HELEN OF TROY LTD
Form 10-Q/A
October 28, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form 10-Q/A
Amendment No. 1

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

For the quarterly period ended August 31, 2004

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

For the transition period from .... to ....

Commission file number 001-14669

HELEN OF TROY LIMITED

(Exact name of registrant as specified in its charter)

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

Clarendon 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)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes x No o

As of October 6, 2004 there were 29,815,775 shares of Common Stock, $.10 Par Value, outstanding.

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EXPLANATORY NOTE REGARDING THIS AMENDMENT TO FORM 10-Q

This Amendment No. 1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended August 31, 2004 as filed by the registrant on October 12, 2004, is filed to replace Part 1, Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (on page 20 of our original report).

Throughout our original report, reported net sales amounts, total company sales growth, and core sales growth percentages included appropriate accruals for sales cut-off, sales returns, trade discounts, and customer allowances. In our Management s Discussion and Analysis of Financial Condition and Results of Operations, we presented certain revenue growth percentages for various product groups within our Personal Care Segment that were computed without an allocation of period end accruals for sales cut-off, sales returns, trade discounts, and customer allowances. Accordingly, for better consistency and comparability with overall reported net sales amounts, we are revising these percentages to include an allocation of the subject accruals. These revised percentages can be found on pages 2 and 3 of this Amendment under the sub-header Personal Care Segment .

In order to preserve the nature and character of the disclosures as originally filed, except as specifically discussed in this Amendment No. 1 to the Quarterly Report on Form 10-Q/A, no attempt has been made to modify or update such disclosures for events which occurred subsequent to the original filing on October 12, 2004. Accordingly, this Amendment No. 1 to the Quarterly Report on Form 10-Q/A should be read in conjunction with the Company s subsequent filings with the Securities and Exchange Commission.

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 Forward-Looking Information and Factors That May Affect Future Results , Item 3. Quantitative and Qualitative Disclosures About Market Risk , and in the Company s most recent report on Form 10-K.

OVERVIEW OF THE QUARTER S ACTIVITIES:

Our first fiscal quarter of each year is our seasonal low point in terms of overall activity, with sales tending to run approximately 20 percent of the year s total on a historical basis. Our second fiscal quarter is characterized by stable sales in the June through first half of July timeframe with increasing sales in the second half of the July through August timeframe as we build towards a peak shipping season in the third quarter. The second fiscal quarter of 2005 also includes the first three full months of operations of our housewares segment (the operations of OXO acquired on June 1, 2004), offering home product tools in several categories, including: kitchen, cleaning, barbecue, barware, garden, automotive, storage, and organization. Overall, revenues were up 34.1 and 26.3 percent for the second fiscal quarter of 2005 and year-to-date, respectively, over the same periods in the prior year. Profitability followed revenue growth with fiscal second quarter and year-to-date increases of 40.6 and 30.7 percent, respectively, for operating income and 28.1 and 14.4 percent, respectively, for income from continuing operations.

Personal Care Segment

Appliances. Products in this group include electronic curling irons, thermal brushes, hair straighteners, hair crimpers, hair dryers, massagers, spa products, foot baths, electric clippers, and trimmers. Revenues increased approximately 5.1 and 6.8 percent over the same quarter and year-to-date periods in the prior year. Ceramic hair straighteners and variable heat ion select hair dryers are the strongest performing products in this category.

Revlon®, Sunbeam®, Vidal Sassoon®, Hot Tools®, Wigo®, and Dr. Scholl s® were key brands in this group.

Grooming, Skin Care, and Hair Products. Sales for this group are up 88.8 and 107.9 percent over the same quarter and year-to-date periods in the prior year, driven by the addition of the Brut® men s grooming product line throughout the Western Hemisphere. Brut® was acquired in September of 2003 so it was not part of our brand portfolio in the first and second quarters of fiscal 2004. Our Grooming, Skin Care, and Hair Care portfolio includes these names: Vitalis®, Sea Breeze®, Ammens®, Condition 3-in-1®, Final Net®, Vitapointe®, Brut® and Epil-Stop®.

Brushes, Combs, and Accessories. This very traditional category of our business was up 0.8 and down 10.2 percent in total dollar volume compared to the same quarter and year-to-date periods in the prior year. With the trend towards straighter, cleaner hair styles, the accessory business has suffered. In order to address this general trend in this market, we continue to look to new technologies such as ceramic brushes, Ionic brushes and Ion-ceramic brushes to capitalize on grooming trends.

Housewares Segment

This was the first quarter of operations for our new housewares segment (the operations of OXO acquired on June 1, 2004). We are now offering home product tools in several categories, including: kitchen, cleaning, barbecue, barware, garden, automotive, storage, and organization. Kitchen tools are leading sales in this category with the introduction of several new products, including the OXO Good Grips Mandoline Slicer (a tool used for making an easy chore of slicing fruits, vegetables and creating attractive garnishes), and Nylon Flexible Turners and Spatulas in an array of colors. Good Grips®, OXO Steel , OXO Grind it , and OXO SoftWorks® are our key brands in this group. OXO also has customer relationships with leading specialty and department store retailers. We currently expect OXO to contribute approximately $100,000,000 of sales in its first twelve months as part of our Company.

In addition to the above activities, we continued to invest in our business, with a view toward potential future growth, through the following activities:

During the second fiscal quarter, we substantially completed Phase 1 of development and implementation of a new Global Enterprise Resource Planning system. On September 7, 2004, we went live on the new system. With the implementation of this new system, most of our businesses run under one integrated information system. We believe this system will help to promote uniform business processes and practices amongst our subsidiaries. We are currently in the process of closely monitoring the new system and making normal and expected adjustments to improve its effectiveness. We expect this process to continue over the remainder of the third fiscal quarter. During the third fiscal quarter, we currently expect to begin the implementation and transition of our housewares segment to the new system. We also are investigating several significant functionality enhancements planned for implementation under Phase 2 of our IT enhancement program. Through the end of the second fiscal quarter of 2005, we invested approximately $10,400,000 on this project, which is included in property and equipment on our consolidated condensed balance sheet at August 31, 2004.

During the second fiscal quarter of 2005, we closed several financings to fund the OXO acquisition, and expand our capital base for potential future growth. As disclosed in Notes 8 and 15 to the accompanying consolidated condensed financial statements, during the second fiscal quarter of 2005, we concluded a series of transactions that established a new five year, $75,000,000 revolving credit facility, cancelled our existing $50,000,000 revolving credit facility, and placed $225,000,000 of floating rate senior debt with five, seven, and ten year maturities.

