ARCH HILL VENTURES NV
Form SC 13D/A
April 15, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D

(Amendment No. 3 Arch Hill Ventures N.V.)

(Amendment No. 6 Arch Hill Capital N.V.)

Under The Securities Exchange Act of 1934

Lithium Technology Corporation

(Name of Issuer)

Common Stock, par value $.01 per share

(Title of Class of Securities)

536808306

(CUSIP Number)

H. H. van Andel

Arch Hill Capital N.V.

Parkweg 2

2585 JJ s Gravenhage

The Netherlands

Telephone: 011 31703546818

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

April 13, 2004

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. ¨

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person s initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 536808306

1. Names of Reporting Persons I.R.S. Identification Nos. of above persons (entities only).

Arch Hill Ventures N.V.

2. Check the Appropriate Box if a Member of a Group (See Instructions)

(a) ¨

(b) ¨

3. SEC Use Only

4. Source of Funds (See Instructions)

OO

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨

6. Citizenship or Place of Organization

The Netherlands

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7.	Sole Voting Power
	8.	Shared Voting Power 26,568,480
	9.	Sole Dispositive Power
	10.	Shared Dispositive Power

26,568,480

11. Aggregate Amount Beneficially Owned by Each Reporting Person

26,568,480

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨

13. Percent of Class Represented by Amount in Row (11)

68.02%

14. Type of Reporting Person (See Instructions)

CO

2

CUSIP No. 536808306

1. Names of Reporting Persons I.R.S. Identification Nos. of above persons (entities only). Arch Hill Capital N.V.	
2. Check the Appropriate Box if a Member of a Group (See Instructions) (a) ¨ (b) ¨	
3. SEC Use Only	
4. Source of Funds (See Instructions) WC	
5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e)	¨
6. Citizenship or Place of Organization The Netherlands	

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	7. Sole Voting Power 24,211,099
	8. Shared Voting Power 26,568,480
	9. Sole Dispositive Power 24,211,099

10. Shared Dispositive Power 26,568,480	
11. Aggregate Amount Beneficially Owned by Each Reporting Person 50,779,579	
12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions)	¨
13. Percent of Class Represented by Amount in Row (11) 93.98%	
14. Type of Reporting Person (See Instructions) CO	

This statement on Schedule 13D constitutes Amendment No. 3 to the Schedule 13D (the Arch Hill Ventures Amendment) by Arch Hill Ventures N.V. (Arch Hill Ventures) and Amendment No. 6 to the Schedule 13D (the Arch Hill Capital Amendment) filed by Arch Hill Capital N.V. (Arch Hill Capital) and amends and supplements the Schedule 13Ds filed by Arch Hill Capital and Arch Hill Ventures.

Item 3. Source and Amount of Funds or Other Consideration

Item 3 is hereby amended and supplemented to add the following:

On April 13, 2004, pursuant to a Debt Exchange Agreement between the Issuer, GAIA Holding B.V. (GAIA Holding), GAIA Akkumulatorenwerke GmbH (GAIA), Arch Hill Capital and Arch Hill Ventures, the Issuer exchanged debt owed to Arch Hill Capital and Arch Hill Ventures for Issuer equity securities (the Debt Exchange) as follows: (i) $1,587,375 of bridge notes held by Arch Hill Capital and issued in 2002 were exchanged for $1,587,375 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 793,688 shares of Issuer common stock exercisable at $2.00 per share, (ii) $1,412,625 of bridge notes held by Arch Hill Capital and issued in 2003 were exchanged for $1,412,625 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 706,312 shares of Issuer common stock exercisable at $2.00 per share, (iii) $5,459,502 of bridge notes issued in 2003 and $918,159 of bridge notes issued from January 1, 2004 through April 13, 2004 and $323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for 6,069,697 shares of Issuer common stock and warrants to purchase up to 10,500,000 shares of Issuer common stock exercisable at $2.40 per share and (iv) $23,185,604 of debt owed to Arch Hill Ventures was exchanged for 21,001,453 shares of Issuer common stock (the Debt Exchange).

For a further description of the Debt Exchange transaction see Item 6.

Item 4. Purpose of Transaction

Item 4 is hereby amended and supplemented to add the following:

(a), (e), (f) As described in Item 3 and Item 6, on April 13, 2004, pursuant to a Debt Exchange Agreement between the Issuer, GAIA Holding, GAIA, Arch Hill Capital and Arch Hill Ventures, the Issuer exchanged debt owed to Arch Hill Capital and Arch Hill Ventures for Issuer equity securities as follows: (i) $1,587,375 of bridge notes held by Arch Hill Capital and issued in 2002 were exchanged for $1,587,375 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 793,688 shares of Issuer common stock exercisable at $2.00 per share, (ii) $1,412,625 of bridge notes held by Arch Hill Capital and issued in 2003 were exchanged for $1,412,625 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 706,312 shares of Issuer common stock exercisable at $2.00 per share, (iii) $5,459,502 of bridge notes issued in 2003 and $918,159 of bridge notes issued from January 1, 2004 through

April 13, 2004 and $323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for 6,069,697 shares of Issuer common stock and warrants to purchase up to 10,500,000 shares of Issuer common stock exercisable at $2.40 per share and (iv) $23,185,604 of debt owed to Arch Hill Ventures was exchanged for 21,001,453 shares of Issuer common stock. For a further description of the Debt Exchange transaction see Item 6.

(g) The issuance of the common shares and the issuance of Issuer common stock upon conversion of the Convertible Debentures and Warrants may impede the acquisition of control of the Issuer by any person.

The Reporting Person has no plans or proposals which relate to Items 4 (b), (c), (d), (g), (h), (i) or (j).

