HELEN OF TROY LTD
Form 10-Q
January 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2006

or

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

For the transition period from _________ to _________

Commission file number: 001-14669

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

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

Class	**Outstanding at January 5, 2007**
Common Shares, $0.10 par value per share	30,258,943 shares

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HELEN OF TROY LIMITED AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	November 30, 2006 (unaudited)	February 28, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 59,017	$ 18,320
Trading securities, at market value	221	97
Foreign currency forward contracts	—	584
Receivables - principally trade, less allowance of $1,157 and $850	168,445	107,289
Inventories	146,155	168,401
Prepaid expenses	6,613	5,793
Deferred income tax benefits	13,360	10,690
Total current assets	393,811	311,174
Property and equipment, at cost less accumulated depreciation of $32,827 and $27,039	98,369	100,703
Goodwill	201,003	201,003
Trademarks, net of accumulated amortization of $229 and $225	158,061	157,711
License agreements, net of accumulated amortization of $15,593 and $14,514	26,722	27,801
Other intangible assets, net of accumulated amortization of $4,177 and $3,044	15,019	15,757
Tax certificates	25,144	28,425
Other assets	13,846	15,170
	$ 931,975	$ 857,744
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable, principally trade	42,607	30,175
Accrued expenses	76,304	54,145
Income taxes payable	27,848	31,286
Total current liabilities	156,759	125,606
Long-term compensation liability	1,735	1,706
Deferred income tax liability	164	81
Long-term debt, less current portion	257,660	254,974
Total liabilities	416,318	382,367

Commitments and contingencies (See Notes 3, 11 and 13)				
Stockholders' equity				
Cumulative preferred shares, non-voting, $1.00 par. Authorized 2,000,000 shares; none issued		—		—
Common shares, $.10 par. Authorized 50,000,000 shares; 30,255,243 and 30,013,172 shares issued and outstanding		3,025		3,001
Additional paid-in-capital		94,417		90,300
Retained earnings		421,282		380,916
Accumulated other comprehensive income (loss)		(3,067)		1,160
Total stockholders' equity		515,657		475,377
	$	931,975	$	857,744

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2006	**2005**	**2006**	**2005**
Net sales	$ 213,437	$ 197,458	$ 491,050	$ 455,239
Cost of sales	121,960	111,414	274,964	250,285
Gross profit	91,477	86,044	216,086	204,954
Selling, general, and administrative expense	62,375	57,396	159,428	146,878
Operating income	29,102	28,648	56,658	58,076
Other income (expense):				
Interest expense	(4,487)	(4,259)	(13,689)	(11,317)
Other income (expense), net	863	(623)	1,940	(277)
Total other income (expense)	(3,624)	(4,882)	(11,749)	(11,594)
Earnings before income taxes	25,478	23,766	44,909	46,482
Income tax expense (benefit):				
Current	3,938	1,287	5,710	2,393
Deferred	(1,273)	(187)	(1,167)	1,423
Net earnings	$ 22,813	$ 22,666	$ 40,366	$ 42,666
Earnings per share:				
Basic	$ 0.76	$ 0.76	$ 1.34	$ 1.43
Diluted	$ 0.72	$ 0.72	$ 1.28	$ 1.34
Weighted average common shares used in computing net earnings per share				
Basic	30,160	29,935	30,074	29,895
Diluted	31,769	31,272	31,578	31,767

See accompanying notes to consolidated condensed financial statements.

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

	Nine Months Ended November 30, 2006	2005
Cash flows from operating activities:		
Net earnings	$ 40,366	$ 42,666
Adjustments to reconcile net earnings to net cash provided / (used) by operating activities		
Depreciation and amortization	10,756	8,738
Provision for doubtful receivables	(307)	(1,086)
Stock-based compensation expense	499	—
Unrealized (gain) / loss - trading securities	(34)	30
Deferred taxes, net	(1,288)	309
Gain on the sale of property, plant and equipment	(419)	—
Changes in operating assets and liabilities:		
Accounts receivable	(60,849)	(52,816)
Forward contracts	5,429	(3,312)
Inventories	22,246	(47,266)
Prepaid expenses	198	3,105
Other assets	2,582	(276)
Accounts payable	12,432	22,711
Accrued expenses	11,687	7,226
Income taxes payable	(3,478)	307
Net cash provided / (used) by operating activities	39,860	(19,664)
Cash flows from investing activities:		
Capital, license, trademark, and other intangible expenditures	(6,287)	(48,302)
Proceeds from the sale of property, plant and equipment	666	150
Net cash used by investing activities	(5,621)	(48,152)
Cash flows from financing activities:		
Proceeds from debt	7,660	4,974
Repayment of debt	(4,974)	—
Net borrowings on revolving line of credit	—	60,000
Payment of financing costs	—	(91)
Proceeds from exercise of stock options and employee stock purchases	3,642	1,135
Share-based compensation tax benefit	130	—
Net cash provided by financing activities	6,458	66,018
Net increase / (decrease) in cash and cash equivalents	40,697	(1,798)
Cash and cash equivalents, beginning of period	18,320	21,752
Cash and cash equivalents, end of period	$ 59,017	$ 19,954

