HELEN OF TROY LTD
Form 10-Q
July 10, 2009
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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 May 31, 2009

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**	**79912**

(Registrant s United States Mailing Address) (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 T No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes £ No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer £ Accelerated filer T

Non-accelerated filer £ (Do not check if a smaller reporting company) Smaller reporting company £

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

Yes £ No T

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

Class	Outstanding at July 2, 2009
Common Shares, $0.10 par value per share	30,069,821 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 (unaudited)

(in thousands, except shares and par value)

	May 31, 2009	February 28, 2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 49,304**	$ 102,675
Trading securities, at market value	**784**	570
Receivables - principally trade, less allowance of $1,697 and $1,916	**105,220**	103,548
Inventories	**168,305**	169,780
Prepaid expenses	**3,888**	2,819
Income taxes receivable	**5,799**	4,051
Deferred income tax benefits	**11,800**	13,010
Total current assets	**345,100**	396,453
Property and equipment, net of accumulated depreciation of $53,979 and $51,607	**81,923**	83,946
Goodwill	**185,831**	166,131
Trademarks, net of accumulated amortization of $241 and $240	**129,926**	111,227
License agreements, net of accumulated amortization of $18,754 and $18,479	**15,742**	16,017
Other intangible assets, net of accumulated amortization of $9,596 and $8,602	**37,195**	16,416
Long-term investments	**19,285**	19,973
Deferred income tax benefits	**749**	1,618
Other assets, net of accumulated amortization of $3,598 and $3,447	**9,596**	9,526
Total assets	**$ 825,347**	$ 821,307
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt	**$ 78,000**	$ 78,000
Accounts payable, principally trade	**29,911**	33,957
Accrued expenses and other current liabilities	**57,814**	60,295
Total current liabilities	**165,725**	172,252
Long-term compensation liability	**2,245**	3,459
Long-term income taxes payable	**1,655**	2,903
Long-term debt, less current portion	**134,000**	134,000
Total liabilities	**303,625**	312,614
Commitments and contingencies		
Shareholders 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; 30,069,821 and 29,878,988 shares issued and outstanding	**3,007**	2,988
Additional paid-in-capital	**110,228**	105,627
Retained earnings	**419,159**	410,372
Accumulated other comprehensive loss	**(10,672)**	(10,294)

Total shareholders equity		**521,722**		508,693
Total liabilities and shareholders equity	**$**	**825,347**	$	821,307

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Operations (unaudited)

(in thousands, except per share data)

	Three Months Ended May 31,			
	2009		2008	
Net sales	**$**	**143,873**	$	145,003
Cost of sales		**85,364**		81,982
Gross profit		**58,509**		63,021
Selling, general, and administrative expense		**39,322**		45,595
Operating income before impairment charges		**19,187**		17,426
Impairment charges		**-**		7,760
Operating income		**19,187**		9,666
Other income (expense):				
Interest expense		**(3,460)**		(3,453)
Other income, net		**442**		915
Total other income (expense)		**(3,018)**		(2,538)
Earnings before income taxes		**16,169**		7,128
Income tax expense (benefit):				
Current		**(560)**		579
Deferred		**2,220**		991
Net earnings	**$**	**14,509**	$	5,558
Earnings per share:				
Basic	**$**	**0.49**	$	0.18
Diluted	**$**	**0.47**	$	0.18
Weighted average common shares used in computing net earnings per share:				
Basic		**29,879**		30,217
Diluted		**30,578**		31,017

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)

	Three Months Ended May 31, 2009	2008
Cash flows from operating activities:		
Net earnings	**$ 14,509**	$ 5,558
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation and amortization	**3,878**	3,445
Provision (benefit) for doubtful receivables	**187**	3,588
Share-based compensation	**117**	269
Unrealized gain on securities	**(214)**	(2)
Deferred taxes	**2,212**	971
Gains on the sale of property and equipment	**(14)**	(110)
Impairment charges	**-**	7,760
Changes in operating assets and liabilities, net of effects of acquisition of business:		
Accounts receivable	**(1,859)**	(12,456)
Inventories	**1,475**	(4,715)
Prepaid expenses	**(1,069)**	(1,605)
Other assets	**(220)**	(498)
Accounts payable	**(4,019)**	(8,560)
Accrued expenses	**(3,525)**	(10,457)
Income taxes payable	**(1,098)**	(1,743)
Net cash provided (used) by operating activities	**10,360**	(18,555)
Cash flows from investing activities:		
Capital, license, trademark, and other intangible expenditures	**(651)**	(2,472)
Business acquisitions	**(60,000)**	-
Sale of investments	**-**	15,250
Proceeds from the sale of property and equipment	**30**	973
Net cash (used) provided by investing activities	**(60,621)**	13,751
Cash flows from financing activities:		
Proceeds from exercise of stock options, net	**14**	116
Common share repurchases	**(419)**	(2,886)
Payment of tax obligation resulting from cashless option exercise	**(2,712)**	-
Share-based compensation tax benefit	**7**	19
Net cash used by financing activities	**(3,110)**	(2,751)
Net decrease in cash and cash equivalents	**(53,371)**	(7,555)
Cash and cash equivalents, beginning of period	**102,675**	57,851
Cash and cash equivalents, end of period	**$ 49,304**	$ 50,296
Supplemental cash flow disclosures:		
Interest paid	**$ 3,235**	$ 3,160
Income taxes paid (net of refunds)	**$ 643**	$ 2,284
Common shares received as exercise price of options	**$ 11,992**	$ -

See accompanying notes to consolidated condensed financial statements.