Item 5. Interest in Securities of the Issuer

Item 5 is hereby amended and supplemented to add the following:

(a) (i) Arch Hill Capital is the beneficial owner of 50,779,579 shares of Issuer s Common Stock representing approximately 93.98% of Issuer s Common Stock consisting of :

(1) 1,196,605 shares of Issuer common stock held by Arch Hill Capital (issued upon conversion of $1,914,567 of bridge notes held by Arch Hill Capital on October 4, 2002);

(2) 1,974,500 shares of Issuer common stock held by Arch Hill Capital (issued upon conversion of $3.94 million in principal of Issuer convertible notes held by Arch Hill Capital on February 25, 2004);

(3) 2,970,297 shares of Issuer common stock issuable upon conversion of $3,000,000 in principal of Issuer convertible debentures at an assumed conversion price of $1.01 per share (issued in the Debt Exchange);

(4) 6,069,697 shares of Issuer common stock held by Arch Hill Capital (issued in the Debt Exchange);

(5) 1,500,000 shares of Issuer common stock issuable upon exercise of $2.00 Warrants (issued in the Debt Exchange);

(6) 10,500,000 shares of Issuer common stock issuable upon exercise of $2.40 Warrants (issued in the Debt Exchange) ((1), (2), (3), (4), (5) and (6) together the Arch Hill Capital Shares); and

(7) 26,568,480 shares of Issuer common stock held by Arch Hill Ventures as described below.

(ii) Arch Hill Ventures is the beneficial owner of 26,568,480 shares of Issuer s Common Stock representing approximately 68.02% of Issuer s Common Stock consisting of:

(1) 5,567,027 shares of Issuer Common Stock (issued upon conversion of Series A Preferred Stock held by Arch Hill Ventures on February 25, 2004); and

(2) 21,001,453 shares of Issuer Common Stock held by Arch Hill Ventures (issued in the Debt Exchange) ((1) and (2) together the Arch Hill Ventures Shares).

(b) The Arch Hill Capital Shares are owned directly by Arch Hill Capital, with Arch Hill Capital having the sole power to vote and dispose of the Arch Hill Capital Shares. The Arch Hill Ventures Shares are owned directly by Arch Hill Ventures. Arch Hill Ventures has the power to vote and dispose of the Arch Hill Ventures Shares. Arch Hill Capital controls Arch Hill Ventures and also has the power to vote and dispose of the Arch Hill Ventures Shares.

(c) On April 13, 2004, pursuant to a Debt Exchange Agreement between the Issuer, GAIA Holding, GAIA, Arch Hill Capital, and Arch Hill Ventures, the Issuer exchanged debt owed to Arch Hill Capital and Arch Hill Ventures for Issuer equity securities as follows: (i) $1,587,375 of bridge notes held by Arch Hill Capital and issued in 2002 were exchanged for $1,587,375 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 793,688 shares of Issuer common stock exercisable at $2.00 per share, (ii) $1,412,625 of bridge notes held by Arch Hill Capital and issued in 2003 were exchanged for $1,412,625 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 706,312 shares of Issuer common stock exercisable at $2.00 per share, (iii) $5,459,502 of bridge notes issued in 2003 and $918,159 of bridge notes issued from January 1, 2004 through April 13, 2004 and $323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for 6,069,697 shares of Issuer common stock and warrants to purchase up to 10,500,000 shares of Issuer common stock exercisable at $2.40 per share and (iv) $23,185,604 of debt owed to Arch Hill Ventures was exchanged for 21,001,453 shares of Issuer common stock. For a further description of the Debt Exchange transaction see Item 6.

Other than as described herein or in a previously filed statement, Reporting Person did not effect any transaction in the Common Stock of Issuer during the past sixty days.

(d) and (e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of Issuer

Item 6 is hereby amended and supplemented to add the following:

On April 13, 2004, pursuant to a Debt Exchange Agreement between the Issuer, GAIA Holding, GAIA, Arch Hill Capital and Arch Hill Ventures, the Issuer exchanged all debt owed to Arch Hill Capital and Arch Hill Ventures for Issuer equity securities.

Pursuant to the terms of the bridge financing agreement between the Issuer and Arch Hill Capital, amounts outstanding under any promissory notes issued from July 29, 2002 to December 2002 were exchangeable into debentures in the amount of such promissory notes and one warrant for each $1.00 principal of debentures, on the same terms as the securities issued to the holders of the Issuer s January 2004 debentures (the January 2004 Securities). Further, pursuant to the terms of the bridge financing agreement, Arch Hill Capital had the option to apply all amounts due under bridge notes issued from January 1, 2003 for 10% debentures in the amount of such promissory notes and one warrant for each $1.00 principal of debentures, on the same terms as the January 2004 Securities. Arch Hill Capital waived its right to acquire securities having the same terms as the January 2004 Securities for all of the bridge notes issued from January 1, 2003 to April 13, 2004, other than with respect to $1,412,625 of bridge notes issued in 2003, provided shares of Issuer common stock and warrants were issued for such debt.

Based on the foregoing, on April 13, 2004, (i) $1,587,375 of bridge notes held by Arch Hill Capital and issued in 2002 were exchanged for $1,587,375 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 793,688 shares of Issuer common stock exercisable at $2.00 per share, (ii) $1,412,625 of bridge notes held by Arch Hill Capital and issued in 2003 were exchanged for $1,412,625 of Issuer 10% Convertible Debentures Due 2006 and warrants to purchase up to 706,312 shares of Issuer common stock exercisable at $2.00 per share, (iii) $5,459,502 of bridge notes issued in 2003 and $918,159 of bridge notes issued from January 1, 2004 through April 13, 2004 and $323,284 of interest on the bridge notes issued in 2003 and 2004 were exchanged for 6,069,697 shares of Issuer common stock and warrants to purchase up to 10,500,000 shares of Issuer common stock exercisable at $2.40 per share and (iv) $23,185,604 of debt owed to Arch Hill Ventures was exchanged for 21,001,453 shares of Issuer common stock. The $3,000,000 of Issuer 10% Convertible Debentures Due 2006 issued to Arch Hill Capital in the Debt Exchange are referred to herein as the April 2004 10% debentures.

