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.)
Clarenden House **Church Street** **Hamilton, Bermuda** (Address of principal executive offices)	
1 Helen of Troy Plaza **El Paso, Texas** (Registrant s United States Mailing Address)	**79912** (Zip Code)

(915) 225-8000

(Registrant s telephone number, including area code)

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

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company 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 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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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, 2008 (unaudited)	February 29, 2008
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

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.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Income (unaudited)

(in thousands, except per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	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.

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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 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*

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 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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Note 6 *Significant Charge against Allowance for Doubtful Accounts*

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 Linen s 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.

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 Additions	Impairments	Acquisition Adjustments	Accumulated Amortization	Net Book Value at August 31, 2008
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.

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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, 2008
	(Three Months)	**(Six Months)**	(Year)

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.

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)**

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%

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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Note 14 *Long-Term Debt*

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.

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,		**Six Months Ended August 31,**	
	2008	2007	**2008**	2007
Interest and commitment fees	**$ 2,179**	$ 3,674	**$ 4,661**	$ 7,772
Deferred finance costs	**143**	182	**287**	364
Interest rate swap settlements	**1,162**	(155)	**1,989**	(322)
Reduction of debt and revolving credit agreement commitment	-	119	-	119
Total interest expense	**$ 3,484**	$ 3,820	**$ 6,937**	$ 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.

- 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.

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

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.

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

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	Range of Maturities To	Spot Rate at Contract Date	Spot Rate at August 31, 2008	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at August 31, 2008	Market Value of the Contract in U.S. Dollars (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

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	Range of Maturities To	Spot Rate at Contract Date	Spot Rate at Feb. 29, 2008	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at Feb. 29, 2008	Market Value of the Contract in U.S. Dollars (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)