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HELEN OF TROY LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

May 31, 2009

Note 1 - *Basis of Presentation*

In our opinion, the accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of May 31, 2009 and February 28, 2009, and the results of our consolidated operations for the three month periods ended May 31, 2009 and 2008. 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 some cases, we have provided additional information for prior periods in the accompanying notes to consolidated condensed financial statements to conform to the current period s presentation.

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

Accounting for Business Combinations In the first quarter of fiscal 2010, we adopted FASB Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)), as amended by FASB staff position FSP 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. SFAS No. 141R 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) replaced SFAS No. 141, Business Combinations. SFAS No. 141(R) became applicable to us for business combinations on a prospective basis beginning in the first quarter of fiscal 2010. On March 31, 2009, we acquired certain assets, trademarks, customer lists, distribution rights, patents and formulas for Infusium 23® hair care products (the Infusium acquisition or Infusium) from The Procter & Gamble Company, which will be accounted for under SFAS No. 141(R). Note 10 to these consolidated condensed financial statements contains additional information regarding the Infusium acquisition.

Disclosures about Derivative Instruments and Hedging Activities - In the first quarter of fiscal 2010, we adopted FASB Statement of Financial Accounting Standards No. 161, Disclosures About Derivative Instruments and Hedging Activities (SFAS 161), 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 became effective for us beginning in the first quarter of fiscal 2010. Since SFAS 161 requires only additional disclosures concerning derivatives and hedging activities its adoption had no effect on our consolidated financial position, results of operations or cash flows. Note 18 to these consolidated condensed financial statements contains certain disclosures related to the adoption of SFAS 161.

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Useful Lives of Intangible Assets - In the first quarter of fiscal 2010, we adopted FASB Staff Position FSP 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 removes the requirement to consider whether an intangible asset s legal or contractual life can be renewed without substantial cost or material modifications to the existing terms and conditions and, instead, requires an entity to consider its own historical experience in renewing similar arrangements and any factors that would require adjustment of such assumptions from historical experience. FSP FAS 142-3 also requires expanded disclosure related to the determination of intangible asset useful lives. FSP 142-3 became effective for us beginning in the first quarter of fiscal 2010. Note 10 to these consolidated condensed financial statements contains certain disclosures related to the adoption of FSP 142-3.

Fair Value Measurements - In February 2008, the FASB issued FSP 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delayed the effective date for us of certain provisions of SFAS No. 157, Fair Value Measurements (SFAS No. 157) related to our other non-financial assets and liabilities until the beginning of the first quarter of fiscal 2010. Therefore, in the first quarter of fiscal 2010, we adopted SFAS No. 157 for other nonfinancial assets and liabilities. These new provisions did not have a material effect on the consolidated financial position, results of operations or cash flows. Note 16 to these consolidated condensed financial statements contains certain disclosures related to the adoption SFAS No. 157 for other nonfinancial assets and liabilities.

New Accounting Standards Subject to Future Adoption

Recognition and Presentation of Other-Than-Temporary Impairments In April 2009, the FASB issued FASB Staff Position FSP 115-2 and 124-2, Recognition of Other-Than-Temporary Impairments (FSP 115-2 and 124-2). This FSP amends the other-than-temporary impairment guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. In addition, the FSP requires that the annual disclosures required by FSP 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments (FSP 115-1 and 124-1), including the aging of securities with unrealized losses, be made for interim periods. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP 115-2 and 124-2 are effective for interim periods and fiscal years ending after June 15, 2009. We do not expect the adoption of FSP 115-2 and 124-2 to have a material impact on our consolidated financial statements.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly - In April 2009, the FASB issued FASB Staff Position FSP 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4). This FSP emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same, and provides additional guidance on when market level data should not be relied upon or should be adjusted in determining fair value. FSP 157-4 is effective for interim periods and fiscal years ending after June 15, 2009. We do not expect the adoption of this pronouncement to have a material effect on our consolidated financial statements.

Disclosures about the Fair Value of Financial Instruments In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosure about Fair Value of Financial Instruments (FSP 107-1 and APB 28-1). FSP 107-1 and APB 28-1 require interim disclosures regarding the fair values of financial instruments that are within the scope of SFAS 107, Disclosures about the Fair Value of Financial Instruments. Additionally, FSP 107-1 and APB 28-1 require disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments on an interim basis as well as changes of the methods and significant assumptions from prior periods. FSP 107-1 and APB 28-1 do not change the accounting treatment for these financial instruments and are effective for interim periods and fiscal years ending after June 15, 2009.

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Subsequent Events - In May 2009, the FASB issued SFAS No. 165, Subsequent Events , which established principles and requirements for events that occur after the balance sheet date but before financial statements are issued or available to be issued. The statement defines the period after the balance sheet date during which the Company should evaluate such events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the Company should recognize such events or transactions in its financial statements and the required disclosures for such events. This statement is effective for interim or annual reporting periods ending after June 15, 2009.

Accounting Standards Codification - In June 2009, the FASB confirmed that the FASB Accounting Standards Codification (the Codification) will become the single official source of authoritative U.S. GAAP (other than guidance issued by the SEC), superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force (EITF) guidance, and related literature. After that date, only one level of authoritative U.S. GAAP will exist. All other literature will be considered non-authoritative. The Codification does not change U.S. GAAP. Instead, it introduces a new structure for organizing U.S. GAAP guidance. The Codification becomes effective for interim and annual periods ending on or after September 15, 2009.