As a condition to the closing of the debt exchange, the Issuer received from a financial advisor, an opinion that the debt exchange is fair from a financial point of view to the Issuer s stockholders.

Prior to the Debt Exchange, Arch Hill Capital and Arch Hill Ventures agreed not to, without the consent of Issuer, exercise any right that it may have to exchange any debt owed by Issuer or any subsidiary of the Issuer during such period as the Issuer was engaging a financial advisor to opine on the Debt Exchange which period may not extend beyond June 30, 2004.

Description of April 2004 10% debentures

The April 2004 10% debentures have a maturity date of April 13, 2006 at which time the principal amount and all accrued interest on the April 2004 10% debentures is due and payable. Interest payments on the April 2004 10% debentures are due and payable in cash, or at the option of Arch Hill Capital, in Issuer common stock at a price equal to the conversion price of Issuer common stock as described below. Interest is due quarterly commencing June 30, 2004. Any amount of principal or interest on the April 2004 10% debentures which is not paid when due bears interest at 15% per annum from the due date of such payment default.

The April 2004 10% debentures are convertible at any time at the option of the holder into shares of Issuer common stock. The conversion price of Issuer common stock used in calculating the number of shares issuable upon conversion, or in payment of interest on the April 2004 10% debentures, is the lesser of:

50% of the average of the lowest three trading prices of Issuer common stock for the twenty trading days ending one trading day prior to the date the Issuer receives a conversion notice from Arch Hill Capital; and

a fixed conversion price of $2.00.

The Issuer has the right to prepay all or a portion of the outstanding April 2004 10% debentures and accrued and unpaid interest upon prior written notice to Arch Hill Capital in an amount equal to 130% of principal and interest for prepayments occurring from April 13, 2004 through June 12, 2004, 140% for prepayments of principal and interest occurring from June 13, 2004 through July 12, 2004 or 150% for prepayment of principal and interest occurring after July 12, 2004.

Under the terms of the April 2004 10% debentures the conversion price of the 10% debentures is subject to change in the event:

the Issuer makes a public announcement that it intends to consolidate or merge with any other corporation (other than a merger in which the Issuer is the surviving or continuing corporation and or capital stock is unchanged) or sell or transfer all or substantially all of the Issuer s assets; or

any person, group or entity publicly announces a tender offer to purchase 50% or more of Issuer common stock (or any other takeover scheme).

In case of any of the above events, the conversion price of the April 2004 10% debentures will, effective upon the announcement date of any of such transaction and continuing through the termination or abandonment of the proposed transaction which caused these terms of the April 2004 10% debentures to become operative, will be the lower of:

the conversion price which would have been applicable for a conversion occurring on the announcement date of such transaction; and

the conversion price that would otherwise be in effect.

Under the terms of the April 2004 10% debentures, if the Issuer at any time sells, conveys or disposes of all or substantially all of the Issuer s assets, effectuates any transaction or series of related transactions in which more than 50% of the voting power of Issuer stock is disposed of, or the Issuer consolidates, merges or combines with any other entity and the Issuer is not the survivor, then at the option of Arch Hill Capital either:

Arch Hill Capital may participate in the transaction as if Arch Hill Capital had converted the April 2004 10% debentures prior to such transaction; or

such event will be deemed to be an event of default pursuant to which the Issuer will be required to pay the holder upon consummation of such transaction an amount equal to the greater of:

130% of the outstanding principal amount plus accrued interest on the April 2004 10% debentures; and

the value of the number of shares of Issuer common stock into which the April 2004 10% debentures are convertible based upon the trading price of Issuer common stock on the day preceding the date of payment.

Also, under the terms of the April 2004 10% debentures, if at any time the April 2004 10% debentures are outstanding, the Issuer:

distributes any shares of Issuer common stock in a merger, consolidation, exchange of shares, recapitalization or reorganization or the Issuer sells all or substantially all of the Issuer s assets (other than in connection with a plan of complete liquidation), Arch Hill Capital is entitled to participate in the distribution as if Arch Hill Capital had converted the April 2004 10% debentures;

distributes any of the Issuer s assets to the Issuer s stockholders as a dividend, stock repurchase, return of capital, or otherwise, Arch Hill Capital is entitled to participate in the distribution as if Arch Hill Capital had converted the April 2004 10% debentures; or

issues or sell any shares of Issuer common stock for no consideration or at a price less than $2.00 per share, then the $2.00 fixed conversion price of the April 2004 10% debentures will be reduced to the price per share the Issuer receives on the issuance or sale.

Under the terms of the April 2004 10% debentures, if the Issuer issues any convertible securities or rights to purchase stock, warrants securities or other property to the holders of Issuer common stock, Arch Hill Capital is entitled to acquire such purchase rights as if Arch Hill Capital had converted the April 2004 10% debentures.

Upon the termination of the security interest of the purchasers of the January 2004 Securities, the April 2004 10% debentures issued to Arch Hill Capital will be secured by a pledge of substantially all of the assets of the Issuer and to subsidiaries.

Description of Warrants Issued in the Debt Exchange

In the debt exchange, the Issuer issued warrants to Arch Hill Capital to purchase 1,500,000 shares of Issuer common stock at an exercise price of $2.00 per share and warrants to purchase 10,500,000 shares of Issuer common stock at $2.40 per share (together, the warrants).

