HELEN OF TROY LTD
Form 10-Q
October 10, 2006

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 August 31, 2006

or

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

For the transition period from______ to_______

Commission file number: 001-14669

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes T No £

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No T

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

Class	**Outstanding at October 3, 2006**
Common Shares, $0.10 par value per share	30,061,557 shares

HELEN OF TROY LIMITED AND SUBSIDIARIES

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PART 1. 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, 2006 (unaudited)	February 28, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 31,837	$ 18,320
Trading securities, at market value	212	97
Foreign currency forward contracts	-	584
Receivables - principally trade, less allowance of $1,212 and $850	117,032	107,289
Inventories	185,324	168,401
Prepaid expenses	8,398	5,793
Deferred income tax benefits	10,387	10,690
Total current assets	353,190	311,174
Property and equipment, at cost less accumulated depreciation of $32,007 and $27,039	98,839	100,703
Goodwill	201,003	201,003
Trademarks, net of accumulated amortization of $228 and $225	157,708	157,711
License agreements, net of accumulated amortization of $15,233 and $14,514	27,082	27,801
Other intangible assets, net of accumulated amortization of $3,878 and $3,044	15,101	15,757
Tax certificates	25,144	28,425
Deferred income tax benefits	253	-
Other assets	14,897	15,170
	$ 893,217	$ 857,744
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$ 14,974	$ 10,000
Accounts payable, principally trade	45,182	30,175
Accrued expenses	54,819	54,145
Income taxes payable	26,830	31,286
Total current liabilities	141,805	125,606
Long-term compensation liability	1,371	1,706
Deferred income tax liability	-	81

Long-term debt, less current portion		257,660		254,974
Total liabilities		400,836		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; 30,058,957 and 30,013,172 shares issued and outstanding		3,006		3,001
Additional paid-in-capital		91,224		90,300
Retained earnings		398,469		380,916
Accumulated other comprehensive income (loss)		(318)		1,160
Total stockholders' equity		492,381		475,377
	$	893,217	$	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 August 31,		Six Months Ended August 31,	
	2006	**2005**	**2006**	**2005**
Net sales	$ 147,172	$ 130,389	$ 277,613	$ 257,781
Cost of sales	80,504	70,171	153,004	138,871
Gross profit	66,668	60,218	124,609	118,910
Selling, general, and administrative expense	50,028	46,088	97,053	89,482
Operating income	16,640	14,130	27,556	29,428
Other income (expense):				
Interest expense	(4,696)	(3,795)	(9,202)	(7,058)
Other income, net	287	403	1,077	345
Total other income (expense)	(4,409)	(3,392)	(8,125)	(6,713)
Earnings before income taxes	12,231	10,738	19,431	22,715
Income tax expense:				
Current	833	233	1,772	1,106
Deferred	524	1,053	106	1,610
Net earnings	$ 10,874	$ 9,452	$ 17,553	$ 19,999
Earnings per share:				
Basic	$ 0.36	$ 0.32	$ 0.58	$ 0.67
Diluted	$ 0.35	$ 0.30	$ 0.56	$ 0.63
Weighted average common shares used in computing net earnings per share				
Basic	30,040	29,896	30,031	29,875
Diluted	31,506	31,877	31,483	31,945

See accompanying notes to consolidated condensed financial statements.

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

	Six Months Ended August 31, 2006	2005
Cash flows from operating activities:		
Net earnings	$ 17,553	$ 19,999
Adjustments to reconcile net earnings to net cash provided / (used) by operating activities		
Depreciation and amortization	7,347	5,618
Provision for doubtful receivables	(362)	(984)
Stock-based compensation expense	370	-
Unrealized (gain) / loss - trading securities	(25)	(66)
Deferred taxes, net	12	496
Gain on the sale of property, plant and equipment	(422)	-
Changes in operating assets and liabilities:		
Accounts receivable	(9,381)	1,910
Forward contracts	1,524	(1,959)
Inventories	(16,923)	(69,827)
Prepaid expenses	(1,587)	1,527
Other assets	1,843	(774)
Accounts payable	15,007	6,602
Accrued expenses	(2,215)	(8,472)
Income taxes payable	(4,388)	(593)
Net cash provided / (used) by operating activities	8,353	(46,523)
Cash flows from investing activities:		
Capital, license, trademark, and other intangible expenditures	(3,748)	(9,190)
Proceeds from the sale of property, plant and equipment	666	150
Net cash used by investing activities	(3,082)	(9,040)
Cash flows from financing activities:		
Proceeds from debt	7,660	-
Net borrowings on revolving line of credit	-	41,000
Payment of financing costs	-	(91)
Proceeds from exercise of stock options and employee stock purchases	492	1,026
Share-based compensation tax benefit	94	-
Net cash provided by financing activities	8,246	41,935
Net increase / (decrease) in cash and cash equivalents	13,517	(13,628)
Cash and cash equivalents, beginning of period	18,320	21,752
Cash and cash equivalents, end of period	$ 31,837	$ 8,124

Supplemental cash flow disclosures:				
Interest paid	$	8,275	$	6,409
Income taxes paid (net of refunds)	$	6,159	$	2,358

See accompanying notes to consolidated condensed financial statements.

