The Company believes there is a reasonable basis for its expectations and assumptions, but there can be no assurance that the Company will realize its expectations or that the Company's assumptions will prove correct. Forward-looking statements are subject to risks that could cause them to differ materially from actual results. Accordingly, the Company cautions readers not to place undue reliance on forward-looking statements. We believe that these risks include, but are not limited to, the risks described in Part 1, Item 1A. Risk Factors of our annual report on Form 10-K for the year ended February 29, 2008 and risks otherwise described from time to time in our SEC reports as filed. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), maintains disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-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 the CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended August 31, 2008. 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, 2008, 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 that occurred during our fiscal quarter ended August 31, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Securities class action litigation An agreement has been reached to settle the consolidated class action lawsuits filed on behalf of purchasers of publicly traded securities of the Company 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. In the consolidated action, the plaintiffs alleged violations of Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 thereunder. 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.

On June 19, 2008, the Court held a hearing at which it approved the terms of the settlement, the certification of the class for purposes of the settlement, and the award of attorney's fees and costs related to the lawsuit. The order approving the settlement became final on July 19, 2008. Under the settlement, the lawsuit has been dismissed with prejudice in exchange for a cash payment of \$4.5 million. The Company's insurance carrier paid the settlement amount and the Company's remaining legal and related fees associated with defending the lawsuit because the Company had met its self-insured retention obligation. The Company and the two officers of the Company named in the lawsuit have denied any and all allegations of wrongdoing and have received a full release of all claims.

United States income taxes - The IRS is currently examining our U.S. consolidated federal tax return for fiscal year 2005. On March 31, 2008, the IRS provided notice of a proposed adjustment of \$7.75 million to taxes for the year under audit. The Company is vigorously contesting this adjustment. To date, this is the only adjustment that has been proposed, however the audit has not yet been concluded. Although the ultimate outcome of the dispute with the IRS cannot be predicted with certainty, management believes that an adequate provision for taxes has been made in our consolidated condensed financial statements.

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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.

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ITEM 1A. RISK FACTORS

The ownership of our common shares 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, 2008 as well as the risk factors listed below, which supplement the risk factors contained in our Form 10-K. If any of the events or circumstances described in our 10-K or listed below actually occur, our business, financial condition or results of operations could be materially adversely affected. The risks contained in our Form 10-K and those listed below are not the only risks that we face. Additional risks that we do not yet know of or that we currently think are not significant may also impact our business operation.

Continued disruption in U.S. and international credit markets may adversely affect our business, financial condition and results of operation.

Recent disruptions in national and international credit markets have lead to a scarcity of credit, tighter lending standards and higher interest rates on consumer and business loans. Continued disruption may materially limit both consumer credit availability and restrict credit availability to our customer base.

The commitment under our Revolving Line of Credit Agreement expires on June 1, 2009. Our ability to renew our new credit facility or to enter into a new credit facility to replace the existing facility could be impaired if current market conditions continue or worsen. In the current environment, lenders may seek more restrictive lending provisions and higher interest rates that may reduce our borrowing capacity and increase our costs. Also, given the increased level of recent banking failures, current or future lenders may become unwilling or unable to continue to advance funds under any agreements in place. We can make no assurances that we will be able to enter into a new credit facility or renew our existing credit facility, or whether any such facility will be under terms that are as favorable as past credit agreements. Failure to obtain sufficient financing may constrain our ability to operate or grow the business and to make complementary strategic business and/or brand acquisitions.

Any of these circumstances could have a material adverse effect on our business, financial condition and results of operation.

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

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. We did not repurchase any common shares during the three months ended August 31, 2008. From September 1, 2003 through August 31, 2008, we have repurchased 2,846,733 common shares at a total cost of \$74.50 million, or an average price per share of \$26.17. An additional 153,267 common shares remain authorized for purchase under this plan as of August 31, 2008.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual General Meeting of Shareholders was held August 19, 2008 in El Paso, Texas. At that meeting, the shareholders voted on the following proposals:

- Proposal 1. Election of a board of eight directors;
- Proposal 2. Approval of the Helen of Troy Limited 2008 Employee Stock Purchase Plan;
- Proposal 3. Approval of the Helen of Troy Limited 2008 Stock Incentive Plan;
- Proposal 4. Approval of the Helen of Troy Limited 2008 Non-Employee Directors Stock Incentive Plan;
- Proposal 5. Ratification of the terms of the performance goals established for the Helen of Troy 1997 Cash Bonus Performance Plan and approval of amendments to the plan; and
- Proposal 6. Appointment of Grant Thornton LLP as the auditor and independent registered public accounting firm of the Company to serve for the 2008 fiscal year and to authorize the Audit Committee of the Board of Directors to set the auditor's remuneration.