Supplemental cash flow disclosures:				
Interest paid	$	12,771	$	10,587
Income taxes paid (net of refunds)	$	8,562	$	3,015

See accompanying notes to consolidated condensed financial statements.

HELEN OF TROY LIMITED AND SUBSIDIARIES
Consolidated Condensed Statements Of Comprehensive Income (unaudited)
(in thousands)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2006	**2005**	**2006**	**2005**
Net earnings, as reported	$ 22,813	$ 22,666	$ 40,366	$ 42,666
Other comprehensive income (loss), net of tax:				
Cash flow hedges - Interest Rate Swaps	(1,793)	—	(1,793)	—
Cash flow hedges - Foreign Currency	(956)	1,561	(2,434)	4,252
Comprehensive income	$ 20,064	$ 24,227	$ 36,139	$ 46,918

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
November 30, 2006

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 November 30, 2006 and February 28, 2006, and the results of our consolidated operations for the three-month and nine-month periods ended November 30, 2006 and 2005. The same accounting policies are followed in preparing quarterly financial data as are followed in preparing annual data.

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

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

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

Note 2 - ***Adoption of New Accounting Standard for Share-Based Payments***

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

Effective March 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), ''Share-Based Payment'' (''SFAS 123R''), utilizing the modified prospective method whereby prior periods will not be restated for comparability. SFAS 123R requires recognition of share-based compensation expense in the statements of income over the vesting period based on the fair value of the award at the grant date. Previously, the Company used the intrinsic value method under Accounting Principles Board Opinion No. 25, ''Accounting for Stock Issued to Employees'' (''APB 25''), as amended by related interpretations of the Financial Accounting Standards Board ("FASB"). Under APB 25, no compensation cost was recognized for stock options because the quoted market price of the stock at the grant date was equal to the amount per share the employee had to pay to acquire the stock after fulfilling the vesting period. SFAS 123R supersedes APB 25 as well as Statement of Financial Accounting Standard 123 "Accounting for Stock-Based Compensation", which permitted pro forma footnote disclosures to report the difference between the fair value method and the intrinsic value method.

Under stock option and restricted stock plans adopted in 1994 and 1998, as amended (the "1994 Plan" and the "1998 Plan," respectively), we have reserved a total of 14,750,000 common shares for issuance to key officers and employees. Under these plans, we grant options to purchase our common shares at a price equal to or greater than the fair market value on the grant date. Both plans contain provisions for incentive stock options, non-qualified stock options and restricted share grants. Generally, options granted under the 1994 Plan and the 1998 Plan become

exercisable immediately or over one, four, or five-year vesting periods and expire on dates ranging from seven to ten years from the date of grant. As of November 30, 2006, 569,086 shares remained available for issue and 6,418,858 options were outstanding under these plans.

Under a stock option plan for non-employee directors (the "Directors' Plan") adopted in fiscal 1996, we reserved a total of 980,000 of our common shares for issuance to non-employee members of the Board of Directors. We granted options under the Directors' Plan at a price equal to the fair market value of our common shares at the date of grant. Options granted under the Directors' Plan vest one year from the date of issuance and expire ten years after issuance. The Directors' Plan expired by its terms on June 6, 2005. On that date, the remaining 284,000 shares available for issue expired. As of November 30, 2006, 260,000 options were outstanding under this plan.