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

	Three Months Ended August 31, 2006	Three Months Ended August 31, 2005	Six Months Ended August 31, 2006	Six Months Ended August 31, 2005
Net earnings, as reported	$ 10,874	$ 9,452	$ 17,553	$ 19,999
Other comprehensive income (loss), net of tax:				
Cash flow hedges	(556)	306	(1,478)	2,691
Comprehensive income	$ 10,318	$ 9,758	$ 16,075	$ 22,690

See accompanying notes to consolidated condensed financial statements.

HELEN OF TROY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
August 31, 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 August 31, 2006 and February 28, 2006, and the results of our consolidated operations for the three-month and six-month periods ended August 31, 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.

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 and accompanying footnotes, 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 (the "1994 Plan" and the "1998 Plan," respectively), as amended, 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 ("ISO's"), non-qualified stock options ("Non-Q's") and restricted share grants. Generally, options granted under the 1994 and 1998 Plans 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 August 31, 2006, 544,586 shares remained available for issue and 6,621,144 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 August 31, 2006, 278,500 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. At August 31, 2006, 319,231 shares remained available for future issue under this plan.

For the three-month and six-month periods ending August 31, 2006, the Company expensed $183 and $370 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 August 31,		Six Months Ended August 31,	
	2006	**2005 (1)**	**2006**	**2005 (1)**
Stock options	$ 133	$ -	$ 320	$ -
Employee stock purchase plan	50	-	50	-
Share-based payment expense	$ 183	$ -	$ 370	$ -
Share-based payment expense, net of income tax benefits of $54 and $94 for the three and six months ended August 31, 2006.	$ 129	$ -	$ 276	$ -
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 six-month periods ended August 31, 2005:

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

	August 31, 2005			
	(Three Months)		(Six Months)	
Net income:				
As reported	$	9,452	$	19,999
Share-based payment expense, net of income tax benefit of $132 and $238, respectively		454		750
Pro forma	$	8,998	$	19,249
Basic earnings per share:				
As reported	$	0.32	$	0.67
Pro forma		0.30		0.64
Diluted earnings per share:				
As reported	$	0.30	$	0.63
Pro forma		0.28		0.60

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 six-month periods ended August 31, 2006 and 2005:

FAIR VALUE OF AWARDS AND ASSUMPTIONS USED

	Three Months Ended August 31,				Six Months Ended August 31,			
	2006		2005		2006		2005	
Weighted-average fair value of grants *(in dollars)*	$	6.71	$	7.91	$	7.16	$	8.68
Risk-free interest rate		4.94%		3.63%		4.95%		3.70%
Dividend yield		0.00%		0.00%		0.00%		0.00%
Expected volatility		38.65%		42.04%		39.13%		42.42%
Expected life *(in years)*		4.01		3.10		4.11		3.08

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 August 31, 2006, and changes during the six-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	(32)	(9.19)			
Forfeited / expired	(12)	(19.23)			
Outstanding at August 31, 2006	6,900	$ 14.86	$ 5.53	4.34	$ 21,379
Exerciseable at August 31, 2006	6,602	$ 14.75	$ 5.48	4.21	$ 21,189

The aggregate intrinsic value of options exercised during the six-month period ended August 31, 2006 was $309. A summary of non-vested option activity as of August 31, 2006, and changes during the six-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	(133)	(5.87)
Outstanding at August 31, 2006	298	$ 6.51

A summary of the Company’s total unrecognized share-based compensation cost as of August 31, 2006 is as follows:

	Unearned Compensation	Weighted Average Remaining Period of Expense Recognition (in months)

Stock options	$	1,346	43.1

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, 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 and is still in the preliminary stages. The Company intends to defend the foregoing lawsuit vigorously, but, because the lawsuit has been recently filed, 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 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 1,466,683 and 1,452,051 for the three- and six-month periods ended August 31, 2006, respectively, and 1,980,758 and 2,069,738 for the three- and six-month periods ended August 31, 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 1,154,381 and 203,966 at August 31, 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 expense 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 six-month periods ended August 31, 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 six-month periods ended August 31, 2006, we allocated expenses totaling $3,333 and $5,758, respectively, to the Housewares segment, some of which were previously absorbed by the Personal Care segment. For the three-month and six-month periods ended August 31, 2005, transition charges of $2,811 and $4,784, respectively, were used to compute the Housewares segments operating income.