The warrants expire on April 13, 2009. The warrants are subject to exercise price adjustments upon the occurrence of certain events including stock dividends, stock splits, mergers, reclassifications of stock or Issuer recapitalization. The exercise price of the warrants is also subject to reduction if the Issuer issues any rights, options or warrants to purchase shares of Issuer common stock at a price less than the market price of Issuer shares as quoted on the OTC Bulletin Board.

Also, if at any time, the Issuer declares a distribution or dividend to the holders of Issuer common stock in the form of cash, indebtedness, warrants, rights or other securities, the holders of the warrants are entitled to receive the distribution or dividend as if the holder had exercised the warrant.

Issuer Covenants Contained in the April 2004 10% debentures

The Issuer is required to reserve from the Issuer s authorized and unissued common stock a sufficient number of shares to provide for the issuance of common stock upon the full conversion of the April 2004 10% debentures. The Issuer is required at all times to have authorized and reserved two times the number of shares that is actually issuable upon full conversion of the April 2004 10% debentures (based on the conversion price of the April 2004 10% debentures).

In the event that the Issuer does not have the maximum number of shares authorized for issuance as required by the April 2004 10% debentures, the Issuer must use its best efforts to seek and obtain shareholder approval to authorize the issuance of the full number of shares of common stock which would be issuable upon full conversion of the then outstanding April 2004 10% debentures as soon as practicable.

The Issuer may not, without the prior written consent of Arch Hill Capital, do any of the following:

pay, declare or set apart for payment any dividend or other distribution on shares of Issuer capital stock other than shares issued in the form of a stock dividend;

redeem, repurchase or otherwise acquire any shares of Issuer capital stock or any warrants, rights or options to purchase or acquire Issuer shares of capital stock;

sell, lease or otherwise dispose of any significant portion of Issuer assets outside of the ordinary source of the Issuer s business;

lend money, give credit or make advances to any person or entity except in existence or committed on April 13, 2004, in the ordinary source of Issuer business or not in excess of $50,000; or

assume, guarantee, endorse or otherwise become liable upon the obligation of any person or entity except in existence or committed on April 13, 2004, in the ordinary source of the Issuer s business or not in excess of $50,000.

Issuer Covenants Contained in the Debt Exchange Agreement

The Debt Exchange Agreement contains a number of covenants including the following:

the Issuer must timely permit the transfer of the April 2004 10% debentures, warrants and conversion shares which are eligible for transfer under an exemption from registration;

the Issuer must timely file all of Issuer reports with the Securities and Exchange Commission;

the Issuer must keep at all times have authorized and reserved for issuance two times the number of shares that is actually issuable upon full conversion of the April 2004 10% debentures and exercise price of the warrants (based on the conversion price of the April 2004 10% debentures and exercise price of the warrants in effect from time to time);

the Issuer must maintain the listing of the common stock and the shares issuable upon conversion or exercise of the warrants on at least the OTC Bulletin Board (or equivalent replacement exchange), the NASDAQ National Market, the NASDAQ SmallCap Market, the New York Stock Exchange or the American Stock Exchange; and

the Issuer must maintain its corporate existence and the Issuer may not sell all or substantially all of its assets except in the event of a merger or consolidation or sale where the surviving entity assumes all of the Issuer s obligations under the Debt Exchange Agreement, the April 2004 10% debentures and related agreements and such entity is a publicly traded corporation whose stock is listed for trading on the OTC Bulletin Board, NASDAQ, NASDAQ SmallCap, New York Stock Exchange or American Stock Exchange.

Events of Default under the April 2004 10% debentures

If the Issuer commits an event of default under the 10% debenture, the April 2004 10% debentures are immediately due and payable and the Issuer must pay to Arch Hill Capital an amount equal to the greater of:

130% of the outstanding principal amount plus accrued interest on the April 2004 10% debentures plus default interest, if any, plus any amounts owed to the holder under the registration rights agreement; or

the value of the number of shares of Issuer common stock into which the April 2004 10% debentures are convertible based upon the trading price of Issuer common stock on the day preceding the date of payment.

Events of default under the April 2004 10% debentures include:

Issuer failure to pay timely any principal interest due on the April 2004 10% debentures;

Issuer failure or inability to issue shares of Issuer common stock upon conversion of the April 2004 10% debentures;

Issuer breach of any of the material covenants, representations or warranties included in the April 2004 10% debentures or the related Debt Exchange Agreement;

Issuer makes an assignment for the benefit of creditors or a receiver or trustee is appointed for a substantial part of Issuer business or property;

an unstayed judgment is entered against Issuer for more than $100,000;

bankruptcy, insolvency, reorganization, liquidation proceedings or similar proceedings are instituted by or against Issuer or any of Issuer subsidiaries; or

the Issuer fails to maintain the listing the Issuer s common stock on the OTC Bulletin Board (or equivalent replacement exchange), the NASDAQ National Market, the NASDAQ SmallCap Market, the New York Stock Exchange or the American Stock Exchange.

<u>Registration Rights</u>

The shares of common stock issued in the debt exchange and issuable upon conversion of the April 2004 10% debentures and exercise of the warrants are restricted securities under the Securities Act of 1933. Arch Hill Capital and Arch Hill Ventures have the right to include all of the securities owned by such entities, including the securities issued in the Debt Exchange in the registration statement that the Issuer is required to file to register the January 2004 Securities. However, pursuant to an agreement entered into with the holders of the January 2004 10% debenture holders, the Arch Hill Capital Shares and the Arch Hill Ventures Shares may not be sold during the first 12 months that such registration statement is declared effective by the Securities and Exchange Commission unless the January 2004 10% debentures have been repaid or converted prior to that time.