We continue to expand our brand offerings in our Skin Care Category. On September 29, 2004, we acquired certain assets related to the worldwide production and distribution of TimeBlock® and Skin Milk® body and skin care products lines from Naterra International, Inc. TimeBlock® is a line of clinically tested anti-aging skin care products. Skin Milk® is a line of body, bath and skin care products enriched with milk proteins, vitamins and botanical extracts. The Company paid $12,000,000 in cash in the transaction funded out of the Company s revolving line of credit. We currently project the brand acquisition to contribute approximately $15,000,000 of sales in fiscal 2006.

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RESULTS OF OPERATIONS

Comparison of fiscal quarter and six-month periods ended August 31, 2004 to the same periods ended August 31, 2003

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

	(dollars in thousands)					
	Quarter Ended August 31,		2004 vs. 2003		% of Net Sales	
	2004	2003	$ Change	% Change	2004	2003
Net sales	$141,229	$105,335	$35,894	34.1%	100.0%	100.0%
Cost of sales	74,316	58,214	16,102	27.7%	52.6%	55.3%
Gross profit	66,913	47,121	19,792	42.0%	47.4%	44.7%
Selling, general, and administrative expense	41,646	29,144	12,502	42.9%	29.5%	27.7%
Operating income	25,267	17,977	7,290	40.6%	17.9%	17.1%
Other income (expense):						
Interest expense	(2,681)	(956)	(1,725)	180.4%	-1.9%	-0.9%
Other income, net	15	819	(804)	*	0.0%	0.8%
Total other income (expense)	(2,666)	(137)	(2,529)	*	-1.9%	-0.1%
Earnings before income taxes	22,601	17,840	4,761	26.7%	16.0%	16.9%
Income tax expense	3,753	3,130	623	19.9%	2.7%	3.0%
Income from continuing operations	18,848	14,710	4,138	28.1%	13.3%	14.0%
Income (loss) from discontinued segment s operations, net of tax		(1,612)	1,612	*	0.0%	-1.5%
Net earnings	$ 18,848	$ 13,098	$ 5,750	43.9%	13.3%	12.4%

* Calculation is not meaningful

	(dollars in thousands)					
	Six Months Ended August 31,		2004 vs. 2003		% of Net Sales	
	2004	2003	$ Change	% Change	2004	2003
Net sales	$248,250	$196,571	$51,679	26.3%	100.0%	100.0%
Cost of sales	131,097	105,888	25,209	23.8%	52.8%	53.9%
Gross profit	117,153	90,683	26,470	29.2%	47.2%	46.1
Selling, general, and administrative expense	72,986	56,885	16,101	28.3%	29.4%	28.9%
Operating income	44,167	33,798	10,369	30.7%	17.8$%	17.2%
Other income (expense):						
Interest expense	(3,675)	(1,965)	(1,710)	87.0%	-1.5%	-1.0%
Other income, net	119	3,738	(3,619)	*	0.0%	1.9%
Total other income (expense)	(3,556)	1,773	(5,329)	*	-1.4%	0.9%
Earnings before income taxes	40,611	35,571	5,040	14.2%	16.4%	18.1%
Income tax expense	7,058	6,240	818	13.1%	2.8%	3.2%
Income from continuing operations	33,553	29,331	4,222	14.4%	13.5%	14.9%
Income (loss) from discontinued segment s operations, net of tax	(222)	(1,389)	1,167	*	-0.1%	-0.7%
Net earnings	$ 33,331	$ 27,942	$ 5,389	19.3%	13.4%	14.2%

* Calculation is not meaningful

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As more fully discussed in Note 5 to the accompanying consolidated condensed financial statements, in the first fiscal quarter of 2005, we reported a single operating segment, Personal Care and a discontinued segment. The Personal Care Segment includes the hair care appliances, hair brushes, combs, hair accessories, hair and skin care liquids and powders and other personal care products business. The Discontinued Segment includes the operations of Tactica International, Inc. (See Note 14 to the consolidated condensed financial statements for a further discussion of the sale of Tactica). Beginning with the second fiscal quarter of 2005, we are presenting an additional operating segment: housewares, to report the operations of OXO (OXO), which offers home product tools in several categories, including: kitchen, cleaning, barbecue, barware, garden, automotive, storage, and organization (See Note 15 to the consolidated condensed financial statements for a further discussion of the OXO acquisition). The accompanying discussion and analysis reflects this new change in operating segments.

Consolidated Sales and Gross Profit Margins

Our net sales for the three- and six-months ended August 31, 2004 increased 34.1 and 26.3 percent, or $35,894,000 and $51,679,000, respectively, versus the same periods a year earlier. In September 2003, we acquired the rights to produce and distribute the Brut® men s grooming product line throughout the Western Hemisphere. In June 2004, we acquired OXO product lines from WKI Holding Company to form our new housewares operating segment. These new product acquisitions accounted for 30.8 and 21.2 percent, respectively, or $32,446,000 and $41,610,000, respectively, of the percentage sales growth for the three- and six-months ended August 31, 2004 versus the same periods a year earlier. Core growth (growth without acquisitions) accounted for 3.3 and 5.1 percent, respectively, or $3,448,000 and $10,069,000, respectively, of the sales growth over the same three-and six-month periods last year. The core growth for the first six months came from strong sales volume performance from our appliance business and growth in grooming, skin care and hair products, offset somewhat by sales volume declines in our brushes, combs and accessories business.

Also contributing to growth has been the strengthening of the British Pound and the Euro versus the U.S. Dollar, offset somewhat by the impact of the weakening Mexican Peso vs. the U.S. Dollar. With the growth in our Latin American operations, the Mexican Peso exposure is growing and will be included in our foreign currency impact analysis. The overall net impact of foreign currency changes was to provide approximately $522,000 and $1,242,000 of additional sales dollars for the three- and six-month periods ended August 31, 2004, respectively, versus the same periods a year earlier.

Consolidated gross profit, as a percentage of sales for the three- and six-month periods ended August 31, 2004, increased 2.7 and 1.1 percentage points, respectively, to 47.4 and 47.2 percent compared to the same periods in the prior year. The increase is primarily due to a combination of sales mix changes to higher margin items resulting from Brut and OXO acquisitions and margin improvement due to selected product purchase cost decreases.

Selling, general, and administrative expenses

Selling, general, and administrative expenses, expressed as a percentage of net sales, increased from 27.7 to 29.5 percent for the three-months, and from 28.9 to 29.4 percent for the six-months ended August 31, 2004 compared to the same periods in the prior year. These increases were primarily due to higher media advertising and trade show costs. We have increased spending on advertising to help grow our grooming, skin care and hair products business. Additionally, we incurred foreign currency exchange losses of $214,000 and $624,000, respectively, for the three- and six-month periods ended August 31, 2004 versus exchange losses of $653,000 and $87,000 for the same periods a year earlier.