Major expense categories now allocated to the Housewares segment in lieu of the transition services charges the Housewares segment previously incurred include the following:

Customer Service
Credit, Collection and Accounting
Distribution Facility and Equipment Costs
Distribution Labor Charges
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. 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. Accordingly, we are in the process of re-evaluating our allocation methodology, and plan to change our methodology later in the current fiscal year. 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 AUGUST 31, 2006 AND 2005
(in thousands)

August 31, 2006	Personal Care	Housewares	Total
Net sales	$ 110,976	$ 36,196	$ 147,172
Operating income	9,701	6,939	16,640
Capital, license, trademark and other intangible expenditures	1,798	250	2,048
Depreciation and amortization	2,280	1,187	3,467

August 31, 2005	Personal Care	Housewares	Total
Net sales	$ 100,861	$ 29,528	$ 130,389
Operating income	6,441	7,689	14,130
Capital, license, trademark and other intangible expenditures	4,987	447	5,434
Depreciation and amortization	2,103	789	2,892

SIX MONTHS ENDED AUGUST 31, 2006 AND 2005
(in thousands)

August 31, 2006	Personal Care	Housewares	Total
Net sales	$ 216,300	$ 61,313	$ 277,613
Operating income	15,893	11,663	27,556
Capital, license, trademark and other intangible expenditures	2,980	768	3,748
Depreciation and amortization	4,899	2,448	7,347

August 31, 2005	Personal Care	Housewares	Total
Net sales	$ 201,377	$ 56,404	$ 257,781
Operating income	14,351	15,077	29,428
Capital, license, trademark and other intangible expenditures	8,317	873	9,190
Depreciation and amortization	4,065	1,553	5,618

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, 2006 AND FEBRUARY 28, 2006
(in thousands)

	Personal Care	Housewares	Total
August 31, 2006	$ 547,972	$ 345,245	$ 893,217
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)	August 31, 2006	February 28, 2006
Land	-	$ 9,537	$ 9,623
Building and improvements	10 - 40	63,281	62,374
Computer and other equipment	3 - 10	40,023	37,601
Molds and tooling	1 - 3	5,890	4,907
Transportation equipment	3 - 5	3,902	3,875
Furniture and fixtures	5 - 15	7,900	7,865
Construction in process	-	313	457
Information system under development	-	-	1,040
		130,846	127,742
Less accumulated depreciation		(32,007)	(27,039)
Property and equipment, net		$ 98,839	$ 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 advanced approximately $89 to remodel and furnish this and other facilities and expect to incur approximately $111 of additional capital expenditures to complete the remodeling and furnishing of facilities.

We recorded depreciation of $2,540 and $4,968 for the three-month and six-month periods ended August 31, 2006, respectively, and $1,661and $3,265 for the three-month and six-month periods ended August 31, 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:

			August 31, 2006			February 28, 2006		
Type / Description	Segment	Estimated Life	Gross Carrying Amount	Accumulated Amortization (if Applicable)	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization (if Applicable)	Net Carrying Amount
Goodwill:								
OXO	Housewares	Indefinite	$ 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	75,200	-	75,200	75,200	-	75,200
Brut	Personal Care	Indefinite	51,317	-	51,317	51,317	-	51,317
All other - definite lives	Personal Care	[1]	338	(228)	110	338	(225)	113
All other - indefinite lives	Personal Care	Indefinite	31,081	-	31,081	31,081	-	31,081
			157,936	(228)	157,708	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	(15,233)	9,082	24,315	(14,514)	9,801
			42,315	(15,233)	27,082	42,315	(14,514)	27,801
Other:								
Patents, customer lists and non-compete agreements	Housewares	2 - 13 Years	18,979	(3,878)	15,101	18,801	(3,044)	15,757
Total			$ 420,233	$ (19,339)	$ 400,894	$ 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 six-month periods ending August 31, 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		
August 31, 2006	$	741
August 31, 2005	$	791
Aggregate Amortization Expense For the six months ended		
August 31, 2006	$	1,556
August 31, 2005	$	1,580
Estimated Amortization Expense For the fiscal years ended		
February 2007	$	3,046
February 2008	$	2,922
February 2009	$	2,673
February 2010	$	2,628
February 2011	$	2,155
February 2012	$	2,049

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 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 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 six-month periods ended August 31, 2006. As of August 31, 2006, there was a $616 open letter 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, effectively limited our ability to incur no more than $30,204 of additional debt from all sources, including draws on our Revolving Line of Credit. The agreement is guaranteed, on a joint and several basis, by the parent company, Helen of Troy Limited, and certain U.S. subsidiaries. Any amounts outstanding under the Revolving Line of Credit Agreement will mature on June 1, 2009. As of August 31, 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)