Under an employee stock purchase plan (the "Stock Purchase Plan"), we have reserved a total of 500,000 common shares for issuance to our employees, nearly all of whom are eligible to participate. Under the terms of the Stock Purchase Plan, employees authorize the withholding of from 1 percent to 15 percent of their wages or salaries to purchase our common shares. The purchase price for shares acquired under the Stock Purchase Plan is equal to the lower of 85 percent of the share's fair market value on either the first day of each option period or the last day of each period. During the second quarter of fiscal 2007, plan participants acquired 12,485 shares at a price of $15.21 per share under the Stock Purchase Plan. During the third quarter of fiscal 2007, no shares were issued under the Stock Purchase Plan. At November 30, 2006, 319,231 shares remained available for future issue under this plan.

For the three-month and nine-month periods ending November 30, 2006, the Company expensed $130 and $500 pre-tax, respectively, for stock options issued and employee share purchases under the above plans. These amounts were classified in selling, general, and administrative expense in the consolidated condensed statements of income for the fiscal periods then ended. The following table highlights the impact of share based compensation expense:

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

	Three Months Ended November 30,				Nine Months Ended November 30,			
	2006		2005 (1)		2006		2005 (1)	
Stock options	$	130	$	—	$	450	$	—
Employee stock purchase plan		—		—		50		—
Share-based payment expense	$	130	$	—	$	500	$	—
Share-based payment expense, net of income tax benefits of $36 and $130 for the three and nine months ended November 30, 2006.	$	94	$	—	$	370	$	—
Earnings per share impact of share based payment expense:								
Basic	$	0.00	$	—	$	0.01	$	—
Diluted	$	0.00	$	—	$	0.01	$	—

(1) Prior year amounts are before adoption of SFAS 123R under the modified prospective method. Under this method, periods prior to adoption are not restated.

The following table provides the pro forma effect on net earnings and earnings per share as if the fair-value-based measurement method had been applied to all stock-based compensation for the three-month and nine-month periods ended November 30, 2005:

PRO FORMA NET INCOME AND PRO FORMA EARNINGS PER SHARE
(in thousands, except per share data)

	November 30, 2005			
	(Three Months)		(Nine Months)	
Net income:				
As reported	$	22,666	$	42,666
Share-based payment expense, net of income tax benefit of $170 and $408, respectively		299		1,049
Pro forma	$	22,367	$	41,617
Basic earnings per share:				
As reported	$	0.76	$	1.43
Pro forma		0.75		1.39
Diluted earnings per share:				
As reported	$	0.72	$	1.34
Pro forma		0.72		1.31

The fair value of all share-based payment awards are estimated using the Black-Scholes option pricing model with the following assumptions and weighted-average fair values for the three-month and nine-month periods ended November 30, 2006 and 2005:

FAIR VALUE OF AWARDS AND ASSUMPTIONS USED

	Three Months Ended November 30,			Nine Months Ended November 30,			
	2006 [1]		2005		2006		2005
Weighted-average fair value of grants *(in dollars)*	N/A	$	6.78	$	7.26	$	7.25
Risk-free interest rate	N/A		4.33%		4.95%		4.20%
Dividend yield	N/A		0.00%		0.00%		0.00%
Expected volatility	N/A		41.45%		39.90%		41.66%
Expected life *(in years)*	N/A		3.86		4.11		3.69

[1] No stock options were granted during the quarter.

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 historic experience to estimate the expected life of each stock-option grant and also to estimate the impact of exercise, forfeitures, termination and holding period behavior for fair value expensing purposes.

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

A summary of option activity as of November 30, 2006, and changes during the nine-months then ended is as follows:

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

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at February 28, 2006	6,923	$ 14.83	$ 5.52	4.83	$ 39,317
Granted	21	18.82			
Exercised	(228)	(12.60)			
Forfeited / expired	(37)	(19.80)			
Outstanding at November 30, 2006	6,679	$ 14.89	$ 5.52	4.04	$ 59,482
Exerciseable at November 30, 2006	6,427	$ 14.79	$ 5.48	3.92	$ 57,915

The aggregate intrinsic value of options exercised during the nine-month period ended November 30, 2006 was $2,060. A summary of non-vested option activity as of November 30, 2006, and changes during the nine-month period then ended is as follows:

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

	Non-Vested Options	Weighted Average Grant Date Fair Value
Outstanding at February 28, 2006	410	$ 6.27
Granted	21	7.16
Vested or forfeited	(179)	(5.96)
Outstanding at November 30, 2006	252	$ 6.56

A summary of the Company’s total unrecognized share-based compensation cost as of November 30, 2006 is as follows:

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

Weighted

	Unearned Compensation	Average Remaining Period of Expense Recognition (in months)
Stock options	$ 1,216	41.1

Note 3 - ***Litigation***

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

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

On May 15, 2006, the Company filed a motion to dismiss the aforementioned lawsuit citing numerous deficiencies with the claims asserted in the lawsuit. On June 29, 2006, the plaintiffs filed with the court their opposition to the Company's motion to dismiss. On July 17, 2006, the Company filed a reply rebutting the plaintiffs' June 29th opposition. As of the date this report was filed, this matter was before the court for its consideration.