Note 3 *Litigation*

We are involved in various 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 effect of dilutive securities was approximately 699,700 and 800,000 shares for the three month periods ended May 31, 2009 and 2008, 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. The common shares subject to these options totaled approximately 1,751,500 and 1,920,900 at May 31, 2009 and 2008, respectively.

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Note 5 *Comprehensive Income*

The components of comprehensive income are as follows:

COMPONENTS OF COMPREHENSIVE INCOME

(in thousands)

	Three Months Ended May 31, 2009	2008
Net earnings, as reported	**$ 14,509**	$ 5,558
Other comprehensive income (loss), net of tax:		
Cash flow hedges - interest rate swaps	**790**	3,638
Cash flow and ordinary hedges - foreign currency	**(714)**	56
Unrealized losses - auction rate securities	**(454)**	(996)
Comprehensive income	**$ 14,131**	$ 8,256

The components of accumulated other comprehensive income (loss), net of tax, at the end of each period are as follows:

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in thousands)

	May 31, 2009	February 28, 2009
Accumulated net unrealized holding loss on cash flow hedges - interest rate swaps	**$ (8,364)**	$ (9,154)
Accumulated net unrealized holding gain (loss) on cash flow and ordinary hedges - foreign currency	**(87)**	627
Accumulated net temporary impairment loss on auction rate securities	**(2,221)**	(1,767)
Total accumulated other comprehensive loss	**$ (10,672)**	$ (10,294)

Note 6 *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, shavers, mirrors, hot air brushes, home hair clippers and trimmers, paraffin baths, massage cushions, footbaths, body massagers, brushes, combs, hair accessories, liquid and aerosol hair styling products, men s fragrances, men s deodorants, liquid and bar soaps, shampoos, hair treatments, 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 third-party manufacturers to produce our goods. Both our Personal Care and Housewares segments sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores and specialty stores. In addition, the Personal Care segment sells through beauty supply retailers and wholesalers.

The accounting policies of our segments are the same as those described in the summary of significant accounting policies in Note 1 to the consolidated financial statements in our annual report on Form 10-K for the fiscal year ended February 28, 2009.

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

THREE MONTHS ENDED MAY 31, 2009 AND 2008

(in thousands)

May 31, 2009	**Personal Care**	**Housewares**	**Total**
Net sales	$ 101,185	$ 42,688	$ 143,873
Operating income before impairment charges	10,593	8,594	19,187
Impairment charges	-	-	-
Operating income	10,593	8,594	19,187
Capital, license, trademark and other intangible expenditures	119	532	651
Depreciation and amortization	2,503	1,375	3,878

May 31, 2008	**Personal Care**	**Housewares**	**Total**
Net sales	$ 106,531	$ 38,472	$ 145,003
Operating income before impairment charges	14,957	2,469	17,426
Impairment charges	7,760	-	7,760
Operating income	7,197	2,469	9,666
Capital, license, trademark and other intangible expenditures	616	1,856	2,472
Depreciation and amortization	2,239	1,206	3,445

Operating income for each operating segment is computed based on net sales, less cost of sales, selling, general, and administrative expenses (SG&A), and any impairment charges associated with the segment. The SG&A used to compute each segment s operating income are comprised of SG&A directly associated with the segment, plus overhead expenses that are allocable to the operating segment. The following tables contain identifiable assets allocable to each segment for the periods covered by our consolidated condensed balance sheets:

IDENTIFIABLE ASSETS AT MAY 31, 2009 AND FEBRUARY 28, 2009

(in thousands)

	Personal Care	**Housewares**	**Total**
May 31, 2009	$ 458,677	$ 366,670	$ 825,347
February 28, 2009	466,590	354,717	821,307

Note 7 ***Significant Charge against Allowance for Doubtful Accounts***

On May 2, 2008, 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. For the fiscal quarter ended August 31, 2008, we charged the remaining $0.29 million unreserved balance of Linens pre-petition accounts receivables to our bad debt provision and wrote off the resulting 100 percent reserved balance as uncollectable. During the fiscal quarter ended November 30, 2008, Linens announced plans to liquidate by December 31, 2008. We expect no further sales to Linens and we have fully collected all post-petition receivables as of the quarter ended November 30, 2008.

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Note 8 *Property and Equipment*

A summary of property and equipment is as follows:

PROPERTY AND EQUIPMENT

(in thousands)

	Estimated Useful Lives (Years)	May 31, 2009	February 28, 2009
Land	-	**$ 9,073**	$ 9,073
Building and improvements	10 - 40	**65,061**	65,028
Computer and other equipment	3 - 10	**43,186**	43,144
Molds and tooling	1 - 3	**9,130**	8,880
Transportation equipment	3 - 5	**240**	340
Furniture and fixtures	5 - 15	**8,451**	8,385
Construction in process	-	**761**	703
		135,902	135,553
Less accumulated depreciation		**(53,979)**	(51,607)
Property and equipment, net		**$ 81,923**	$ 83,946

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.

Depreciation expense was $2.46 million and $2.53 million for the three month periods ended May 31, 2009 and 2008, respectively.