A description of the foregoing matters is contained in the Company's Proxy Statement dated June 27, 2008, relating to the 2008 Annual General Meeting of Shareholders.

With respect to Proposal 1, the shareholders elected each of the following directors to the Company's Board of Directors by the votes indicated below, to serve until the next annual general meeting of shareholders, or until his or her successor is qualified and elected:

| | For | Withheld |
|---------------------|------------|-----------|
| Gary B. Abromovitz | 22,641,389 | 4,532,649 |
| John B. Butterworth | 24,498,283 | 2,675,755 |
| Timothy F. Meeker | 23,001,075 | 4,172,963 |

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| | | |
|-------------------|------------|-----------|
| Byron H. Rubin | 23,333,339 | 3,840,699 |
| Gerald J. Rubin | 25,336,853 | 1,837,185 |
| Stanlee N. Rubin | 21,697,197 | 5,476,841 |
| Adolpho R. Telles | 24,480,482 | 2,693,556 |
| Darren G. Woody | 23,247,985 | 3,926,053 |

The proposal to approve the Helen of Troy Limited 2008 Employee Stock Purchase Plan received the following votes:

| For | Against | Abstentions | Broker Non-Votes |
|------------|---------|-------------|---------------------|
| 21,463,259 | 272,152 | 1,426,469 | 4,012,158 |

The proposal to approve the Helen of Troy Limited 2008 Stock Incentive Plan received the following votes:

| For | Against | Abstentions | Broker Non-Votes |
|------------|-----------|-------------|---------------------|
| 13,842,898 | 7,887,778 | 1,431,204 | 4,012,158 |

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The proposal to approve the Helen of Troy Limited 2008 Non-Employee Directors Stock Incentive Plan received the following votes:

| For | Against | Abstentions | Broker Non-Votes |
|------------|-----------|-------------|---------------------|
| 18,049,814 | 3,687,843 | 1,424,223 | 4,012,158 |

The proposal to ratify the terms of the performance goals established for the Helen of Troy 1997 Cash Bonus Performance Plan and approve amendments to the plan received the following votes:

| For | Against | Abstentions | Broker Non-Votes |
|------------|-----------|-------------|---------------------|
| 24,590,716 | 1,136,310 | 1,447,012 | - |

The proposal to appoint Grant Thornton LLP as independent auditors of the Company and to authorize the Audit Committee of the Board of Directors to set the auditor's remuneration received the following votes:

| For | Against | Abstentions | Broker Non-Votes |
|------------|---------|-------------|---------------------|
| 27,058,519 | 83,994 | 31,525 | - |

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ITEM 6. EXHIBITS

(a) Exhibits

- 10.1 Helen of Troy Limited 2008 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 10.2 Helen of Troy Limited 2008 Stock Incentive Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 10.3 Helen of Troy Limited 2008 Non-Employee Directors Stock Incentive Plan (incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 10.4 Helen of Troy Limited 1997 Cash Bonus Performance Plan, as amended (incorporated by reference to Appendix D to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 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.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HELEN OF TROY LIMITED
(Registrant)

Date: October 8, 2008

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

Date: October 8, 2008

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

Date: October 8, 2008

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

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Index to Exhibits

- 10.1 Helen of Troy Limited 2008 Employee Stock Purchase Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 10.2 Helen of Troy Limited 2008 Stock Incentive Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 10.3 Helen of Troy Limited 2008 Non-Employee Directors Stock Incentive Plan (incorporated by reference to Appendix C to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 10.4 Helen of Troy Limited 1997 Cash Bonus Performance Plan, as amended (incorporated by reference to Appendix D to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on June 27, 2008).
- 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.

* Filed herewith.

** Furnished herewith.