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

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

Basic earnings per share is computed based upon the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based upon the weighted average number of shares of common stock plus the effects of dilutive securities. The number of dilutive securities was 1,609,412 and 1,504,504 for the three- and nine-month periods ended November 30, 2006, respectively, and 1,337,269 and 1,872,714 for the three- and nine-month periods ended November 30, 2005. All dilutive securities during these periods consisted of stock options issued under our stock option plans. There were options to purchase common shares that were outstanding but not included in the computation of earnings per share because the exercise prices of such options were greater than the average market prices of our common shares. These options totaled 536,300 and 946,368 at November 30, 2006 and 2005, respectively.

Note 5 - ***Segment Information***

In the tables that follow, we present two segments: Personal Care and Housewares. The Personal Care segment's products include hair dryers, straighteners, curling irons, hairsetters, women's shavers, mirrors, hot air brushes, home hair clippers, paraffin baths, massage cushions, footbaths, body massagers, brushes, combs, hair accessories, liquid hair styling products, men's fragrances, men's deodorants, body powder, and skin care products. The Housewares segment's products include kitchen tools, cutlery, bar and wine accessories, household cleaning tools, tea kettles, trash cans, storage and organization products, hand tools, gardening tools, kitchen mitts and trivets, and barbeque tools. Both segments sell their portfolio of products principally through mass merchants, general retail and specialty retail outlets in the United States and other countries.

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 2006 Annual Report in Form10-K, except as discussed below.

Operating profit 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 profit are comprised of SG&A directly associated with the segment, plus overhead expenses that are allocable to the operating segment. In connection with the acquisition of our Housewares segment, the seller agreed to perform certain operating functions for the segment for a transitional period of time that ended February 28, 2006. The costs of these functions were reflected in SG&A for the Housewares segment's operating income. During the transitional period, we did not make an allocation of our corporate overhead to Housewares. For the three-month and nine-month periods ended November 30, 2006, we began making an allocation of corporate overhead and distribution center expenses to Housewares in lieu of transition charges previously recorded. For the three-month and nine-month periods ended November 30, 2006, we allocated expenses totaling $3,690 and $9,448, respectively, to the Housewares segment, some of which were previously absorbed by the Personal Care segment. For the three-month and nine-month periods ended November 30, 2005, transition charges of $3,303 and $8,087, respectively, were used to compute the Housewares segments operating income.

Major expense categories presently allocated to the Housewares segment, in lieu of the transition charges the Housewares segment incurred prior to March 1, 2006, include the following:

Customer Service;
Credit, Collection and Accounting;
Distribution Facility and Equipment Costs;
Distribution Labor Charges; and
General and Administrative Overhead.

During the first quarter of fiscal 2007, we completed the transition of our Housewares segment's operations to our internal operating systems and our new distribution facility in Southaven, Mississippi. The process of consolidating our domestic appliance inventories into the same new facility is still underway with major activity planned during the last quarter of fiscal 2007. As a result of these transitions, we have incurred, and will continue to incur, additional expenses that we believe will decline as operations in the new facility stabilize at some point later in fiscal 2008.

We are in the process of re-evaluating our allocation methodology, and plan to change our methodology in fiscal 2008 to better reflect the evolving economics of our operation. At that time, we expect the new methodology to result in some reduction in operating income for the Housewares segment, offset by an increase in the operating income for the Personal Care segment. Until we finalize our approach, the extent of this operating income impact between the segments cannot be determined.

Other items of income and expense, including income taxes, are not allocated to operating segments.