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Note 9 *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 perform an annual impairment review of goodwill and other intangible assets during the first quarter of each fiscal year. We also test for impairment if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit or an indefinite-lived intangible asset is below its carrying amount as required by SFAS 142 and 144. Any asset deemed to be impaired is written down to its fair value.

Annual Impairment Testing in the First Quarter of Fiscal 2010 - Because an extensive analysis was completed for the fourth quarter of fiscal 2009, the Company performed an abbreviated evaluation of its goodwill and indefinite-lived intangible assets for impairment in the first quarter of fiscal 2010. The Company abbreviated its evaluation because it believes that macroeconomic factors, specifically the decline in consumer demand and consumer confidence, did not deteriorate meaningfully during the first quarter of fiscal 2010. Macroeconomic factors and market conditions, namely the sustained decline of the Company s total market capitalization below the Company s consolidated equity late in the third quarter of fiscal 2009 through the first half of the first quarter of fiscal 2010, were originally contributing factors to our determination that interim testing was necessary in the fourth quarter of fiscal 2009. However, the Company s latest projected sales and operating income for its reporting units available at the end of the first quarter of fiscal 2010 did not vary significantly relative to previous estimates determined in the fourth quarter of fiscal 2009 and certain values used in our impairment testing methodology were based on market prices which had improved over the quarter. Also, the Company s common share price recovered from the declines it experienced at the end of fiscal 2009. These reasons, when considered together, caused us to conclude that further impairments had not occurred and extensive testing was not required for the quarter ended May 31, 2009.

Additional Impairment Testing in the Fourth Quarter of Fiscal 2009 - During the fourth quarter of fiscal 2009, the Company determined that interim impairment testing was necessary. This impairment testing was performed using an updated outlook for the Company s reporting units completed in connection with its annual planning process. This outlook included downward adjustments to certain future expected revenues and increases in the market participant discount rates, when compared to previous impairment tests. The Company decreased its expected revenues in response to the reduction in consumer spending during the second half of fiscal 2009 and its expectation that depressed spending levels would persist into fiscal 2010. Our projections assumed a continued but decelerating economic contraction through the first half of fiscal 2011, an economic recovery beginning in the second half of fiscal 2011 and general economic growth returning to slightly above mean levels in fiscal years 2012 through 2014. As a result of this interim testing, total non-cash impairment charges of $99.51 million ($99.06 million after tax) were recorded in the fourth quarter of fiscal 2009. This consisted of non-cash pre-tax impairment charges of $46.49 million against goodwill and $2.75 million against a trademark in our Personal Care segment s Appliances and Accessories reporting unit and $50.27 million against certain trademarks and an indefinite-lived license held by our Grooming, Skin Care and Hair Care Solutions reporting unit.

Annual Impairment Testing in the First Quarter of Fiscal 2009 - The Company performed its annual impairment tests of its goodwill and trademarks during the first quarter of fiscal 2009. This resulted in non-cash impairment charges of $7.76 million ($7.61 million after tax) on certain intangible assets associated with our Personal Care segment recognized during the first quarter of fiscal 2009. The charges were recorded in the Company s consolidated condensed statement of operations as a component of operating income. The impairment charges reflected the amounts by which the carrying values of the associated assets exceeded their estimated fair values at the time of the analysis. The decline in the fair value of the affected trademarks described above resulted from lower sales expectations on certain lower volume brands as a result of management s strategic decision to reduce advertising and other resources dedicated to those brands, combined with a lower overall expectation of net sales driven by our near-term outlook for the economy and projected declines in consumer retail spending levels.

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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 28, 2009	Three Months Ended May 31, 2009 Additions	Impairments	Acquisition Adjustments	Accumulated Amortization	Net Book Value at May 31, 2008
Goodwill:								
OXO	Housewares	Indefinite	$ 166,131	$ -	$ -	$ -	$ -	$ 166,131
Infusium	Personal Care	Indefinite	-	19,700	-	-	-	19,700
			166,131	19,700	-	-	-	185,831
Trademarks:								
OXO	Housewares	Indefinite	75,554	-	-	-	-	75,554
Brut	Personal Care	Indefinite	17,400	-	-	-	-	17,400
Infusium	Personal Care	Indefinite	-	18,700	-	-	-	18,700
All other - definite lives	Personal Care	[1]	338	-	-	-	(241)	97
All other - indefinite lives	Personal Care	Indefinite	18,175	-	-	-	-	18,175
			111,467	18,700	-	-	(241)	129,926
Licenses:								
Seabreeze	Personal Care	Indefinite	10,300	-	-	-	-	10,300
All other licenses	Personal Care	8 - 25 Years	24,196	-	-	-	(18,754)	5,442
			34,496	-	-	-	(18,754)	15,742
Other:								
Patents, customer lists and non-compete agreements	Housewares	2 - 14 Years	20,329	173	-	-	(8,023)	12,479
	Personal Care	3 - 9 Years	4,689	21,600	-	-	(1,573)	24,716
			25,018	21,773	-	-	(9,596)	37,195
Total			$ 337,112	$ 60,173	$ -	$ -	$ (28,591)	$ 368,694

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

The following table summarizes the amortization expense attributable to intangible assets for the three month periods ended May 31, 2009 and 2008, respectively, as well as our estimated amortization expense for the fiscal years ending the last day of each February 2010 through 2015.