Item 7. Material to be filed as Exhibits

Item 7 is hereby amended and supplemented to add the following:.

Exhibit 6	Form of Debt Exchange Agreement, dated as of April 13, 2004 between Lithium Technology Corporation, GAIA Holding N.V., GAIA Akkumulatorenwerke GmbH, Arch Hill Capital N.V. and Arch Hill Ventures N.V.
Exhibit 7	Form of Convertible Debenture dated as of April 13, 2004 between Lithium Technology Corporation and Arch Hill Capital N.V.
Exhibit 8	Form of $2.00 Stock Purchase Warrant dated as of April 13, 2004
Exhibit 9	Form of $2.40 Stock Purchase Warrant dated as of April 13, 2004.

Signature

After reasonable inquiry and to the best of my knowledge and belief, the undersigned certifies that the information set forth in this statement is true, complete and correct.

Dated: April 15, 2004

ARCH HILL CAPITAL N.V.

By: /s/ H. H. van Andel

H. H. van Andel

Chief Executive Officer

Dated: April 15, 2004

ARCH HILL VENTURES N.V.

By: /s/ H. H. van Andel

H. H. van Andel

Chief Executive Officer

Index to Exhibits

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Exhibit 7	Form of Convertible Debenture dated as of April 13, 2004 between Lithium Technology Corporation and Arch Hill Capital N.V.
Exhibit 8	Form of $2.00 Stock Purchase Warrant dated as of April 13, 2004
Exhibit 9	Form of $2.40 Stock Purchase Warrant dated as of April 13, 2004.

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$

1,518,171

$

1,474,004

Liabilities and Stockholders Equity

Liabilities, current:

Revolving line of credit	**$ 23,500**	$ 82,000
Accounts payable, principally trade	**109,067**	72,263
Accrued expenses and other current liabilities	**130,982**	134,063
Deferred tax liabilities, net	**224**	339

Long-term debt, current maturities	**96,900**	20,000
Total liabilities, current	**360,673**	308,665
Long-term debt, excluding current maturities	**107,247**	155,000
Deferred tax liabilities, net	**55,889**	

	57,991
Other liabilities, non-current	**23,639**
	25,742
Total liabilities	**547,448**
	547,398
Commitments and contingencies	

Stockholders equity:		
Cumulative preferred stock, non-voting, $1.00 par. Authorized 2,000,000 shares; none issued	**-**	-
Common stock, $0.10 par. Authorized 50,000,000 shares; 32,033,505 and 31,868,416 shares issued and outstanding	**3,203**	3,187
Additional paid in capital	**171,264**	164,471
Accumulated other comprehensive loss		

	(1,843)	(2,729)
Retained earnings	**798,099**	761,677
Total stockholders equity	**970,723**	926,606
Total liabilities and stockholders equity	**$ 1,518,171**	$ 1,474,004

See accompanying notes to consolidated condensed financial statements.

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2013	2012	**2013**	2012
Sales revenue, net	**$ 319,387**	$ 287,411	**$ 623,903**	$ 587,622
Cost of goods sold	**196,132**	170,381	**380,484**	349,444
Gross profit	**123,255**	117,030	**243,419**	238,178
Selling, general and administrative expense	**92,899**	86,189	**180,389**	176,189
Asset impairment charges	**-**	-	**12,049**	-
Operating income	**30,356**	30,841	**50,981**	61,989
Nonoperating income (expense), net	**56**	31	**140**	54
Interest expense	**(2,192)**	(3,130)	**(5,134)**	(6,442)
Income before income taxes	**28,220**	27,742	**45,987**	55,601
Income tax expense:				
Current	**9,973**	8,487	**13,869**	14,388
Deferred	**(5,071)**	(3,713)	**(5,591)**	(5,227)
Net income	**$ 23,318**	$ 22,968	**$ 37,709**	$ 46,440
Earnings per share:				
Basic	**$ 0.73**	$ 0.72	**$ 1.18**	$ 1.46
Diluted	**$ 0.72**	$ 0.72	**$ 1.17**	$ 1.46
Weighted average shares of common stock used in computing net earnings per share:				
Basic	**31,993**	31,743	**31,951**	31,721
Diluted	**32,272**	31,846	**32,226**	31,843

See accompanying notes to consolidated condensed financial statements.

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Comprehensive Income (Unaudited)

(in thousands)

	Three Months Ended August 31,					
	2013			2012		
	Before Tax	**Tax**	**Net of Tax**	Before Tax	Tax	Net of Tax
Income	**$ 28,220**	**$ (4,902)**	**$ 23,318**	$ 27,742	$ (4,774)	$ 22,968
Other comprehensive income						
Cash flow hedge activity - interest rate swaps:						
Changes in fair market value	**(24)**	**9**	**(15)**	(457)	160	(297)
Interest rate settlements reclassified to income	**925**	**(325)**	**600**	980	(343)	637
Subtotal	**901**	**(316)**	**585**	523	(183)	340
Cash flow hedge activity - foreign currency contracts:						
Changes in fair market value	**(68)**	**18**	**(50)**	(933)	327	(606)
Ineffectiveness recorded in income	**-**	**-**	**-**	(14)	5	(9)
Settlements reclassified to income	**(108)**	**13**	**(95)**	(11)	3	(8)
Subtotal	**(176)**	**31**	**(145)**	(958)	335	(623)
Total other comprehensive income (loss)	**725**	**(285)**	**440**	(435)	152	(283)
Comprehensive income	**$ 28,945**	**$ (5,187)**	**$ 23,758**	$ 27,307	$ (4,622)	$ 22,685