Interest expense and other income / expense

Interest expense for the three- and six-month periods ended August 31, 2004 increased compared with the three- and six-month periods ended August 31, 2003, to $2,681,000 and $3,675,000 from $956,000 and $1,965,000. The overall increase in interest expense is the result of the use of both short-term and long-term debt to fund the $273,173,000 acquisition of OXO (See Notes 8 and 15 for related discussions of new debt financings and the OXO acquisition).

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Other income, net for the three- and six-month periods ended August 31, 2004 was $15,000 and $119,000, respectively, compared with other income, net of $819,000 and $3,738,000, respectively, for the same periods in the prior year. The following schedule shows key components of other income and expense:

	(dollars in thousands)					
	Quarter Ended August 31,			Six Months Ended August 31,		
	2004	2003	$ Change	2004	2003	$ Change
Interest income	$ 62	$ 346	$ (284)	$ 405	$ 749	$ (344)
Realized and unrealized gains (losses) on securities	(50)	247	(297)	(357)	200	(557)
Litigation settlement gain, net					2,600	(2,600)
Miscellaneous other income	3	226	(223)	71	189	(118)
Other income, net	$ 15	$ 819	$ (804)	$ 119	$3,738	$ (3,619)

Interest income is lower for the three- and six-month periods ended August 31, 2004 compared to the same periods last year due to lower levels of temporarily investable cash being held this year. In the fiscal quarter ended August 31, 2003 we recorded other income of $2,600,000 in connection with the settlement of litigation.

Income tax expense

Income tax expense for the three- and six-month periods ended August 31, 2004 was 16.6 and 17.4 percent of earnings before income taxes, respectively, versus 17.5 and 17.5 percent of earnings before income taxes, respectively, for the same periods in the prior year. The overall year-to-year decline in rates is due to more of our income in fiscal 2005 being taxed in lower tax rate jurisdictions.

DISCONTINUED OPERATIONS

On April 29, 2004, we completed the sale of our 55 percent interest in Tactica back to certain shareholder-operating managers. In exchange for our 55 percent ownership share of Tactica and the release of $16,936,000 of its secured debt and accrued interest owed to us, we received marketable securities, intellectual properties, and the right to certain tax refunds. The fair value of net assets received was equal to the book value of net assets transferred. Accordingly, no gain or loss was recorded as a result of this sale.

Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142) requires at least an annual impairment review of goodwill and other intangible assets, which we normally undertake on March 1 of each year. SFAS 142 also requires a review of goodwill for impairment upon the occurrence of certain events that would more likely than not reduce the fair value of a segment below its carrying amount. One of those events at the end of fiscal 2004 was the impending disposal of Tactica. After evaluating the facts and circumstances surrounding Tactica s fiscal 2004 operations and its subsequent sale, against the guidelines established by SFAS 142, we recorded a loss of $5,699,000 as of February 29, 2004 for the impairment of 100 percent of the Tactica goodwill, net of

$1,938,000 of related tax benefits.

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) provides accounting guidance for accounting segments to be disposed by sale and, in our circumstances, required us to report Tactica as a discontinued operation. In accordance with SFAS 144, we classified all assets and liabilities of Tactica as Assets of discontinued segment held for sale and Liabilities of discontinued segment held for sale in the accompanying consolidated condensed balance sheet as of February 29, 2004. SFAS 144 also requires us to report Tactica s operating results, net of taxes, as a separate summarized component after income from continuing operations for each year presented. The accompanying consolidated condensed statements of income and consolidated condensed statements of cash flows contain all appropriate reclassifications for each period presented.

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FINANCIAL CONDITION, LIQUIDITY, AND CAPITAL RESOURCES

Selected measures of our liquidity and capital resources as of August 31, 2004 and August 31, 2003 are shown below:

	August 31, 2004	August 31, 2003
Accounts receivable turnover (Days) (1)	64.4	66.3
Inventory turnover (Times) (1)	2.3	2.1
Working capital	$147,096,000	$193,443,000
Current ratio	2.1:1	3.9:1
Ending total debt to ending equity ratio (2)	83.3%	17.2%
Return on average equity (1)	18.9%	14.7%

(1) Beginning with the first fiscal quarter ended May 31, 2004 we changed our method of calculating these measures for more meaningful and consistent comparison. Accounts receivable turnover, inventory turnover, and return on average equity computations use 12 month trailing sales, cost of sales or net income components as required by the particular measure. The current and four prior quarters ending balances of accounts receivable, inventory, and equity are used for the purposes of computing the average balance component as required by the particular measure.

(2) Total debt is defined as all debt outstanding at the balance sheet date. This includes the sum of the following lines on our consolidated condensed balance sheets: Revolving line of credit , Current portion of long-term debt , and Long-term debt, less current portion . The significant increase in the ratio is due to the additional financing we incurred to acquire OXO (see Notes 8 and 15, and our discussion below under Financing Activities).

Operating Activities

Our cash balance was $11,771,000 at August 31, 2004 compared to $53,048,000 at February 29, 2004. Operating activities used $19,137,000 of cash during the first six months of fiscal 2005, compared to $11,414,000 used during the first six months of fiscal 2004. Inventories increased $42,878,000 during the first six months of fiscal 2005 compared to $34,229,000 during the first six months of fiscal 2004. The increased inventory spending in fiscal 2005 was primarily due to the acquisition and building of inventory for our new housewares segment, which accounted for $19,095,000 of our inventory balance at August 31, 2004.

The increase in accounts receivable of $30,131,000 for the first six months of fiscal 2005, compared to $22,265,000 for the first six months of fiscal 2004 was primarily due to the Company s growth in sales, including receivables added by the new housewares segment. Sales increased $51,679,000, or 26.3 percent, for the six months ended August 31, 2004, compared to the six months ended August 31, 2003.

Our accounts receivable turnover days decreased to 64.4 days at August 31, 2004 from 66.3 days at August 31, 2003. This improvement is due to the addition of the accounts receivable of our housewares segment which has shorter receivable terms than some of our other businesses. Our inventory turnover improved to 2.3 times at August 31, 2004 compared to 2.1 times at August 31, 2003. The improvement is due to the fact that in fiscal 2004, we accelerated inventory purchases and receipts in advance of anticipated ocean freight rate increases, and built inventory levels of newly acquired skin and hair care brands.

Working capital decreased to $147,096,000 at August 31, 2004, which was a $46,347,000 decrease from August 31, 2003. Our current ratio decreased to 2.1:1 at August 31, 2004 from 3.9:1 at August 31, 2003. The decrease in working capital levels and in the current ratio was due to a change in the classification of a $10,000,000 note payment due in January 2005 to a current liability, $34,000,000 of revolving credit outstanding, and a reduction of our cash balances in order to reduce our short-term borrowings. The $10,000,000 note payment due in January 2005 is the first in a series of scheduled payments we will make against our $55,000,000 unsecured Senior Notes.