		August 31, 2006		**February 28, 2006**
Accrued sales returns, discounts and allowances	$	25,449	$	24,176
Accrued compensation		3,984		7,603
Accrued advertising		7,242		7,617
Accrued interest		3,224		2,671
Accrued royalties		2,064		2,577
Accrued professional fees		1,397		1,502
Accrued benefits and payroll taxes		1,657		1,495
Accrued freight		1,671		858
Accrued property, sales and other taxes		1,174		593
Foreign currency forward contracts		899		-
Other		6,058		5,053
Total Accrued Expenses	$	54,819	$	54,145

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 $6,148 and $7,373 as of August 31, 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 six-month periods ended August 31, 2006 and fiscal year ended February 28, 2006:

ACCRUAL FOR WARRANTY RETURNS
(in thousands)

	August 31, 2006		February 28, 2006
	(Three Months)	(Six Months)	(Year)
Balance at the beginning of the period	$ 6,571	$ 7,373	$ 5,767
Additions to the accrual	3,510	8,481	22,901
Reductions of the accrual - payments and credits issued	(3,933)	(9,706)	(21,295)
Balance at the end of the period	$ 6,148	$ 6,148	$ 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 include 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 fiscal quarter just ended, 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 the 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 examination 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)

	Original Date Borrowed	Range of Interest Rates Quarter Ended August 31, 2006	Fiscal 2006	Latest Rate Payable	Matures	August 31, 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 can be prepaid without penalty.	06/04	5.81% to 6.35%	3.41% to 5.371%	5.89%	06/09	100,000	100,000
$50,000 unsecured floating interest rate 7 Year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal is due at maturity. Notes can be prepaid without penalty.	06/04	5.81% 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	5.86% 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	6.12%	5.295% to 5.42%	6.65%	05/11	12,634	4,974
						272,634	264,974
Less current portion of long-term debt						(14,974)	(10,000)
Long-term debt, less current portion						$ 257,660	$ 254,974

Included in interest expense are amortized financing costs of $185 and $374 for the three-month and six-month periods ended August 31, 2006, respectively, and $203 and $401 for the three-month and six-month periods ended August 31, 2005, respectively.

All of our long-term debt is guaranteed by either the parent company, Helen of Troy Limited, and/or certain subsidiaries on a joint and several basis and has customary covenants covering Debt/EBITDA ratios, fixed charge coverage ratios, consolidated net worth levels, and other financial requirements. Certain covenants as of the latest balance sheet date, effectively limited our ability to incur no more than $30,204 of additional debt from all sources, including draws on our Revolving Line of Credit. Additionally, our debt agreements restrict us from incurring liens on any of our properties, except under certain conditions. As of August 31, 2006, we are in compliance with all the terms of these agreements.

During the fiscal quarter ended August 31, 2006, management evaluated the impact of prepaying some or all of its recently issued Industrial Development Revenue Bond (“the bond”). On September 15, 2006, the Company prepaid without penalty $4,974 of the bond and agreed with its holder that the remaining balance would be due at maturity in May 2011. Management continues to be able, at its discretion, to prepay any or all of the remaining balance due on the bond without penalty. Accordingly, the Company reclassified $4,974 of the bond as current at August 31, 2006 and the remaining balance as due at maturity.

On September 28, 2006, the Company entered into interest rate hedge agreements in conjunction with its outstanding unsecured floating interest rate $100,000, 5 Year; $50,000, 7 Year; and $75,000 10 Year Senior Notes (the “September 2006 Swaps”). The interest rate swaps are a hedge of the variable LIBOR rates used to reset the floating rates on the Senior Notes. The September 2006 Swaps effectively fix the interest rates on the 5, 7 and 10 Year Senior Notes at 5.89, 5.89 and 6.01 percent, respectively, beginning September 29, 2006. These swaps settle quarterly and terminate upon maturity of the related debt. These swaps are considered cash flow hedges under SFAS No. 133 because they are intended to hedge, and are effective as a hedge, against variable cash flows.

Note 13 - *Contractual Obligations*

Our contractual obligations and commercial commitments, as of August 31, 2006 were:

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

	Total	2007 1 year	2008 2 years	2009 3 years	2010 4 years	2011 5 years	After 5 years
Recorded Contractual Obligations							
Term debt - floating rate	$ 237,634	$ 4,974	$ -	$ 100,000	$ -	$ 57,660	$ 75,000
Term debt - fixed rate	35,000	10,000	13,000	3,000	3,000	3,000	3,000
Long-term incentive plan payouts	2,619	1,498	1,121	-	-	-	-
				$ -			
Unrecorded Contractual Obligations							
Interest on floating rate debt *	69,592	13,826	13,813	13,323	7,923	7,560	13,147
Interest on fixed rate debt	5,493	2,079	1,351	842	624	407	190
Open purchase orders	65,975	65,975	-	-	-	-	-
Minimum royalty payments	59,091	2,380	2,501	2,417	5,967	6,208	39,618
Advertising and promotional	25,499	11,863	7,075	3,141	1,420	800	1,200
Operating leases	3,709	2,443	753	340	173	-	-
Capital spending commitments	1,611	1,611	-	-	-	-	-
Open letters of credit pending settlement	616	616	-	-	-	-	-
Other	569	414	155	-	-	-	-
Total contractual obligations	$ 507,408	$ 117,679	$ 39,769	$ 123,063	$ 19,107	$ 75,635	$ 132,155