	Six Months Ended August 31,					
	2013			2012		
	Before Tax	**Tax**	**Net of Tax**	Before Tax	Tax	Net of Tax
Income	**$ 45,987**	**$ (8,278)**	**$ 37,709**	$ 55,601	$ (9,161)	$ 46,440
Other comprehensive income						
Cash flow hedge activity - interest rate swaps:						
Changes in fair market value	**(27)**	**10**	**(17)**	(501)	175	(326)
Interest rate settlements reclassified to income	**1,839**	**(645)**	**1,194**	1,906	(667)	1,239
Subtotal	**1,812**	**(635)**	**1,177**	1,405	(492)	913
Cash flow hedge activity - foreign currency contracts:						
Changes in fair market value	**(32)**	**11**	**(21)**	(23)	9	(14)
Ineffectiveness recorded in income	**-**	**-**	**-**	(49)	17	(32)
Settlements reclassified to income	**(324)**	**54**	**(270)**	(37)	12	(25)
Subtotal	**(356)**	**65**	**(291)**	(109)	38	(71)
Total other comprehensive income	**1,456**	**(570)**	**886**	1,296	(454)	842
Comprehensive income	**$ 47,443**	**$ (8,848)**	**$ 38,595**	$ 56,897	$ (9,615)	$ 47,282

See accompanying notes to consolidated condensed financial statements.

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES

Consolidated Condensed Statements of Cash Flows (Unaudited)

(in thousands)

	Six Months Ended August 31, 2013	2012
Cash provided (used) by operating activities:		
Net income	**$ 37,709**	$ 46,440
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**16,889**	17,795
Provision for doubtful receivables	**316**	(54)
Non-cash share-based compensation	**6,797**	3,057
Intangible asset impairment charges	**12,049**	-
(Gain) loss on the sale of property and equipment	**63**	(15)
Deferred income taxes and tax credits	**(5,592)**	(5,231)
Changes in operating capital:		
Receivables	**(11,906)**	(12,947)
Inventories	**(25,982)**	(72,450)
Prepaid expenses and other current assets	**(1,991)**	(674)
Other assets and liabilities, net	**(3,232)**	(390)
Accounts payable	**36,807**	36,611
Accrued expenses and other current liabilities	**(3,401)**	(8,472)
Accrued income taxes	**(1,386)**	7,083
Net cash provided by operating activities	**57,140**	10,753
Cash provided (used) by investing activities:		
Capital and intangible asset expenditures	**(34,578)**	(5,760)
Proceeds from the sale or disposal of property and equipment	-	20
Note receivable from land sale	**-**	737
Net cash used by investing activities	**(34,578)**	(5,003)
Cash provided (used) by financing activities:		
Proceeds from line of credit	**76,800**	114,950
Repayment of line of credit	**(135,300)**	(125,050)
Proceeds (repayments) of long-term debt	**29,147**	(3,000)
Payments of financing costs	**(127)**	(28)
Proceeds from share issuances under share-based compensation plans, including tax benefits	**4,511**	6,913
Payment of tax obligations resulting from issuance of restricted shares	**(438)**	(72)
Payments for repurchases of common stock	**(1,311)**	-
Share-based compensation tax benefit	**1,411**	458
Net cash used by financing activities	**(25,307)**	(5,829)
Net decrease in cash and cash equivalents	**(2,745)**	(79)
Cash and cash equivalents, beginning balance	**12,842**	21,846
Cash and cash equivalents, ending balance	**$ 10,097**	$ 21,767

See accompanying notes to consolidated condensed financial statements.

Table of Contents

HELEN OF TROY LIMITED AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (unaudited)

August 31, 2013

Note 1 - *Basis of Presentation and Conventions Used in this Report*

The accompanying consolidated condensed financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly our consolidated financial position as of August 31, 2013 and February 28, 2013, and the results of our consolidated operations for the three- and six-month periods ended August 31, 2013 and 2012. We follow the same accounting policies when preparing quarterly financial data as we use for preparing annual data. 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 for the fiscal year ended February 28, 2013, and our other reports on file with the Securities and Exchange Commission (SEC).

In this report and the 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, ar amounts are expressed in thousands of U.S. Dollars. We refer to the Company s common shares, par value $0.10 per share, as common stock. References to Kaz refer to the operations of Kaz, Inc. and its subsidiaries. References to PUR refer to the PUR brand of water filtration products that we acquired, along with certain other assets and liabilities, from The Procter & Gamble Company and certain of its affiliates. Kaz and PUR comprise a segment within the Company referred to as the Healthcare / Home Environment segment. References to OXO refer to the operations of OXO International and certain of its affiliated subsidiaries that comprise our Housewares segment. Product and service names mentioned in this report are used for identification purposes only and may be protected by trademarks, trade names, services marks, and/or other intellectual property rights of the Company and/or other parties in the United States and/or other jurisdictions. The absence of a specific attribution in connection with any such mark does not constitute a waiver of any such right. All trademarks, trade names, service marks, and logos referenced herein belong to their owners. References to the FASB refer to the Financial Accounting Standards Board. References to GAAP refer to U.S. generally accepted accounting principles. References to ASC refer to the codification of GAAP in the Accounting Standards Codification issued by the FASB.