AMORTIZATION OF INTANGIBLES

(in thousands)

Aggregate Amortization Expense

For the three months ended		
May 31, 2009	$	1,270
May 31, 2008	$	771

Estimated Amortization Expense **For the fiscal years ended**		
February 2010	$	5,685
February 2011	$	5,249
February 2012	$	5,135
February 2013	$	5,040
February 2014	$	4,552
February 2015	$	4,546

NOTE 10 - ***Acquisitions and New Trademark License Agreements***

Infusium Acquisition - On March 31, 2009, we completed the acquisition of certain assets, trademarks, customer lists, distribution rights, patents, goodwill and formulas for Infusium 23® hair care products from The Procter & Gamble Company for a cash purchase price of $60 million, which we paid with cash on hand. Given that Infusium constitutes an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return in the form of economic benefits to our investors, we have accounted for the acquisition as the purchase of a business, and have recorded the excess purchase price as goodwill, which is partially deductible for income tax purposes in the jurisdiction in which the asset is held. Infusium has a heritage of over 80 years and its shampoos, conditioners, and leave-in treatments have an established reputation for product performance with stylists and consumers. The acquisition is a significant addition to the Company s Grooming, Skin Care and Hair Care solutions product portfolio which should require minimal additional staffing and infrastructure. We are marketing Infusium products into both retail and professional trade channels. 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. We assigned the acquired trademarks indefinite economic lives and will amortize the customer list and patent rights over expected lives of 9.0 and 7.5 years, respectively. For the customer list, we used our historical attrition rates to assign an expected life. For patent rights, we used the underlying non-renewable term of a royalty free license we acquired for the use of patented formulas in certain Infusium products. The trademarks acquired are considered to have indefinite lives that are not subject to amortization. The goodwill arising from the Infusium acquisition consists largely of the distribution network, marketing synergies, and economies of scale expected to occur from the addition of the new product line. The following schedule presents the acquisition date fair value of the net assets of Infusium:

INFUSIUM 23® - ASSETS ACQUIRED ON MARCH 31, 2009

(in thousands)

Goodwill	$	19,700
Trademarks		18,700
Patent rights		600
Customer list		21,000
Total assets acquired	$	60,000

We accounted for the acquisition under SFAS No. 141(R), which we adopted on March 1, 2009. The fair values of the assets acquired were estimated by applying income and market approaches. These fair value measurements are based on significant inputs that are not observable in the market and, therefore, represent Level 3 measurements as defined in SFAS No. 157. Key assumptions include (1) a discount rate of 13.5 percent, (2) a terminal value based on long-term sustainable growth rates of 2 percent and an earnings before interest, taxes, depreciation, and amortization (EBITDA) multiple of 7.0, (3) financial multiples of companies operating in similar markets as Infusium, and (4) adjustments for control premiums that market participants might consider when estimating the fair value of the Infusium business.

Ogilvie Acquisition - On October 10, 2008, we acquired from Ascendia Brands, Inc. the trademarks, customer lists, distribution rights, formulas, and inventory of the Ogilvie® brand of home permanent and hair-straightening products for a cash purchase price of $4.77 million. In addition, upon acquisition, we recorded an additional $0.35 million of liabilities that we expect we will incur as a result of pre-acquisition operations. The products acquired are sold through our Personal Care segment. We completed an analysis of the economic lives of all the assets acquired and determined the appropriate allocation of the initial purchase price based upon the fair value of the assets acquired. Based upon the fair values, we assigned the acquired trademarks indefinite economic lives and will amortize the distribution rights over an expected life of 15 years and the customer list over an expected life of 4.2 years.

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The following schedule presents the assets acquired at closing and our allocation of the initial purchase price:

OGILVIE® - BRAND ASSETS ACQUIRED ON OCTOBER 10, 2008

(in thousands)

Inventories	$	521
Trademarks		2,275
Distribution rights		761
Customer list		1,560
Total assets acquired		5,117
Less: Current liabilities recorded at acquisition		(352)
Net assets acquired	$	4,765

Note 11 *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. The Revolving Line of Credit Agreement provides for a total commitment of up to $50 million, subject to certain limitations as discussed below.

Borrowings under the Revolving Line of Credit Agreement accrue interest at a Base Rate plus a margin of 0.25 to 0.75 percent based on the Leverage Ratio at the time of borrowing. The base rate is equal to the highest of the Federal Funds Rate plus 0.50 percent, Bank of America s prime rate, or the one month LIBOR rate plus 1 percent. 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 1.25 percent to 1.75 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 dates) less unrestricted cash on hand in excess of $15 million to consolidated 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 $15 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 1.375 percent per annum on the face value of the letter of credit. Outstanding letters of credit reduce the borrowing limit dollar for dollar. We did not draw on the Revolving Line of Credit Agreement during the fiscal quarter ended May 31, 2009. As of May 31, 2009, there were no revolving loans and $1.33 million of open letters of credit outstanding against this facility.

The Revolving Line of Credit Agreement limits our total outstanding indebtedness from all sources less unrestricted cash on hand in excess of $15 million to no more than 3.0 times the latest twelve months trailing EBITDA. As of May 31, 2009, our loan covenants effectively limited our ability to incur more than $116.19 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, and limit our ability to repurchase our common shares. As of May 31, 2009, we were in compliance with the terms of the Revolving Line of Credit Agreement and our other debt agreements.