* The future obligation for interest on our variable rate debt has normally been estimated assuming the rates in effect as of the end of the latest fiscal quarter on which we are reporting. As mentioned above in Note 12, on On September 28, 2006, the Company entered into interest rate hedge agreements in conjunction with its outstanding

unsecured floating interest rate $100,000, 5 Year; $50,000, 7 Year; and $75,000 10 Year Senior Notes (the "September 2006 Swaps"). The interest rate swaps are a hedge of the variable LIBOR rates used to reset the floating rates on the Senior Notes. The September 2006 Swaps effectively fix the interest rates on the 5, 7 and 10 Year Senior Notes at 5.89, 5.89 and 6.01 percent, respectively, beginning September 29, 2006. Accordingly, the future interest obligations related to this debt has been estimated using these rates. We also have an unsecured Industrial Development Revenue Bond, whose rate is subject to periodic adjustment. The bond's interest rate has not been hedged. Accordingly, we estimated our future obligation for interest on it using the rates in effect as of August 31, 2006. This is only an estimate, actual rates on the bond may vary over time. For instance, taking into account that $4,974 of the bond was prepaid on September 15, 2006; a 1 percent increase in interest rates could add approximately $77 per year to floating rate interest expense over the bond's remaining maturity.

We lease certain facilities, equipment and vehicles under operating leases, which expire at various dates through fiscal 2011. Certain of the leases contain escalation clauses and renewal or purchase options.

On February 2, 2006, we sold a 619,000 square foot distribution facility in Southaven, Mississippi for $16,850 recording a gain on the sale of $1,304. We entered into an initial lease agreement with the new owners through April 2006 calling for monthly rentals of $141 per month including insurance and property tax payments.

In the first quarter of fiscal 2007, we obtained an extension on the lease of our formerly owned distribution facility. As a result we will now be making monthly lease payments of $175 including insurance and property tax payments through the end of the new lease term, which expires on February 28, 2007. The distribution facility is primarily used for appliances inventory, which we are in the process of moving from this facility to our new 1,200,000 square foot distribution facility, also located in Southaven. This extension of the agreement was made in order to provide us additional flexibility in the timing of the transition of our remaining operations between facilities.

Capital spending commitments include $111 for remodeling and furnishing office facilities and approximately $1,500 for additional warehouse racking and forklifts, which will allow us to improve space utilization in our new Southaven, Mississippi distribution facility.

Rent expense related to our operating leases was $1,169 and $2,242 for the three-month and six-month periods ended August 31, 2006, respectively, and $591 and $1,224 for the three-month and six-month periods ended August 31, 2005, respectively.

Note 14 - ***Forward Contracts***

Our functional currency is the U.S. Dollar. By operating internationally, we are subject to foreign currency risk from transactions denominated in currencies other than the U.S. Dollar ("foreign currencies"). Such transactions include sales, certain inventory purchases and operating expenses. As a result of such transactions, portions of our cash, trade accounts receivable, and trade accounts payable are denominated in foreign currencies. During the three-month and six-month periods ended August 31, 2006, we transacted approximately 14 percent of our net sales in foreign currencies. During the three-month and six-month periods ended August 31, 2005, we transacted approximately 13 percent of our net sales in foreign currencies. These sales were primarily denominated in the British Pound, the Euro, the Canadian Dollar, the Brazilian Real and the Mexican Peso. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases.

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

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

For transactions designated as cash flow hedges, the effective portion of the change in the fair value (arising from the change in the spot rates from period to period) is deferred in other comprehensive income. These amounts are

subsequently recognized in "Selling, general, and administrative expense" in the consolidated condensed 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.