Investing Activities

Investing activities used $268,305,000 of cash during the six months ended August 31, 2004. Listed below are some significant highlights of our investing activities:

On June 1, 2004 we spent $273,173,000 to acquire certain assets and liabilities of OXO International from WKI Holding Company, Inc. OXO serves as the underlying business platform for our new housewares segment, offering home product tools in several categories, including: kitchen, cleaning, barbecue, barware, garden, automotive, storage, and organization. $261,129,000 of the purchase price is recorded under the investing activities section of the cash flow statement for the six months ended August 31, 2004. OXO is currently expected to contribute approximately $100,000,000 of sales in its first twelve months as part of our Company.

For the three- and six-month periods ended August 31, 2004, we spent $2,816,000 and $4,831,000 on our Global Enterprise Resource Planning System. On September 7, 2004, we went live on the new system. Management currently expects to spend approximately $850,000 to complete the initial implementation. Beyond the initial implementation, additional funds will be required to convert our latest acquisition, OXO, to the new system, and to add several significant functionality enhancements to the newly installed system. Management is currently evaluating these costs. Preliminary estimates are that additional spending on these items will range from $1,800,000 to $2,200,000.

During the second fiscal quarter, we also invested $1,709,000 on land adjacent to our El Paso Headquarters, $294,000 in connection with the opening of a new office in Macao, $138,000 on computer software and hardware and $253,000 for recurring additions and/or replacements of fixed assets in the normal and ordinary course of business. Our total investment for the first two quarters of fiscal 2005 for this group of assets has been $2,787,000.

Financing Activities

Financing activities provided $246,165,000 of cash during the six months ended August 31, 2004.

During the three- and six-month periods ended August 31, 2004, 32,900 and 277,104 stock option grants, respectively, were exercised for shares of our common stock providing $391,000 and $2,675,000 of cash. Purchases through our employee stock purchase plan of 5,614 shares at an average price of $23.33 provided an additional $131,000 of cash during the same periods. An additional 1,000,000 stock options were exercised during the fiscal quarter ending August 31, 2004 in a non-cash transaction in which the key employee tendered company stock having a market value of $5,757,900 as payment of the options exercise price.

During the three- and six-month periods ended August 31, 2004, we also repurchased 732,710 and 757,710 shares of our common stock for $24,344,966 and $25,039,465, respectively for an average share price of $33.23 and $33.05. These repurchases were made pursuant to our August 31, 2003 Board of Directors resolution authorizing us to purchase, in open market or private transactions, up to 3,000,000 shares of our common stock. From September 1, 2003 through August 31, 2004, we have repurchased in total 1,563,836 shares at a total cost of $45,611,690 or $29.17 average share price under the aforementioned resolution.

Included in our stock repurchases for the current fiscal quarter were 381,650 shares tendered by a key employee-shareholder as payment of the $13,797,000 of stock purchase price and related federal income tax obligations arising from the exercise of 1,000,000 stock options by the key employee-shareholder. This transaction was valued at an average share price of $36.15 using the average of the high bid and low bid prices for Helen of Troy stock as reported on the NASDAQ National Market System on the day the stock was tendered.

As mentioned in Note 8 to our consolidated condensed financial statements, and further discussed under Forward-Looking Information and Factors that may affect Future Results , during the quarter ended August 31, 2004 we entered into a series of financing transactions that established a new five-year, $75,000,000 revolving credit facility, cancelled our existing $50,000,000 revolving credit facility, borrowed and subsequently repaid a $200,000,000 Term Loan Credit Agreement, and placed $225,000,000 of floating rate senior debt with five, seven and ten year maturities.

On June 1, 2004, we acquired certain assets and liabilities of OXO International for a net cash purchase price of approximately $273,173,000 including the assumption of approximately $4,040,000 of certain liabilities.

To fund the acquisition, we entered into a five-year $75,000,000 Revolving Line of Credit Agreement, dated as of June 1, 2004, with Bank of America, N.A. and other lenders and a one year $200,000,000 Term Loan Credit Agreement, dated as of June 1, 2004, with Banc of America Mezzanine Capital, LLC. The purchase price of the OXO International acquisition was funded by borrowings of $73,173,000 under the Revolving Line of Credit Agreement and $200,000,000 under the Term Loan Credit Agreement.

Borrowings under the Revolving Line of Credit Agreement accrue interest equal to the higher of the Federal Funds Rate plus 0.50% or the 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% to 1.25% 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, with EBITDA adjusted on a pro forma basis to reflect the acquisition of OXO and the disposition of Tactica. At the time of funding, we elected LIBOR based funding with an initial margin rate of 1.125%. The new credit line allows for the issuance of letters of credit up to $10,000,000. Outstanding letters of credit reduce the $75,000,000 borrowing limit dollar for dollar. Upon the execution of this new credit facility, our previous $50,000,000 unsecured revolving credit facility was cancelled.

Borrowings under the $200,000,000 Term Loan Credit Agreement were subsequently paid off with the proceeds of the funding of $225,000,000 Floating Rate Senior Notes on June 29, 2004 (see Note 15). For the period, outstanding borrowings under the Term Loan Credit Agreement accrued interest at LIBOR plus a margin of 1.125%.

The Revolving Line of Credit Agreement requires the maintenance of certain Debt/EBITDA, fixed charge coverage ratios, and other customary covenants. The agreement has been guaranteed, on a joint and several basis, by the parent company, Helen of Troy Limited, and certain U.S. subsidiaries.

On June 29, 2004, we closed on a $225,000,000 Floating Rate Senior Note (Senior Notes). The Senior Notes consist of $100,000,000 of five year notes, $50,000,000 of seven year notes, and $75,000,000 of ten year notes. Interest on the notes is payable quarterly. Interest rates are reset quarterly based on the 3 month LIBOR rate plus 85 basis points for the five and seven year notes, and the 3 month LIBOR rate plus 90 basis points for the ten year notes. At closing, the initial interest rates were 2.436 percent for the five and seven year notes, and 2.486 percent for the ten year notes. On September 29, 2004, the interest rates on these notes were reset for the next three months at 2.82 percent for the five and seven year notes and 2.87 percent for the ten year notes. The Senior Notes allow for prepayment subject to the following terms: five year notes can be prepaid in the first year with a 2 percent penalty, thereafter there is no penalty; seven and ten year notes can be prepaid after one year with a 1 percent penalty, and after two years with no penalty.

The proceeds of the Senior Notes financing were used to repay the $200,000,000 borrowings under the Term Loan Credit Agreement, and $25,000,000 of the outstanding borrowings on our $75,000,000 Revolving Line of Credit

Agreement.

The Senior Notes are unsecured and require the maintenance of certain Debt/EBITDA, fixed charge coverage ratios, consolidated net worth levels, and other customary covenants. The Senior Notes have been guaranteed, on a joint and several basis, by the parent company, Helen of Troy Limited, and certain U.S. subsidiaries.