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

THREE MONTHS ENDED NOVEMBER 30, 2006 AND 2005
(in thousands)

November 30, 2006	**Personal Care**	**Housewares**	**Total**
Net sales	$ 173,741	$ 39,696	$ 213,437
Operating income	20,077	9,025	29,102
Capital, license, trademark and other intangible expenditures	1,456	1,083	2,539
Depreciation and amortization	2,182	1,227	3,409

November 30, 2005	**Personal Care**	**Housewares**	**Total**
Net sales	$ 161,007	$ 36,451	$ 197,458
Operating income	19,045	9,603	28,648
Capital, license, trademark and other intangible expenditures	28,478	10,634	39,112
Depreciation and amortization	2,378	742	3,120

NINE MONTHS ENDED NOVEMBER 30, 2006 AND 2005
(in thousands)

November 30, 2006	**Personal Care**	**Housewares**	**Total**
Net sales	$ 390,041	$ 101,009	$ 491,050
Operating income	35,970	20,688	56,658
Capital, license, trademark and other intangible expenditures	4,436	1,851	6,287
Depreciation and amortization	7,081	3,675	10,756

November 30, 2005	**Personal Care**	**Housewares**	**Total**
Net sales	$ 362,384	$ 92,855	$ 455,239
Operating income	33,396	24,680	58,076
Capital, license, trademark and other intangible expenditures	36,795	11,507	48,302
Depreciation and amortization	6,443	2,295	8,738

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

IDENTIFIABLE NET ASSETS AT NOVEMBER 30, 2006 AND FEBRUARY 28, 2006
(in thousands)

	Personal Care	Housewares	Total
November 30, 2006	$ 582,426	$ 349,549	$ 931,975
February 28, 2006	512,594	345,150	857,744

Note 6 - ***Property and Equipment***

A summary of property and equipment is as follows:

PROPERTY AND EQUIPMENT
(in thousands)

	Estimated Useful Lives (Years)	November 30, 2006	February 28, 2006
Land	—	$ 9,537	$ 9,623
Building and improvements	10 - 40	62,577	62,374
Computer and other equipment	3 - 10	39,529	37,601
Molds and tooling	1 - 3	6,138	4,907
Transportation equipment	3 - 5	3,902	3,875
Furniture and fixtures	5 - 15	7,722	7,865
Construction in process	—	1,791	457
Information system under development	—	—	1,040
		131,196	127,742
Less accumulated depreciation		(32,827)	(27,039)
Property and equipment, net		$ 98,369	$ 100,703

On May 31, 2006, we sold 3.9 acres of raw land adjacent to our El Paso, Texas office and distribution center. The land was sold for $666 and we recorded a gain on the sale of $422.

On July 7, 2006, we acquired a 3,600 square foot office facility in Mexico City for approximately $830. To date we have paid approximately $179 to remodel and furnish this and other facilities and expect to incur approximately $21 of additional capital expenditures to complete the remodeling and furnishing of facilities.

During the fiscal quarter ended November 30, 2006, we paid approximately $1,029 against a $1,500 commitment to acquire and install additional storage racking, and associated handling equipment for our new Southaven, Mississippi distribution facility.

We recorded depreciation of $2,531 and $7,499 for the three-month and nine-month periods ended November 30, 2006, respectively, and $1,962 and $5,227 for the three-month and nine-month periods ended November 30, 2005, respectively.

Note 7 - ***Intangible Assets***

In accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), 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. SFAS 142 also requires at least an annual impairment review of goodwill and other intangible assets. Any asset deemed to be impaired is to be written down to its fair value. We completed our annual impairment test during the first quarter of fiscal 2007 as required by SFAS 142, and have determined that none of our goodwill or other intangible assets were impaired at that time.

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

INTANGIBLE ASSETS
(in thousands)