The following table summarizes the various forward contracts we designated as cash flow hedges that were open at August 31, 2006 and February 28, 2006:

CASH FLOW HEDGES

August 31, 2006

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	To	Spot Rate at Contract Date	Spot Rate at August 31, 2006	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at August 31, 2006	Market Value of the Contract in U.S. Dollars (Thousands)
Sell	Pounds	£10,000,000	1/26/2005	12/11/2006	2/9/2007	1.8700	1.9047	1.8228	1.9059	($831)
Sell	Pounds	£10,000,000	5/12/2006	12/14/2007	2/14/2008	1.8940	1.9047	1.9010	1.9079	($69)
										($899)

February 28, 2006

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	To	Spot Rate at Contract Date	Spot Rate at Feb. 28, 2006	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at Feb. 28, 2006	Market Value of the Contract in U.S. Dollars (Thousands)
Sell	Pounds	£10,000,000	1/26/2005	12/11/2006	2/9/2007	1.8700	1.7540	1.8228	1.7644	$ 584

Note 15 - ***Repurchase of Helen of Troy Shares***

During the quarter ended August 31, 2003, our Board of Directors approved a resolution authorizing the purchase, in open market or through private transactions, of up to 3,000,000 common shares over an initial period extending through May 31, 2006. On April 25, 2006 our Board of Directors approved a resolution to extend the existing plan for three more years through May 31, 2009. During the fiscal quarters ended August 31, 2006 and 2005, respectively, we did not repurchase any common shares. From September 1, 2003 through August 31, 2006, we have repurchased 1,563,836 shares at a total cost of $45,612, or an average price per share of $29.17. An additional 1,436,164 shares remain authorized for purchase under this plan.

Note 16 - ***Customer and Supplier Concentrations***

Customers - Sales to our largest customer and its affiliate accounted for approximately 22 percent and 25 percent of our net sales in fiscal 2006 and 2005, respectively. Sales to our second largest customer accounted for approximately 10 percent and 8 percent of our net sales in fiscal 2006 and 2005, respectively. No other customers accounted for ten percent or more of net sales during those fiscal years. Sales to our top five customers accounted for approximately 46 percent and 44 percent in fiscal 2006 and 2005, respectively.

Suppliers - We use third party manufacturers to fulfill our manufacturing needs. Most of these manufacturers are in the Far East, primarily in the Peoples' Republic of China. Most of our grooming, skin care and hair care products are

currently manufactured in North America. We have found that contract manufacturing maximizes our flexibility and responsiveness to industry and consumer trends while minimizing the need for capital expenditures and the risk embedded in such expenditures. Manufacturers who produce our products use formulas, molds, and certain other tooling, some of which we own, in manufacturing those products. Both our business segments employ numerous technical and quality control persons to assure high product quality.

We have relationships with over 200 third-party manufacturers. Of those, the top two manufactures currently fulfill approximately 25 percent of our product requirements. Our top five suppliers currently fulfill approximately 42 percent of our product requirements.

We do not have long-term contracts with our manufacturers. We rely on our longstanding relationships with these suppliers to assure adequate sources of supply. Should one or more of our manufacturers stop producing product on our behalf, it could have a material adverse effect on our business, financial condition, and results from operations.

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

This discussion contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially due to a number of factors, including those discussed in the section entitled Item 3. "Quantitative and Qualitative Disclosures about Market Risk", "Information Regarding Forward Looking Statements", Part II, Item 1A, "Risk Factors" and in the Company's most recent report on Form 10-K. This discussion should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1 of this Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2006.

OVERVIEW OF THE QUARTER'S AND YEAR-TO-DATE ACTIVITIES:

The second fiscal quarter's net sales traditionally average approximately 23 percent of the fiscal year's total net sales on a historical basis. Our second fiscal quarter is traditionally characterized by stable shipping levels from June through the first half of July with increasing shipment levels beginning in the second half of July through August as we build towards a peak shipping season in the third quarter.

Our focus this quarter remained on our domestic distribution system. During the quarter, we continued to refine and improve our abilities to operate our new 1,200,000 square foot Southaven, Mississippi distribution facility. After we complete our peak shipping season, we plan to move our Personal Care appliance inventory to the same facility in the fourth fiscal quarter. Our current intent is to have the appliance move completed by the end of this fiscal year.

In the first fiscal quarter, we obtained an extension on the lease of our formerly owned distribution facility, which is currently used for our appliance inventory. As a result of the extension, the lease term expires February 28, 2007. This extension of the agreement was made in order to provide us additional flexibility in the timing of the transition of our remaining operations to the new facility to help ensure customer service levels. The need to operate out of two facilities is currently resulting in some duplication of costs. We do not expect to achieve anticipated cost savings relating to our distribution facility consolidation until early to the middle of fiscal 2008.

- Consolidated net sales for the fiscal quarter just ended increased 12.9 percent to $147,172 compared to $130,389 for the same period last year. Consolidated net sales for the six month period ending August 31, 2006 increased 7.7% to $277,613 compared to $257,781 for the same period last year. Both the quarter and year to date periods produced sales increases across all product lines, when compared to the same fiscal periods last year except for our domestic sales of grooming, skin care, and hair product lines. Domestic sales of these lines were negatively impacted in the second fiscal quarter by a combination of (i) slowing reorders from major retail and mass merchant chains in order to reduce their inventory in the first fiscal quarter; (ii) competitive promotional pricing and close-out selling throughout the first half of the fiscal year; and (iii) lower retail point of sale unit volumes in the second fiscal quarter.