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In connection with these series of financing transactions, we incurred $4,398,000 of financing costs. These costs are being amortized over the related lives of the various notes financed, ranging from 5 to 10 years.

With the completion of these financings, the Company now operates under substantially more leverage and incurs higher interest costs. While at May 31, 2004 we had total indebtedness of $55,000,000, as of August 31, 2004 we had $314,000,000 in total indebtedness outstanding. This increase in debt has added new constraints on our ability to operate our business, including but not limited to:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes,
- an increased portion of our cash flow from operations will be required to pay interest on our debt, which will reduce the funds available to us for our operations,
- the new debt has been issued at variable rates of interest, which may result in higher interest expense in the event of increases in market interest rates,
- our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions,
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and conditions in the industries in which we operate,
- the new debt agreements contain financial and restrictive covenants, and our failure to comply with them could result in an event of default which, if not cured or waived, could have a material adverse effect on us. Significant restrictive covenants include limitations on among other things, our ability under certain circumstances to:
  - incur additional debt, including guarantees;
  - incur certain types of liens;
  - sell or otherwise dispose of assets;
  - engage in mergers or consolidations;
  - enter into substantial new lines of business; and
  - enter into certain types of transactions with our affiliates.

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Our contractual obligations and commercial commitments as of August 31, 2004 were:

PAYMENTS DUE BY PERIOD
(in thousands)

		August 31,					
Contractual Obligations	**Total**	**2005 1 year**	**2006 2 years**	**2007 3 years**	**2008 4 years**	**2009 5 years**	**After 5 years**
Long-term debt (current and long-term portions)	$280,000	$ 10,000	$10,000	$10,000	$13,000	$103,000	$134,000
Open purchase orders - inventory	76,866	76,866					
Minimum royalty payments	20,910	3,540	3,723	3,779	3,863	3,596	2,409
Advertising and promotional	23,816	5,452	5,663	5,904	2,981	1,100	2,716
Operating leases	1,759	795	519	360	85		
Purchase and implementation of enterprise resource planning system, including additional enhancements	2,772	2,772					
Other	2,970	885	950	1,015	120		
Total contractual obligations	$409,093	$100,310	$20,855	$21,058	$20,049	$107,696	$139,125

We have no existing activities involving special purpose entities or off-balance sheet financing.

Current and Future Capital Needs

Based on our current financial condition and current operations, we believe that cash flows from operations and available financing sources will continue to provide sufficient capital resources to fund the Company s foreseeable short and long-term liquidity requirements. The Company s cash used by operating activities of $19,137,000 over the first two fiscal quarters of 2005 resulted from the inventory and accounts receivable increases required as a result of the OXO acquisition, typical seasonal inventory increases in anticipation of third quarter sales activity, and normal seasonal receivable collection patterns. Typically, we can expect cash flow from operating activities in the second half of the fiscal year to recoup the cash used in the first half of the fiscal year and provide additional positive cash flow as third quarter seasonal peak accounts receivable are collected and seasonal peak inventory levels are lowered. We expect that our capital needs will stem primarily from the need to purchase sufficient levels of inventory and to carry normal levels of accounts receivable on our balance sheet. In addition, we will continue to evaluate acquisition opportunities on a regular basis and may augment our internal growth with acquisitions of complementary businesses or product lines. Subject to the limitations imposed by our new financing arrangements, we may finance acquisition activity with available cash, the issuance of stock, or with additional debt, depending upon the size and nature of any such transaction and the status of the capital markets at the time of such acquisition.

INCOME TAXES

Hong Kong Income Taxes - The Inland Revenue Department (the IRD) in Hong Kong has assessed a total of $32,086,000 (U.S.) in tax on certain profits of our foreign subsidiaries for the fiscal years 1995 through 2003. Hong Kong taxes income earned from certain activities conducted in Hong Kong. We are vigorously defending our position that we conducted the activities that produced the profits in question outside of Hong Kong. We also assert that we have complied with all applicable reporting and tax payment obligations. In connection with the IRD s tax assessment for the fiscal years 1995 through 1997, we were required to purchase $3,282,000 (U.S.) in tax reserve certificates in Hong Kong, which represented approximately 49 percent of the liability assessed by the IRD. The Company purchased additional tax reserve certificates in the amount of $3,583,000 (U.S.) on April 26, 2004 as required by the IRD which represents 100 percent of the tax liability assessed for fiscal year 1998. 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.

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If the IRD s position were to prevail and if it were to assert the same position for fiscal years after fiscal year 2003, the resulting assessment could total $15,215,000 (U.S.) in tax for fiscal year 2004 and the first two fiscal quarters of 2005. We vigorously disagree with the proposed adjustments and intend to aggressively contest this matter through applicable taxing authority and judicial procedures, 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 our best estimate of the probable tax liability for this matter. While the resolution of the issue may result in tax liabilities which 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.

United States Income Taxes - The Internal Revenue Service (the IRS) is currently auditing the U.S. federal tax returns of our largest U.S. subsidiary for fiscal years 2000, 2001, and 2002. The IRS has provided notice of proposed adjustments to taxable income in the amount of $39,483,000 for the three years under audit. We vigorously disagree with the proposed adjustments and intend to aggressively contest this matter through applicable IRS and judicial procedures, as appropriate. Although the final resolution of the proposed adjustments is uncertain and involves areas of law subject to varying interpretation, based on currently available information, we have provided for our best estimate of the probable tax liability for these matters. This estimate includes additional tax liabilities related to U.S. taxable income for all periods subsequent to fiscal year 2002, as well as the years currently under audit. While the resolution of the issue may result in tax liabilities which 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.

We plan to permanently reinvest all of the undistributed earnings of the non-U.S. subsidiaries of the U.S. subsidiaries. We have made no provision for U.S. federal income taxes on these undistributed earnings. At August 31, 2004, undistributed earnings for which we had not provided deferred U.S. federal income taxes totaled $37,748,000.

Income Tax Provisions - We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from 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. On October 11, 2004, the U.S. Senate passed the Jumpstart our Business Strength (JOBS) Act (H.R. 4520) that was previously approved by the U.S. House of Representatives. The President has publicly indicated he will sign the new legislation. Although the bill contains provisions applicable to companies that have engaged in inversion transactions, these provisions only apply to transactions that occurred after March 4, 2003. Our restructuring occurred in 1994 and consequently we are not subject to the anti-inversion provisions of the bill. There can be no assurance, however, that the I.R.S. will not claim that additional income is subject to U.S. taxation or that future legislation might increase our U.S. tax liability. In addition to potential 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 stock) together own more than 50 percent of the stock 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.

In addition, 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.