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Note 12 *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)

	May 31, 2009	February 28, 2009
Accrued sales returns, discounts and allowances	**$ 19,002**	$ 21,235
Accrued compensation	**5,473**	4,487
Accrued advertising	**5,129**	5,606
Accrued interest	**2,215**	2,140
Accrued royalties	**3,427**	3,513
Accrued professional fees	**782**	1,053
Accrued benefits and payroll taxes	**1,422**	1,455
Accrued freight	**1,163**	912
Accrued property, sales and other taxes	**1,054**	660
Foreign currency contracts	**171**	(819)
Interest rate swaps	**12,672**	13,870
Other	**5,304**	6,183
Total accrued expenses and other current liabilities	**$ 57,814**	$ 60,295

Note 13 *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 $6.11 million and $6.94 million as of May 31, 2009 and February 28, 2009, 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 12.

The following table summarizes the activity in the Company s accrual for the three month period ended May 31, 2009 and fiscal year ended February 28, 2009:

ACCRUAL FOR WARRANTY RETURNS

(in thousands)

	May 31, 2009 (Three Months)	February 28, 2009 (Year)
Balance at the beginning of the period	**$ 6,940**	$ 7,635
Additions to the accrual	**3,085**	16,685
Reductions of the accrual - payments and credits issued	**(3,916)**	(17,380)
Balance at the end of the period	**$ 6,109**	$ 6,940

Note 14 *Income Taxes*

United States Income Taxes - During fiscal 2009, the IRS completed its audit of our U.S. consolidated federal tax return for fiscal year 2005. As a result of its audit, the IRS proposed adjustments totaling $8.63 million to taxes. In December 2008, the Company and the IRS reached a settlement agreement. As a result of the settlement, we agreed to adjustments totaling $0.49 million to fiscal 2005 taxes and interest and reversed $5.20 million of tax provisions in the third quarter of fiscal 2009, including interest and penalties previously established for fiscal 2005 and other years on the basis of the terms of the settlement. Of the $5.20 million, $0.57 million was credited to tax expense and $4.63 million was credited to additional paid-in-capital. The amount credited to additional paid-in-capital was for the tax effects of prior year share-based compensation expense that was deemed to be deductible under the audit and, when originally accrued, was charged against additional paid-in-capital.

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, it is grandfathered by the AJCA. 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. Because our 1994 reincorporation is grandfathered by the AJCA, we presently expect to benefit from our capital structure. However, future actions by taxing authorities may result in tax liabilities that are significantly higher or lower than the reserves established, which could have a material effect on our consolidated results of operations or cash flows. Additionally, the U.S. Congress is currently considering several alternative proposed changes in the tax law that, if enacted, may increase our effective overall tax rate.

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.

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We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. As of May 31, 2009, 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 -	2007	-	2009
Mexico	- None -	2004	-	2008
United Kingdom	- None -	2008	-	2009
United States	- None -	2006	-	2009

The following table summarizes the net change to unrecognized tax benefits for three month period ended May 31, 2009:

UNRECOGNIZED TAX BENEFITS
(in thousands)

Unrecognized tax benefits balance at February 28, 2009	**$**	**2,903**
Changes in tax positions taken during a prior year		**(1,394)**
Impact of foreign currency remeasurement on unrecognized tax benefits in the current year		**146**
Unrecognized tax benefits balance at May 31, 2009	**$**	**1,655**

When there is uncertainty in a tax position taken or expected to be taken in a tax return, we record a liability for the amount of the position that could be challenged and overturned through any combination of audit, appeals or litigation processes. We do not expect any material changes to our existing unrecognized tax benefits during the next twelve months resulting from any issues currently pending with tax authorities.

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 month periods ended May 31, 2009 and 2008 were 10.3 and 22.0 percent, respectively.

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 month periods ended May 31, 2009 and 2008:

IMPACT OF SIGNIFICANT ITEMS ON PRETAX EARNINGS, TAX EXPENSE AND EFFECTIVE TAX RATES
(dollars in thousands)

	Three Months Ended May 31,					
	2009 - Increase (Decrease)			2008 - Increase (Decrease)		
	Pretax Earnings	**Tax Expense**	**Effective Tax rates**	Pretax Earnings	Tax Expense	Effective Tax rates
Impairment charges	**$ -**	**$ -**	**0.0%**	$ (7,760)	$ (155)	9.7%

Charge to allowance for doubtful accounts due to customer bankruptcy	-	-	**0.0%**	(3,876)	(1,360)	-3.2%
Gain on casualty insurance settlements	-	-	**0.0%**	2,702	67	-3.3%

For the three month period ended May 31, 2008, the net effect of the significant items shown above was to increase our effective tax rate by 3.2 percentage points.

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.

Note 15 *Long-Term Debt*

A summary of long-term debt is as follows:

LONG-TERM DEBT

(in thousands)

	Original Date Borrowed	Interest Rates	Matures		May 31, 2009		February 28, 2009
$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**	$	12,000
$75 million unsecured floating interest rate 5 year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 85 basis points. Principal was due and paid on June 29, 2009. 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
$75 million unsecured floating interest rate 10 year Senior Notes. Interest set and payable quarterly at three-month LIBOR plus 90 basis points. Principal is due at maturity. Notes can be prepaid without penalty. (1)	06/04	**6.01%**	06/14		**75,000**		75,000
Total long-term debt					**212,000**		212,000
Less current portion of long-term debt					**(78,000)**		(78,000)
Long-term debt, less current portion				**$**	**134,000**	$	134,000