- Consolidated gross profit margin for the fiscal quarter just ended decreased 0.9 percent to 45.3 percent compared to 46.2 percent for the same period last year. Consolidated gross profit margin for the six-month period ending August 31, 2006 decreased 1.2 percent to 44.9 percent compared to 46.1 percent for the same period last year.

- Selling, general and administrative costs for the fiscal quarter just ended decreased 1.3 percent to 34.0 percent compared to 35.3 percent for the same period last year. Selling, general and administrative expense for the the six-month period ending August 31, 2006 increased 0.3 percent to 35.0 percent compared to 34.7 percent for the same period last year. The improvement for the quarter is due to the impact of higher sales volumes on our cost structure, offset somewhat by percentage increases in depreciation, advertising and higher facility related costs due to the operational transition of our domestic distribution system.

- Our financial position continues to strengthen when compared to our financial position as of February 28, 2006 and August 31, 2005. Total assets increased 2.3 percent, or $20,184, to $893,217 at August 31, 2006 when compared with August 31, 2005. Total current and long-term debt outstanding at August 31, 2006 was $272,634 compared to $311,000 outstanding at August 31, 2005. Total stockholders' equity was $492,381 at August 31, 2006 compared to $444,512 at August 31, 2005.

- On August 9, 2006, we extended our agreement to remain the title sponsor of the Sun Bowl for the December 2007, 2008, and 2009 games and changed the name to the Brut® Sun Bowl beginning with the December 2006 game. The Brut® Sun Bowl is one of the nation's longest-running invitational college football games with a 73 year history. CBS sports has announced that its network will continue to televise the games nationally through 2009.

We will be transitioning Mexico and other Latin American operations to our global information system later in fiscal 2007 and in fiscal 2008. In addition, our Housewares segment recently opened selling offices in Japan and Great Britain, and efforts to bring up appropriate software systems for these operations are underway. Due to the complexities of these efforts, we expect to continue to experience a period of significant change. While nothing has come to our attention that would lead us to believe that we may experience related operational issues, errors or misstatements of our financial results during this time-frame, we recognize that these continue to be challenging transitions for us and will require close monitoring to keep our documentation and application of internal controls current.

While we believe we have taken appropriate measures to mitigate the recent shipment disruptions arising from the transition of our Housewares segment, as discussed above, we still have significant transitions to complete. While we believe we have the process and appropriate management in place to effectively manage these transitions and rapidly respond to mitigate any issues that may arise as a result of the transition, there can be no assurance that additional disruptions will not occur.

Personal Care Segment

Net sales in the segment for the second fiscal quarter increased 10.0 percent to $110,976 compared with $100,861 for the same period last year. Net sales for the six month period ending August 31, 2006 increased 7.4 percent to $216,300 compared with $201,377 for the same period last year.

Two of our three major product lines: appliances and brushes, combs and accessories showed increases in the second quarter when compared with the same period last year. Our Grooming, Skin Care, and Hair lines showed overall declines for the quarter and year-to-date when compared to the same periods last year.

Domestically, we operate in mature markets where we compete on product innovation, price, quality and customer service. We continuously adjust our product mix, pricing and marketing programs in order to maintain, and in some cases, acquire more retail shelf space. Changes in product mix are generally allowing us to realize higher average unit prices, which offset is some categories, unit volume decreases. Over the last year, the prices of raw materials such as copper, steel, plastics and alcohol have experienced significant increases and we currently expect them to remain high for the foreseeable future. We largely have been able to avoid significant price increases to our customers due to raw materials increases, or pass these on by moving customers to newer product models with enhancements that we can charge higher prices for. We have and may continue to discuss the need to raise prices with our customers and have already put certain increases into effect. The extent to which we will be able to continue with price increases, the timing, and the ultimate impact of such increases on net sales is uncertain. Accordingly we expect to experience margin pressure in this segment throughout the balance of the year.

- Appliances. Products in this line include electronic curling irons, thermal brushes, hair straighteners, hair crimpers, hair dryers, massagers, spa products, foot baths, electric clippers and trimmers. Net sales for the three- and six-month periods ended August 31, 2006 increased approximately 9.9 percent and 6.5 percent, respectively, over the same periods in the prior year. We have succeeded in moving our business to higher unit prices with increased unit volumes. For the quarter and year-to-date, increases in our average unit selling price contributed approximately 5.9 and 4.1 percent, respectively, to net sales growth while increases in our unit volumes contributed approximately 4.0 and 2.4 percent, respectively to net sales growth. Revlon®, Vidal Sassoon®, Hot

Tools®, Dr. Scholl's®, Wigo®, Sunbeam®, and Health o Meter® were key selling brands in this line.