CRITICAL ACCOUNTING POLICIES

The U.S. Securities and Exchange Commission defines critical accounting policies as those that are both most important to the portrayal of a company s financial condition and results, and require management s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. Preparation of our financial statements involves the application of several such policies. These policies include: estimates of our exposure to liability for income taxes, estimates of credits to be issued to customers for sales that have already been recorded, the valuation of inventory on a lower-of-cost-or-market basis, the carrying value of long-lived assets, and the economic useful life of intangible assets.

Income Taxes - We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from 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 addition, 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 unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. 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.

Estimates of credits to be issued to customers - We regularly receive requests for credits from retailers for returned products or in connection with sales incentives, such as cooperative advertising and volume rebate agreements, as well as general returns due to product quality issues. We reduce sales or increase selling, general, and administrative expenses, depending on the nature of the credits, for estimated future credits to customers. Our estimates of these amounts are based either on historical information about credits issued, relative to total sales, or on specific knowledge of incentives offered to retailers. With respect to credits for product quality issues, we also estimate our warranty accrual using historical trends and believe these trends are the most reliable method by which we can estimate our warranty liability.

Valuation of inventory - We account for our inventory using a first-in-first-out system in which we record inventory on our balance sheet at the lower of its cost or its net realizable value. Determination of net realizable value requires management to estimate the point in time at which an item s net realizable value drops below its cost. We regularly review our inventory for slow-moving items and for items that we are unable to sell at prices above their original cost. When we identify such an item, we reduce its book value to the net amount that we expect to realize upon its sale. This process entails a significant amount of inherent subjectivity and uncertainty.

Carrying value of long-lived assets - We apply the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142) and Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144) in assessing the carrying values of

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our long-lived assets. SFAS 142 and SFAS 144 both require that a company consider whether circumstances or conditions exist that suggest that the carrying value of a long-lived asset might be impaired. If such circumstances or conditions exist, further steps are required in order to determine whether the carrying value of the asset exceeds its fair value. If analyses indicate that the asset s carrying value does exceed its fair market value, the next step is to record a loss equal to the excess of the asset s carrying value over its fair value. The steps required by SFAS 142 and SFAS 144 entail significant amounts of judgment and subjectivity. We completed our annual analysis of the carrying value of our goodwill during the first quarter of fiscal 2005 and, accordingly, recorded no impairment.

Economic useful life of intangible assets - We apply SFAS 142 in determining the useful economic lives of intangible assets that we acquire and that we report on our consolidated balance sheets. SFAS 142 requires that companies amortize intangible assets, such as licenses and trademarks, over their economic useful lives, unless those assets economic useful lives are indefinite. If an intangible asset s economic useful life is deemed to be indefinite, that asset is not amortized. When we acquire an intangible asset, we consider factors such as the asset s history, our plans for that asset, and the market for products associated with the asset. We consider these same factors when reviewing the economic useful lives of our previously acquired intangible assets as well. We review the economic useful lives of our intangible assets at least annually. The determination of the economic useful life of an intangible asset requires a significant amount of judgment and entails significant subjectivity and uncertainty. We have completed our annual analysis of the remaining useful economic lives of our intangible assets during the first quarter of fiscal 2005 and determined that the useful lives currently being used to determine amortization of each asset are appropriate.

With respect to the June 1, 2004 acquisition of intangible assets of OXO International, we have completed our analysis of the economic lives of the assets acquired and have made an allocation of the initial purchase price based upon independent appraisals.

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

FORWARD-LOOKING INFORMATION AND FACTORS THAT MAY AFFECT FUTURE RESULTS

Certain written and oral statements made by our Company and subsidiaries or with the approval of an authorized executive officer of our Company may constitute forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. This includes statements made in this report, in other filings with the Securities and Exchange Commission, in press releases, and in certain other oral and written presentations. Generally, the words anticipates , believes , expects , plans , may , will , should , seeks , estimates , predict , potential , co similar words identify forward-looking statements. All statements that address operating results, events or developments that we expect or anticipate will occur in the future, including statements related to sales, earnings per share results, and statements expressing general expectations about future operating results, are forward-looking statements. In this report, we have provided among other items, projected sales information in connection with our OXO acquisition and the acquisition of TimeBlock® and Skin Milk® body and skin care product lines. These projections are forward-looking statements and were based upon management s analysis of the underlying acquired products distribution along with subjective assessments of the additional opportunities for sales growth within our existing and target customer bases. The Company cautions readers not to place undue reliance on forward-looking statements. Forward-looking statements are subject to risks that could cause such statements to differ materially from actual results. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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Risk Factors

Factors that could cause actual results to differ from those anticipated include:

general industry conditions and competition, including our ability to continue to competitively market products with broad consumer appeal,

credit risks,

the Company s, or its operating segments , material reliance on individual customers or small numbers of customers,

the Company s material reliance on certain trademarks and patents, and its ability to protect this and other intellectual property both domestically and internationally,

the Company s material concentration of licensing agreements with a limited number of licensors, and the continuing long-term financial capability of those licensors to perform under the terms of such agreements,

the impact of tax legislation, regulations, or treaties, including proposed legislation in the United States that would affect companies or subsidiaries of companies that have headquarters outside the United States and file U.S. income tax returns,

the impact of other current and future laws and regulations

the results of continuing disagreements with the Hong Kong Inland Revenue Department concerning the portion of our profits that are subject to Hong Kong income tax,

any disagreements with the United States Internal Revenue Service or other taxing authority regarding our assessment of the effects or interpretation of existing tax laws, regulations, or treaties,

risks associated with inventory, including potential obsolescence and our ability to accurately forecast our customer demand,

risks associated with new products and new product lines,

risks associated with the Company s material reliance on certain manufacturers for a significant portion of its production needs,

risks associated with increases in cost and changes in the availability of raw materials and components, which could have a material adverse effect on our financial condition and results of operations,

risks associated with operating in foreign jurisdictions,

interest rate risk, particularly those associated with debt instruments issued in connection with our acquisition of certain assets and liabilities of OXO,

foreign currency exchange losses,

general worldwide and domestic economic conditions, uninsured losses,

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changes in business, political and economic conditions due to the threat of future terrorist activity in the United States and other parts of the world, and related U.S. military action overseas,

reliance on computer systems (see additional comments below),

management s reliance on the representations of third parties,

competitive and other risks associated with our ability to continue to retain executives and key managers in critical positions, and to maintain sufficient back-up management depth, in the event of the departure of any one of these managers,

risks associated with new business ventures and acquisitions, including our ability to manage the transition and integration, and our ability to obtain the anticipated results and synergies from our acquisition of certain assets and liabilities of OXO International,

risks associated with any current or future investments in equity securities,

the risks associated with our ability to timely comply with the internal control over financial reporting requirements imposed by Section 404 of the Sarbanes-Oxley Act, and the impact, if any, on investor confidence in the event that our ongoing internal review process uncovers any reportable internal control issues,

the risks described from time to time in the Company s reports to the Securities and Exchange Commission, including this report,

the risks associated with the impact that any future changes in generally accepted accounting principles may have on the reported results of operations, including the risks of proposed accounting standards requiring the expensing of stock options, and

the risks associated with our ability to avoid classification of our parent company as a Controlled Foreign Corporation. In order for us to preserve our current tax treatment of our non-U.S. earnings, it is critical we avoid Controlled Foreign Corporations status. 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 stock) together own more than 50 percent of the stock in such corporation. If a change of ownership of the Company 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 the Company s business.