Type / Description	Segment	Estimated Life	November 30, 2006 Gross Carrying Amount	November 30, 2006 Accumulated Amortization (if Applicable)	November 30, 2006 Net Carrying Amount	February 28, 2006 Gross Carrying Amount	February 28, 2006 Accumulated Amortization (if Applicable)	February 28, 2006 Net Carrying Amount
Goodwill:								
OXO	Housewares	Indefinite	$ 165,934	$ —	$ 165,934	$ 165,934	$ —	$ 165,934
All other goodwill	Personal Care	Indefinite	35,069	—	35,069	35,069	—	35,069
			201,003	—	201,003	201,003	—	201,003
Trademarks:								
OXO	Housewares	Indefinite	75,554	—	75,554	75,200	—	75,200
Brut	Personal Care	Indefinite	51,317	—	51,317	51,317	—	51,317
All other - definite lives	Personal Care	[1]	338	(229)	109	338	(225)	113
All other - indefinite lives	Personal Care	Indefinite	31,081	—	31,081	31,081	—	31,081
			158,290	(229)	158,061	157,936	(225)	157,711
Licenses:								
Seabreeze	Personal Care	Indefinite	18,000	—	18,000	18,000	—	18,000
All other licenses	Personal Care	8 - 25 Years	24,315	(15,593)	8,722	24,315	(14,514)	9,801
			42,315	(15,593)	26,722	42,315	(14,514)	27,801
Other:								
Patents, customer lists and non-compete agreements	Housewares	2 - 13 Years	19,196	(4,177)	15,019	18,801	(3,044)	15,757
Total			$ 420,804	$ (19,999)	$ 400,805	$ 420,055	$ (17,783)	$ 402,272

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

The following table summarizes the amortization expense attributable to intangible assets for the three-month and nine-month periods ending November 30, 2006 and 2005, as well as our latest estimate of amortization expense for

the fiscal years ending the last day of February 2007 through 2012.

AMORTIZATION OF INTANGIBLES
(in thousands)
Aggregate Amortization Expense
For the three months ended

November 30, 2006	$	660
November 30, 2005	$	791

Aggregate Amortization Expense
For the nine months ended

November 30, 2006	$	2,216
November 30, 2005	$	2,372

Estimated Amortization Expense
For the fiscal years ended

February 2007	$	2,951
February 2008	$	2,889
February 2009	$	2,639
February 2010	$	2,595
February 2011	$	2,122
February 2012	$	2,016

Note 8 - ***Short Term Debt***

On June 1, 2004, we entered into a five year $75,000 Credit Agreement (“Revolving Line of Credit Agreement”), with Bank of America, N.A. and other lenders. Borrowings under the Revolving Line of Credit Agreement accrue interest equal to the higher of the Federal Funds Rate plus 0.50 percent or Bank of America's prime rate. Alternatively, upon 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 EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization") for the period of the four consecutive fiscal quarters most recently ended.

The credit line allows for the issuance of letters of credit up to $10,000. Outstanding letters of credit reduce the $75,000 borrowing limit dollar for dollar. There were no outstanding borrowings or associated interest expense during the fiscal three-month and nine-month periods ended November 30, 2006. As of November 30, 2006, there were no open letters of credit outstanding against this facility.

The Revolving Line of Credit Agreement requires the maintenance of certain Debt/EBITDA, fixed charge coverage ratios, and other customary covenants. Certain covenants, as of the latest balance sheet date, limit our total outstanding indebtedness from all sources to no more than 3.5 times the latest twelve months trailing EBITDA. These covenants effectively limited our ability to incur no more than $40,333 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. Any amounts outstanding under the Revolving Line of Credit Agreement will mature on June 1, 2009. As of November 30, 2006, we were in compliance with the terms of this agreement.

Note 9 - ***Accrued Expenses***

A summary of accrued expenses was as follows:

ACCRUED EXPENSES
(in thousands)

	November 30, 2006	February 28, 2006
Accrued sales returns, discounts and allowances	$ 32,791	$ 24,176
Accrued compensation	7,231	7,603
Accrued advertising	12,024	7,617
Accrued interest	3,002	2,671
Accrued royalties	3,747	2,577
Accrued professional fees	1,247	1,502
Accrued benefits and payroll taxes	2,011	1,495
Accrued freight	1,250	858
Accrued property, sales and other taxes	1,856	593
Foreign currency forward contracts	2,129	—
Interest rate swaps	2,716	—
Other	6,300	5,053
Total Accrued Expenses	$ 76,304	$ 54,145

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Note 10 - ***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 $8,401 and $7,373 as of November 30, 2006 and February 28, 2006, respectively. We estimate our warranty accrual using historical trends. We believe that these trends are the most reliable method by which we can estimate our warranty liability.