In March 2006, we secured the rights in certain European and Asian Markets to introduce a line of hair care appliances under the Toni & Guy® brand name. Toni & Guy® is an international chain of hundreds of hair salons throughout Europe that has expanded operations into certain key urban markets in the United States. We believe our association with Toni & Guy® will create new sales opportunities for our products in Europe. During the fiscal quarter ended August 31, 2006, we began shipment of product under the Toni & Guy® brand. Also in August, we began shipping our new Fusion Tools® line of professional appliances designed to compete at the higher end of the professional market.

Grooming, Skin Care, and Hair Products. Products in this line include liquid hair styling products, men's fragrances, men's deodorants, body powder, and skin care products. Our grooming, skin care, and hair care portfolio includes the Brut®, Sea Breeze®, Vitalis®, Condition® 3-in-1, Ammens®, and Skin Milk® brand names. Net sales for the second fiscal quarter ended August 31, 2006 decreased approximately 1.4 percent while net sales for the six-month period ended August 31, 2006 increased 2.1 percent, when compared against the same periods in the prior year.

Domestic net sales of grooming, skin care, and hair products continued to be soft during the second fiscal quarter and six-months ended August 31, 2006 due to a combination of (i) slowing reorders from major retail and mass merchant chains in order to reduce their inventory in the first fiscal quarter; (ii) competitive promotional pricing and close-out selling throughout the first half of the fiscal year; and (iii) lower retail point of sale unit volumes in the second fiscal quarter. In our domestic market, we are currently launching the third fiscal quarter release of Brut Revolution®, initially a newly formulated, glass bottled, higher-end men's cologne that will sell at higher price points than Brut's traditional plastic bottled line.

The Latin American region's net sales within this product line continue to show strength, primarily from our Brut® and Ammens® brands. Growth resulted from the performance of Brut in the Mexican market, new distribution and continued expansion of our product lines across the Latin American region.

- Brushes, Combs, and Accessories. Net sales for the three- and six-month periods ended August 31, 2006 increased approximately 42.3 percent and 29.3 percent, respectively over the same periods in the prior year. This was due to new customers and product development and positioning changes made over the last year. Our new lines and mix of Vidal Sassoon® and Revlon® accessories, high end private label products, and other product initiatives are achieving higher unit prices along with new distribution. Vidal Sassoon®, Revlon® and Karina® were key brands in this line.

Housewares Segment

Our Housewares segment includes the operations of OXO International, acquired in fiscal 2004. OXO Good Grips®, OXO Steel™ and OXO SoftWorks® are our key brands in this segment.

Net sales in the segment for the second fiscal quarter increased 22.6 percent to $36,196 compared with $29,528 for the same period last year. Net sales for the six month period ending August 31, 2006 increased 8.7 percent to $61,313 compared with $56,404 for the same period last year. In the first fiscal quarter, we experienced sales declines as a result of the distribution transition issues previously discussed. These issues had a negative impact on the first fiscal quarter net sales estimated between approximately $4.5 to $5 million. A portion of these sales were recovered during the second fiscal quarter, and accounted for part of our Housewares segment's second quarter net sales increase when compared to the same period last year.

For the second fiscal quarter ended August 31, 2006, higher average unit prices and increased unit volumes favorably impacted net sales by approximately 20.2 and 2.4 percent, respectively when compared to the same period last year. Unit prices are increasing because the Houseware segment's business has been expanding its product mix into higher

price point goods such as trash cans, tea kettles, and hand tools. Unit volumes increased primarily through growth with existing accounts.

For the six-months ended August 31, 2006, higher average unit prices favorably impacted net sales by approximately 13.3 percent. As mentioned above, unit prices increased because the Houseware segment's business has been expanding its product mix into higher price point goods such as trash cans, tea kettles, and hand tools. This was partially offset by first fiscal quarter declines in unit volumes due to issues associated with our transition to our new distribution center as previously discussed.

We have begun to expand our Housewares segment's sales operations in Europe and Japan. In the second quarter, we terminated certain existing distribution agreements we had in these countries and are establishing our own selling offices, leveraging certain existing facilities, infrastructure and sales contacts, where possible. We believe that with relatively modest additional infrastructure investments, we can enhance our presence in those markets. This is a long range initiative and we do not expect any meaningful sales impact from these efforts through the end of the current fiscal year.

RESULTS OF OPERATIONS

Comparison of fiscal quarter and six-month periods ended August 31, 2006 to the same periods ended August 31, 2005.

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

SELECTED OPERATING DATA
(dollars in thousands)

					% of Net Sales	
Quarter ended August 31,	**2006**	**2005**	**$ Change**	**% Change**	**2006**	**2005**
Net sales						
Personal Care Segment	$ 110,976	$ 100,861	$ 10,115	10.0%	75.4%	77.4%
Housewares Segment	36,196	29,528	6,668	22.6%	24.6%	