We are a global designer, developer, importer, marketer and distributor of an expanding portfolio of brand-name consumer products. We have three segments: Housewares, Healthcare / Home Environment and Personal Care. Our Housewares segment provides a broad range of innovative consumer products for the home. Product offerings include food preparation and storage, cleaning, organization, and baby and toddler care products. The Healthcare / Home Environment segment focuses on health care devices such as thermometers, blood pressure monitors, humidifiers, and heating pads; water filtration systems; and small home appliances such as air purifiers, portable heaters, fans, and insect control devices (bug zappers). Our Personal Care segment s products include electric hair care, beauty care and wellness appliances; grooming tools and accessories; and liquid, solid- and powder-based personal care and grooming products. All three segments sell their products primarily through mass merchandisers, drugstore chains, warehouse clubs, catalogs, grocery stores, and specialty stores. In addition, the Healthcare / Home Environment segment sells certain of its product lines through medical distributors and other products through home improvement stores, and the Personal Care segment sells extensively through beauty supply retailers and wholesalers. We purchase our products from unaffiliated manufacturers, most of which are located in China, Mexico and the United States.

Our consolidated condensed financial statements are prepared in accordance with GAAP, which requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. We have reclassified, combined or separately disclosed certain amounts in the prior period s consolidated condensed financial statements and accompanying footnotes to conform to the current period s presentation.

Table of Contents

Note 2 *New Accounting Pronouncements*

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that we adopt according to the various timetables the FASB specifies. Unless otherwise discussed, we believe the impact of recently issued standards that are not yet effective will not have a material impact on our consolidated financial position, results of operations and cash flows upon adoption.

Note 3 *Commitments and Contingencies*

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.

Notes 7, 9, 11, 12, and 14 provide additional information regarding certain of our significant commitments and certain significant contingencies we have provided for in the accompanying consolidated condensed financial statements.

Our products are under warranty against defects in material and workmanship for periods ranging from two to five years. We estimate our warranty accrual using historical trends and believe that these trends are the most reliable method by which we can estimate our warranty liability. The following table summarizes the activity in our warranty accrual for the periods covered in the accompanying consolidated condensed statements of income:

ACCRUAL FOR WARRANTY RETURNS

(in thousands)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2013	2012	**2013**	2012
Beginning balance	**$ 20,782**	$ 23,313	**$ 23,150**	$ 26,665
Additions to the accrual	**9,578**	7,899	**18,776**	14,773
Reductions of the accrual - payments and credits issued	**(9,003)**	(9,352)	**(20,569)**	(19,578)
Ending balance	**$ 21,357**	$ 21,860	**$ 21,357**	$ 21,860

Note 4 *Earnings per Share*

We compute basic earnings per share using the weighted average number of shares of common stock outstanding during the period and diluted earnings per share using basic earnings per share plus the effect of dilutive securities. Our securities that can have dilutive effects consist of outstanding options to purchase common stock and issued and contingently issuable unvested restricted share units and awards. See Note 14 to these consolidated condensed financial statements for more information regarding these restricted share units and awards. Options for common stock are excluded from the computation of diluted earnings per share if their effect is antidilutive.

For the periods covered in the accompanying consolidated condensed statements of income, the basic and diluted shares are as follows:

WEIGHTED AVERAGE DILUTED SECURITIES

(in thousands)

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2013	2012	**2013**	2012
Weighted average shares outstanding, basic	**31,993**	31,743	**31,951**	31,721
Incremental shares from share-based payment arrangements	**279**	103	**275**	122
Weighted average shares outstanding, diluted	**32,272**	31,846	**32,226**	31,843
Dilutive securities, as a result of in-the-money options	**347**	380	**273**	376
Dilutive securities, as a result of unvested restricted shares	**251**	-	**242**	-
Antidilutive securities, as a result of out-of-the-money options	**603**	617	**700**	621

Table of Contents

Note 5 *Segment Information*

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

THREE MONTHS ENDED AUGUST 31, 2013 AND 2012

(in thousands)

August 31, 2013		**Housewares**		**Healthcare / Home Environment**		**Personal Care**		**Total**
Sales revenue, net	$	**70,165**	$	**133,044**	$	**116,178**	$	**319,387**
Asset impairment charges		**-**		**-**		**-**		**-**
Operating income		**13,772**		**4,974**		**11,610**		**30,356**
Capital and intangible asset expenditures		**167**		**17,009**		**402**		**17,578**
Depreciation and amortization		**1,030**		**4,767**		**2,645**		**8,442**

August 31, 2012		**Housewares**		**Healthcare / Home Environment**		**Personal Care**		**Total**
Sales revenue, net	$	64,570	$	110,477	$	112,364	$	287,411
Operating income		12,078		6,883		11,880		30,841
Capital and intangible asset expenditures		326		1,202		864		2,392
Depreciation and amortization		1,278		4,175		3,242		8,695

SIX MONTHS ENDED AUGUST 31, 2013 AND 2012

(in thousands)

August 31, 2013		**Housewares**		**Healthcare / Home Environment**		**Personal Care**		**Total**
Sales revenue, net	$	**133,695**	$	**258,646**	$	**231,562**	$	**623,903**
Asset impairment charges		**-**		**-**		**12,049**		**12,049**
Operating income		**26,228**		**11,510**		**13,243**		**50,981**
Capital and intangible asset expenditures		**381**		**33,114**		**1,083**		**34,578**
Depreciation and amortization		**2,049**		**9,548**		**5,292**		**16,889**

August 31, 2012		Housewares		Healthcare / Home Environment		Personal Care		Total
Sales revenue, net	$	124,819	$	232,887	$	229,916	$	587,622
Operating income		23,355		14,874		23,760		61,989
Capital and intangible asset expenditures		517		2,124		3,119		5,760
Depreciation and amortization		2,576		8,710		6,509		17,795

We compute operating income for each segment based on net sales revenue, less cost of goods sold, selling, general and administrative expense (SG&A), and any asset impairment charges associated with the segment. The SG&A used to compute each segment s operating income is directly associated with the segment, plus overhead expenses that are allocable to the segment. We make allocations of overhead between operating segments using a number of relevant allocation criteria, depending on the nature of the expense, the most significant of which are relative revenues, estimates of relative labor expenditures, headcount, and facility square footage. We do not allocate nonoperating income and expense, including interest or income taxes to operating segments.