Deployment of a New Global Enterprise Resource Planning System

On September 7, 2004, we implemented our new Global Enterprise Resource Planning System, along with other new technologies. With the implementation of this new system, most of our businesses with the significant exception of the newly acquired housewares segment run under one integrated information system. We are currently in the process of closely monitoring the new system and making normal and expected adjustments to improve its effectiveness. We expect this process to continue over the remainder of the third fiscal quarter. Complications resulting from the project could potentially cause considerable disruptions to our business. Since September 7, 2004, we have experienced some backlog in the processing of customer shipments while our sales operations and distribution groups have been learning and adapting to the new system. We currently expect this backlog to be eliminated shortly as we attain our normal operational pace. The change from the old system to the new system will continue to involve risk. Application program bugs, system conflict crashes, user error, data integrity issues, customer data conflicts and integration issues with certain remaining legacy systems all pose potential risks. Implementing new data standards and converting existing data to accommodate the new system s requirements has required a significant effort across our entire organization. During the third fiscal quarter, we

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currently expect to begin the implementation and transition of our housewares segment to the new system. We also are investigating several significant functionality enhancements planned for implementation under Phase 2 of our IT enhancement program. These additional implementations will continue to strain our internal resources, could impact our ability to do business, and may result in higher implementation costs and concurrent reallocation of human resources.

To support these new technologies, we are building and supporting a much larger and more complex information technology infrastructure. Increased computing capacity, power requirements, back-up capacities, broadband network infrastructure and increased security needs are all potential areas for failure and risk. We have relied substantially on outside vendors to assist us with the conversion and will continue to rely on certain vendors to assist us in maintaining some of our new infrastructure. Should they fail to perform due to events outside our control, it could affect our service levels and threaten our ability to conduct business. Natural disasters may disrupt our infrastructure and our disaster recovery process may not be sufficient to protect against loss.

Additionally, our business operations are dependent on our logistical systems, which include our order management system and our computerized warehouse network. These logistical systems depend on our new Global Enterprise Resource Planning System. Any interruption in our logistical systems would impact our ability to procure our products from our factories and suppliers, transport them to our distribution facilities, store them and deliver them to our customers on time and in the correct amounts.

Incurrence of New Debt to Fund Acquisitions

During the second quarter of fiscal 2005, we incurred substantial debt as more fully described in Note 8 to the consolidated condensed financial statements and under the Financing Activities section of our Management s Discussion and Analysis of Financial Condition and Results of Operations. We are now operating under substantially more leverage and have begun to incur higher interest costs. This substantial increase in debt has added new constraints on our ability to operate our business, including but not limited to:

- our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes,
- an increased portion of our cash flow from operations will be required to pay interest on our debt, which will reduce the funds available to us for our operations,
- the new debt has been issued at variable rates of interest, which may result in higher interest expense in the event of increases in market interest rates risks,
- our level of indebtedness will increase our vulnerability to general economic downturns and adverse industry conditions,
- our debt service obligations could limit our flexibility in planning for, or reacting to, changes in our business and conditions in the industries in which we operate,
- the new debt agreements contain financial and restrictive covenants, and our failure to comply with them could result in an event of default which, if not cured or waived, could have a material adverse effect on us. Significant restrictive covenants include limitations on among other things, our ability under certain circumstances to:
  - incur additional debt, including guarantees;

incur certain types of liens;

sell or otherwise dispose of assets;

engage in mergers or consolidations;

enter into substantial new lines of business;

enter into certain types of transactions with our affiliates.

Acquisition of OXO International

As previously mentioned, we acquired certain assets and liabilities of OXO International on June 1, 2004. To the extent that the OXO acquisition is not favorably received by shareholders, analysts, and others in the investment community, the price of our common stock could be adversely affected. In addition, acquisitions involve numerous risks, including:

difficulties in the assimilation of the operations, technologies, products and personnel of the acquired company,

the diversion of management s attention from other business concerns,

risks of entering markets in which we have no or limited prior experience, and

the potential loss of key employees of the acquired company.

If we are unable to successfully integrate the operations, technologies, products or personnel that we have acquired, our business, results of operations, and financial condition could be materially adversely affected.

NEW ACCOUNTING GUIDANCE

In May 2003, the FASB issued FASB Statement No. 150 Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity (SFAS 150). This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that issuers classify as liabilities a financial instrument that is within its scope as a liability because that financial instrument embodies an obligation of the issuer. This statement does not affect the timing of recognition of financial instruments as contingent consideration nor does it apply to obligations under stock-based compensation arrangements if those obligations are accounted for under APB Opinion No. 25. Application of this statement is effective for applicable financial instruments entered into or modified after August 31, 2003, and otherwise is effective at the beginning of the first interim fiscal period beginning after June 15, 2003. We currently do not have any financial instruments that are covered under this statement.

On March 31, 2004, the Financial Accounting Standards Board (FASB) issued a proposed statement, Share-Based Payment, that addresses the accounting for share-based payment transactions (for example, stock options and awards of restricted stock) in which an employer receives employee-services in exchange for equity securities of the company or liabilities that are based on the fair value of the company s equity securities. This proposal, if finalized as proposed, would eliminate use of APB Opinion No. 25, Accounting for Stock Issued to Employees, and generally would require such transactions be accounted for using a fair-value-based method and recording compensation expense rather than optional pro forma disclosure of what expense amounts might be. The proposal, if approved, would substantially amend FASB Statement No. 123, Accounting for Stock-Based Compensation. The comment period for the exposure draft ended on June 30, 2004 and final rules are expected to be issued late in 2004. Because of the timing of the proposal and the uncertainty of whether it will be adopted substantially as proposed, management will evaluate the impact of such a change in the accounting standards on the Company s financial position and results of operations when final rules are issued.