The following table summarizes the activity in the Company's accrual for the three-month and nine-month periods ended November 30, 2006 and fiscal year ended February 28, 2006:

ACCRUAL FOR WARRANTY RETURNS
(in thousands)

	November 30, 2006		February 28,
	(Three Months)	(Nine Months)	2006 (Year)
Balance at the beginning of the period	$ 6,148	$ 7,373	$ 5,767
Additions to the accrual	6,764	15,245	22,901
Reductions of the accrual - payments and credits issued	(4,511)	(14,217)	(21,295)
Balance at the end of the period	$ 8,401	$ 8,401	$ 7,373

Note 11 - ***Income Taxes***

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

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

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

If the IRD were to successfully assert the same position for fiscal years after fiscal year 2003, the resulting assessment could total $18,673 (U.S.) in taxes for fiscal years 2004 and 2005. We would vigorously disagree with any such proposed adjustments and would aggressively contest this matter through the applicable taxing authority and judicial process, as appropriate.

Although the final resolution of the proposed adjustments is uncertain and involves unsettled areas of the law, based on currently available information, we have provided for our best estimate of the probable tax liability for this matter. While the resolution of the issue may result in tax liabilities that are significantly higher or lower than the reserves established for this matter, management currently believes that the resolution will not have a material effect on our consolidated financial position or liquidity. However, an unfavorable resolution could have a material effect on our consolidated results of operations or cash flows in the quarter in which an adjustment is recorded or the tax is due or paid.

Effective March 2005, we had concluded the conduct of all operating activities in Hong Kong that we believe were the basis of the IRD's assessments. In the third quarter of fiscal 2005, the Company established a Macao offshore company ("MOC") and began operating from Macao. As a MOC, we have been granted an indefinite tax holiday and currently pay no taxes. Accordingly, no additional accruals for Hong Kong contingent tax liabilities beyond fiscal 2005 have been provided.

United States Income Taxes - The Internal Revenue Service (the "IRS") has completed its audits of the U.S. consolidated federal tax returns for fiscal years 2000, 2001 and 2002. We previously disclosed that the IRS provided notice of proposed adjustments to taxes of $13,424 for the three years under audit. We have resolved the various tax issues and reached an agreement on additional tax in the amount of $3,568. The resulting tax liability had already been provided for in our tax reserves and prior to the current fiscal year we had decreased our tax accruals related to the IRS audits for fiscal years 2000, 2001 and 2002, accordingly. This additional tax liability and associated interest of $914 were settled in the fourth quarter of fiscal 2006.

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

Repatriation of Foreign Earnings - On February 22, 2006, the Board of Directors of a subsidiary of the Company approved the repatriation, pursuant to The American Jobs Creation Act of 2004 (the "AJCA"), of $48,554 in foreign earnings. As a result, we incurred a one-time tax charge of $2,792 in the fourth fiscal quarter ending February 28, 2006.

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

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

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.

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

Note 12 - ***Long Term-Debt***

A summary of long-term debt was as follows:

LONG-TERM DEBT
(in thousands)

		Range of Interest Rates					
	Original Date Borrowed	**Quarter Ended November 30, 2006**	**Fiscal 2006**	**Latest Rate Payable**	**Matures**	**November 30, 2006**	**February 28, 2006**
$40,000 unsecured Senior Note Payable at a fixed interest rate of 7.01%. Interest payable quarterly, principal of $10,000 payable annually beginning on January 2005.	01/96	7.01%	7.01%	7.01%	01/08	$ 20,000	$ 20,000
$15,000 unsecured Senior Note Payable at a fixed interest rate of 7.24%. Interest payable quarterly, principal of $3,000 payable annually beginning on July 2008.	07/97	7.24%	7.24%	7.24%	07/12	15,000	15,000
$100,000 unsecured floating interest rate 5 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal is due at maturity. Notes	06/04	5.89% to 6.35%	3.41% to 5.371%	5.89%	06/09	100,000	100,000

can be prepaid without penalty. *							
$50,000 unsecured floating interest rate 7 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal is due at maturity. Notes can be prepaid without penalty. *	06/04	5.89% to 6.35%	3.41% to 5.371%	5.89%	06/11	50,000	50,000
$75,000 unsecured floating interest rate 10 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 90 basis points. Principal is due at maturity. Notes can be prepaid without penalty. *	06/04	6.01% to 6.40%	3.46% to 5.421%	6.01%	06/14	75,000	75,000
$12,634 unsecured Industrial Development Revenue Bond. Interest is set and payable quarterly at Company's election at either Bank prime or applicable LIBOR plus 75 to 125 basis points as determined by loan agreement formula. Principal converted to five-year bonds in May 2006, balance due May, 2011. **	08/05	6.65%	5.295% to 5.42%	6.65%	05/11	7,660	4,974
						267,660	