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

During the first quarter of fiscal 2010, interest rate hedge agreements (the swaps) were in place for our floating interest rate $75 million, 5 year; $50 million, 7 year; and $75 million, 10 year Senior Notes. On June 29, 2009, our 5 year Senior Notes were paid in full. The swaps are a hedge of the variable LIBOR rates used to reset the floating rates on these Senior Notes. The swaps effectively fix the interest rates on the 5, 7, and 10 Year Senior Notes at 5.89, 5.89, and 6.01 percent, respectively. Under the swaps, we agree with other parties to exchange quarterly the difference between fixed-rate and floating-rate interest amounts calculated by reference to notional amounts that perfectly match our underlying debt. Under these swap agreements, we pay the fixed rates and receive the floating rates. The swaps settle quarterly and terminate upon maturity of the related debt. The swaps are considered cash flow hedges because they are intended to hedge, and are effective as a hedge, against variable cash flows.

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All of our long-term debt is unconditionally guaranteed by the parent company, Helen of Troy Limited, and/or certain subsidiaries on a joint and several basis. Our debt agreements require the maintenance of certain debt/EBITDA ratios and fixed charge coverage ratios, specifies minimum consolidated net worth levels and contains other customary covenants. As of May 31, 2009, our debt agreements effectively limited our ability to incur more than $116.19 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, and limit our ability to repurchase our common shares. As of May 31, 2009, we were 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 operations:

INTEREST EXPENSE

(in thousands)

	Three Months Ended May 31,	
	2009	2008
Interest and commitment fees	**$ 1,366**	$ 2,482
Deferred finance costs	**151**	144
Interest rate swap settlements	**1,943**	827
Total interest expense	**$ 3,460**	$ 3,453

Note 16 *Fair Value*

On March 1, 2009, we adopted SFAS 157 for our non-financial assets and liabilities measured on a non-recurring basis in accordance with FSP 157-2. We had previously adopted SFAS 157 for financial assets and liabilities in the first quarter of fiscal 2009. SFAS 157 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 Company s financial assets and liabilities, which are adjusted to fair value at the end of each reporting period presented in these consolidated condensed financial statements, 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.

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The following tables present the fair value hierarchy of our financial assets and liabilities carried at fair value and measured on a recurring basis as of May 31, 2009 and February 28, 2009:

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES
(in thousands)

Description	Fair Value at May 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Market Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market accounts	$ 42,492	$ 42,492	$ -	-
Trading securities	784	784	-	-
Auction rate securities	19,285	-	-	19,285
Total	$ 62,561	$ 43,276	$ -	$ 19,285
Liabilities:				
Foreign currency contracts	$ 171	$ -	$ 171	$ -
Interest rate swaps	12,672	-	12,672	-
Total	$ 12,843	$ -	$ 12,843	$ -

Description	Fair Value at February 28, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Market Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market accounts	$ 82,674	$ 82,674	$ -	-
Trading securities	570	570	-	-
Auction rate securities	19,973	-	-	19,973
Foreign currency contracts	819	-	819	-
Total	$ 104,036	$ 83,244	$ 819	$ 19,973
Liabilities:				
Interest rate swaps	$ 13,870	$ -	$ 13,870	$ -

Commercial paper investments and money market accounts are included in cash and cash equivalents in 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 19.3 to 36.5 years). Substantially all of the collateral is guaranteed by the U.S. government under the Federal Family Education Loan Program. As a result of the lack of liquidity in the ARS market, during fiscal 2009, we began to value our ARS using a series of discounted cash flow models. Some of the inputs factored into the discounted cash flow models are unobservable in the market and have a significant effect on valuation. As a result, our ARS are classified as Level 3 assets. The assumptions used in preparing the models include, but are not limited to, periodic coupon rates, market required rates of return 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 illiquidity. 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

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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.

The Company s other non-financial assets for which the provisions of SFAS 157 are now effective include goodwill and other intangible assets. These assets are measured at fair value on a nonrecurring basis as part of the Company s impairment assessments and as circumstances require. The impact of applying the provisions of SFAS 157 to the Company s nonfinancial assets was not material.

The table below presents a reconciliation for our assets measured and recorded at fair value on a recurring basis and other non-financial assets measured on a non-recurring basis using significant unobservable inputs for the three months ended May 31, 2009:

FAIR VALUE MEASUREMENTS USING SIGNIFICANT UNOBSERVABLE INPUTS (Level 3)
(in thousands)

	Three Months Ended May 31, 2009	
	ARS	**Other Non-Financial Assets**
Balance at beginning of period	$ 19,973	$ -
Transfers into Level 3 at March 1, 2009	-	309,791
Total gains of (losses):		
Included in earnings - realized	-	(1,270)
Included in other comprehensive loss - unrealized	(688)	-
Acquired during the period	-	60,173
Balance at end of period	$ 19,285	$ 368,694
Cumulative change in unrealized losses relating to assets still held at each reporting date, net of taxes	$ (2,221)	$ -

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Note 17 *Contractual Obligations and Commercial Commitments*

Our contractual obligations and commercial commitments at May 31, 2009 were:

PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED MAY 31:

(in thousands)