A variety of proposed or otherwise potential accounting standards are currently under study by standard-setting organizations and various regulatory agencies. Because of the tentative and preliminary nature of these proposed standards, management has not determined whether implementation of such proposed standards would be material to our consolidated financial statements.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

2.1 Amendment to the Acquisition Agreement, dated June 1, 2004, by and among World Kitchen (GHC), LLC, WKI Holding Company, Inc., World Kitchen, Inc., Helen of Troy Limited (Barbados), and Helen of Troy Limited (Bermuda) (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.1 Credit Agreement, dated as of June 1, 2004, among Helen of Troy L.P., Helen of Troy Limited, Bank of America, N.A. and the other lenders party thereto (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.2 Term Loan Credit Agreement, dated as of June 1, 2004, among Helen of Troy L.P., Helen of Troy Limited, Banc of America Mezzanine Capital, LLC and the other lenders party thereto (incorporated by reference from Exhibit 10.2 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.3 Guaranty, dated as of June 1, 2004, made by Helen of Troy Limited (Bermuda), Helen of Troy Limited (Barbados), Hot Nevada, Inc., Helen of Troy Nevada Corporation, Helen of Troy Texas Corporation, Idelle Labs Ltd. and OXO International Ltd., in favor of Bank of America, N.A. and other lenders, pursuant to the Credit Agreement, dated June 1, 2004 (incorporated by reference from Exhibit 10.3 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.4 Guaranty, dated as of June 1, 2004, made by Helen of Troy Limited (Bermuda), Helen of Troy Limited (Barbados), Hot Nevada, Inc., Helen of Troy Nevada Corporation, Helen of Troy Texas Corporation, Idelle Labs Ltd. and OXO International Ltd., in favor of Banc of America Mezzanine Capital, LLC and other lenders, pursuant to the Term Loan Credit Agreement, dated June 1, 2004 (incorporated by reference from Exhibit 10.4 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.5 Note Purchase Agreement, dated June 29, 2004, by and among Helen of Troy Limited (Bermuda), Helen of Troy L.P., Helen of Troy Limited (Barbados) and the purchasers listed in Schedule A thereto (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, filed July 2, 2004).

31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On June 3, 2004, we furnished a report on Form 8-K under Item 2. Acquisition or Disposition of Assets announcing that on June 1, 2004, indirectly through a subsidiary Helen of Troy Limited (Barbados), we had completed our acquisition of certain assets and liabilities of OXO International from World Kitchen (GHC), LLC, WKI Holding Company, Inc. and World Kitchen, Inc. for approximately $273.2 million plus the assumption of certain liabilities.

On July 2, 2004, we furnished a report on Form 8-K under Item 5. Other Events announcing that we had entered into a Note Purchase Agreement, dated as of June 29, 2004 (the Note Purchase Agreement), with Helen of Troy L.P., Helen of Troy Limited (Barbados) and the purchasers listed in Schedule A to the Note Purchase Agreement providing for the issuance of $100,000,000 of Helen of Troy L.P. s Floating Rate Series A Senior Notes due June 29, 2009, $50,000,000 of Helen of Troy L.P. s Floating Rate Series B Senior Notes due June 29, 2011 and $75,000,000 of Helen of Troy L.P. s Floating Rate Series C Senior Notes due June 29, 2014.

On July 14, 2004, we furnished a report on Form 8-K under Item 12. Results of Operations and Financial Condition relating to financial information for Helen of Troy Limited for the quarter ended May 31, 2004, as presented in our July 12, 2004 press release and associated conference call. *

On July 29, 2004, we furnished a report on Form 8-K/A amending our June 3, 2004 Form 8-K. This Amendment on Form 8-K/A was filed to revise Item 7 in our original Form 8-K to include the historical and pro forma financial information required by paragraphs (a) and (b) of Item 7 which were omitted from the report as initially filed in accordance with paragraph (a) (4) of Item 7 in the general instructions to Form 8-K. Because OXO International was not a separate legal entity when acquired, nor was it operated as a separate business of WKI, the information provided in Item 7(a) of Form 8-K/A was a presentation of audited statements of net assets acquired and of revenues and direct expenses, instead of full financial statements as required by Rule 3-05 of Regulation S-X. We had previously requested that the Securities and Exchange Commission confirm the proposed information and presentation would satisfy the requirements of Item 7(a) of Form 8-K. The Securities and Exchange Commission stated that they would not object to such presentation.

* This furnished Form 8-K is not to be deemed filed or incorporated by reference into any filing.

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SIGNATURES

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

	HELEN OF TROY LIMITED
	(Registrant)
Date: October 28, 2004	/s/ Gerald J. Rubin
	Gerald J. Rubin Chairman of the Board, Chief Executive Officer, President, Director and Principal Executive Officer
Date: October 28, 2004	/s/ Thomas J. Benson
	Thomas J. Benson Senior Vice-President and Chief Financial Officer
Date: October 28, 2004	/s/ Richard J. Oppenheim
	Richard J. Oppenheim Financial Controller and Principal Accounting Officer

Index to Exhibits

2.1 Amendment to the Acquisition Agreement, dated June 1, 2004, by and among World Kitchen (GHC), LLC, WKI Holding Company, Inc., World Kitchen, Inc., Helen of Troy Limited (Barbados), and Helen of Troy Limited (Bermuda) (incorporated by reference from Exhibit 2.2 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.1 Credit Agreement, dated as of June 1, 2004, among Helen of Troy L.P., Helen of Troy Limited, Bank of America, N.A. and the other lenders party thereto (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.2 Term Loan Credit Agreement, dated as of June 1, 2004, among Helen of Troy L.P., Helen of Troy Limited, Banc of America Mezzanine Capital, LLC and the other lenders party thereto (incorporated by reference from Exhibit 10.2 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.3 Guaranty, dated as of June 1, 2004, made by Helen of Troy Limited (Bermuda), Helen of Troy Limited (Barbados), Hot Nevada, Inc., Helen of Troy Nevada Corporation, Helen of Troy Texas Corporation, Idelle Labs Ltd. and OXO International Ltd., in favor of Bank of America, N.A. and other lenders, pursuant to the Credit Agreement, dated June 1, 2004 (incorporated by reference from Exhibit 10.3 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.4 Guaranty, dated as of June 1, 2004, made by Helen of Troy Limited (Bermuda), Helen of Troy Limited (Barbados), Hot Nevada, Inc., Helen of Troy Nevada Corporation, Helen of Troy Texas Corporation, Idelle Labs Ltd. and OXO International Ltd., in favor of Banc of America Mezzanine Capital, LLC and other lenders, pursuant to the Term Loan Credit Agreement, dated June 1, 2004 (incorporated by reference from Exhibit 10.4 to the Company s Current Report on Form 8-K, filed June 3, 2004).

10.5 Note Purchase Agreement, dated June 29, 2004, by and among Helen of Troy Limited (Bermuda), Helen of Troy L.P., Helen of Troy Limited (Barbados) and the purchasers listed in Schedule A thereto (incorporated by reference from Exhibit 10.1 to the Company s Current Report on Form 8-K, filed July 2, 2004).

31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.