	Total	2010 1 year	2011 2 years	2012 3 years	2013 4 years	2014 5 years	After 5 years
Term debt - fixed rate	$ 12,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ -	$ -
Term debt - floating rate (1) (2)	200,000	75,000	-	50,000	-	-	75,000
Long-term incentive plan payouts	3,050	1,871	941	238	-	-	-
Interest on floating rate debt (1)	29,418	7,821	7,453	4,753	4,508	4,508	375
Interest on fixed rate debt	1,412	679	462	244	27	-	-
Open purchase orders	67,622	67,622	-	-	-	-	-
Minimum royalty payments	78,732	6,870	6,488	6,014	5,767	5,268	48,325
Advertising and promotional	84,792	7,015	6,618	6,225	6,038	5,731	53,165
Operating leases	11,569	1,936	1,629	1,117	1,059	1,091	4,737
Total contractual obligations (3)	$ 488,595	$ 171,814	$ 26,591	$ 71,591	$ 20,399	$ 16,598	$ 181,602

(1) 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, beginning September 29, 2006. Accordingly, the future interest obligations related to this debt have been estimated using these rates.

(2) Our $75 million, 5 year Senior Notes were repaid in full on June 29, 2009.

(3) In addition to the contractual obligations and commercial commitments in the table above, as of May 31, 2009, we have recorded a provision for our uncertain tax positions of $1.66 million. We are unable to reliably estimate the timing of future payments related to uncertain tax positions; therefore, we have excluded these 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 $0.57 million and $0.74 million for the three month periods ended May 31, 2009 and 2008, respectively.

Note 18 *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 month periods ended May 31, 2009 and 2008, approximately 14 and 17 percent, respectively, of our net sales were in foreign currencies. These sales were primarily denominated in the British Pound, Euro, Mexican Peso, Canadian Dollar, Brazilian Real, Chilean Pesos, Peruvian Soles and Venezuelan Bolivares Fuertes. We make most of our inventory purchases from the Far East and use the U.S. Dollar for such purchases. In our consolidated condensed statement of operations, exchange gains and losses resulting from the remeasurement of foreign taxes receivable, taxes payable, deferred tax assets and deferred tax liabilities, are recognized in their respective income tax lines, and all other foreign exchange gains and losses are recognized in SG&A. For the three month periods ended May 31, 2009 and 2008, we recorded net foreign exchange gains (losses), including the impact of currency hedges, of $2.63 and $0.27 million, respectively, in SG&A and $0.12 and ($0.05) million, respectively, in income tax expense.

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 have historically hedged against certain 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 that we forecast the expected foreign currency cash flows from the period we enter into the forward contract 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 types of agreements where we believe we have meaningful exposure to foreign currency exchange risk and the hedge pricing appears reasonable. It is 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. Accordingly, we will always be subject to foreign exchange rate-risk on exposures we have not hedged, and these risks may be material.

For transactions we designate 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 SG&A in the consolidated statement of operations 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 SG&A in the consolidated statement of operations. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes.

On September 3, 2008, the Company entered into a series of foreign exchange forward contracts to sell U.S. Dollars for British Pounds in notional amounts and terms that effectively froze the $1.78 million fair value of our existing forward contracts to sell British Pounds for U.S. Dollars. The new forward contracts had the effect of eliminating the foreign currency hedge created by the original forward currency contracts on certain forecasted transactions denominated in British Pounds and we discontinued their classification as cash flow hedges. These forward contracts had originally been designated as cash flow hedges. Under U.S. GAAP, the net gain related to discontinued cash flow hedges continues to be reported in OCI as long as it is likely that the forecasted transactions will continue to occur as scheduled. Therefore, at May 31, 2009, a portion of the deferred gains related to the combined group of derivatives remains in OCI and is currently expected to be reclassified into earnings when the underlying contracts settle on August 17, 2009.

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 May 31, 2009 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 Senior Notes, which reset as described in Note 15, and have been effectively converted to fixed rate debt using the interest rate swaps, as described below.

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We manage our floating rate debt using interest rate swaps (the swaps). During the first quarter of fiscal 2010, we had three interest rate swaps that converted 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. Our 5 year Senior Notes were repaid in full on June 29, 2009. In the swap 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 1.23 percent as of May 31, 2009 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 interest rates continue to drop significantly, we could also 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 (AOCL) in the accompanying consolidated condensed balance sheets 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 operations.

The following table summarizes the fair values of our various derivative instruments at May 31, 2009 and February 28, 2009:

FAIR VALUES OF DERIVATIVE INSTRUMENTS IN THE CONSOLIDATED CONDENSED BALANCE SHEETS
May 31, 2009

Contract Type	Currency to Deliver	Notional Amount	Contract Date	Range of Maturities From	To	Spot Rate at Contract Date	Spot Rate at May 31, 2009	Weighted Average Forward Rate at Inception	Weighted Average Forward Rate at May 31, 2009	Market Value of the Contract in U.S. Dollars (Thousands)
Foreign Currency Contracts Reported as Ordinary Hedges										
Sell	Pounds	£2,000,000	4/17/2007	8/17/2009		2.0000	1.6440	1.9609	1.6440	$ 634
Sell	Dollars	$3,498,000	9/3/2008	8/17/2009		1.7825	1.6440	1.7490	1.6437	(211)
Subtotal										423
Foreign Currency Contracts Reported as Cash Flow Hedges										
Sell	Pounds	£4,000,000	5/27/2009	9/15/2009	12/15/2009	1.6040	1.6440	1.6027	1.6431	(162)
Sell	Canadian	$5,000,000	4/29/2009	10/15/2009	12/15/2009	0.8308	0.9173	0.8319	0.9184	(432