Table of Contents

Note 6 *Comprehensive Income (Loss)*

The components of accumulated other comprehensive loss, net of tax, are as follows:

COMPONENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(in thousands)

	August 31, 2013	February 28, 2013
Unrealized holding losses on cash flow hedges - interest rate swap, net of tax (1)	**$ (1,958)**	$ (3,135)
Unrealized holding gains on cash flow hedges - foreign currency contracts, net of tax (2)	**115**	406
Total accumulated other comprehensive loss	**$ (1,843)**	$ (2,729)

(1) Includes net deferred tax benefits of $1.05 and $1.69 million at August 31, 2013 and February 28, 2013, respectively.

(2) Includes net deferred tax expense of $0.03 and $0.09 million at August 31, 2013 and February 28, 2013, respectively.

Note 7 *Supplemental Balance Sheet Information*

PROPERTY AND EQUIPMENT

(in thousands)

	Estimated Useful Lives (Years)	**August 31, 2013**	February 28, 2013
Land	-	**$ 12,800**	$ 12,800
Building and improvements	3 - 40	**67,494**	66,994
Computer, furniture and other equipment	3 - 15	**55,670**	58,284
Tools, molds and other production equipment	1 - 10	**29,311**	29,264
Construction in progress	-	**41,035**	9,149
Property and equipment, gross		**206,310**	176,491
Less accumulated depreciation		**(75,860)**	(74,775)
Property and equipment, net		**$ 130,450**	$ 101,716

Construction in progress includes expenditures of $30.94 million at August 31, 2013 for construction costs incurred in connection with our new 1.3 million square foot distribution facility on approximately 84 acres of land in Olive Branch, Mississippi. The new facility will consolidate the operations of our U.S. based Personal Care and Healthcare / Home Environment appliance businesses. The new facility became operational for the Healthcare / Home Environment segment during the first week of September 2013. See Note 9 to these consolidated condensed financial statements for related information regarding the debt incurred to fund the construction of the new distribution facility.

Table of Contents

ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(in thousands)

		August 31, 2013		February 28, 2013
[redacted]	**$**	**32,790**	[redacted]	
		27,829		
		21,357		
		18,111		
		7,057		
		5,993		
		6,934		
		3,012		
		7,899		
	$	**130,982**		

OTHER LIABILITIES, NON-CURRENT

(in thousands)

		August 31, 2013		February 28, 2013
Deferred compensation liability	**$**	**6,431**	$	6,443
Liability for uncertain tax positions		**15,903**		15,759
Derivative liabilities		**-**		1,780
Other liabilites		**1,305**		1,760
Total other liabilities, non-current	**$**	**23,639**	$	25,742

Note 8 *Goodwill and Intangible Assets*

Annual Impairment Testing in the First Quarter of Fiscal Year 2014 - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2014. As a result of our testing of indefinite-lived trademarks and licenses, we recorded a non-cash asset impairment charge of $12.05 million ($12.03 million after tax). The charge was related to certain trademarks in our Personal Care segment, which were written down to their estimated fair value, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

Annual Impairment Testing in the First Quarter of Fiscal Year 2013 - We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2013. As a result, we concluded no asset impairment charges were required. For fiscal year 2013, the estimated fair value of the indefinite-lived trademarks and licenses, reporting unit net assets, and the Company s estimated enterprise value exceeded their respective carrying values as of the date of the evaluation.

- 11 -

Table of Contents

A summary of the carrying amounts and associated accumulated amortization for all intangible assets by operating segment follows:

GOODWILL AND INTANGIBLE ASSETS

(in thousands)

	August 31, 2013				February 28, 2013			
Description	**Gross Carrying Amount**	**Cumulative Goodwill Impairments**	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Cumulative Goodwill Impairments**	**Accumulated Amortization**	**Net Book Value**
Housewares:								
Goodwill	**$ 166,132**	**$ -**	**$ -**	**$ 166,132**	$ 166,132	$ -	$ -	$ 166,132
Trademarks - indefinite	**75,200**	**-**	**-**	**75,200**	75,200	-	-	75,200
Other intangibles - finite	**15,701**	**-**	**(10,637)**	**5,064**	15,609	-	(10,070)	5,539
Total Housewares	**257,033**	**-**	**(10,637)**	**246,396**	256,941	-	(10,070)	246,871
Healthcare / Home Environment:								
Goodwill	**251,758**	**-**	**-**	**251,758**	251,758	-	-	251,758
Trademarks - indefinite	**54,000**	**-**	**-**	**54,000**	54,000	-	-	54,000
Licenses - finite	**15,300**	**-**	**(4,935)**	**10,365**	15,300	-	(3,455)	11,845
Other Intangibles - finite	**114,490**	**-**	**(28,962)**	**85,528**	114,490	-	(23,220)	91,270
Total Healthcare / Home Environment	**435,548**	**-**	**(33,897)**	**401,651**	435,548	-	(26,675)	408,873
Personal Care:								
Goodwill	**81,841**	**(46,490)**	**-**	**35,351**	81,841	(46,490)	-	35,351
Trademarks - indefinite	**63,754**	**-**	**-**	**63,754**	75,803	-	-	75,803
Trademarks - finite	**150**	**-**	**(75)**	**75**	150	-	(72)	78
Licenses - indefinite	**10,300**	**-**	**-**	**10,300**	10,300	-	-	10,300
Licenses - finite	**18,683**	**-**	**(15,729)**	**2,954**	18,683	-	(15,570)	3,113
Other intangibles - finite	**49,437**	**-**	**(23,759)**	**25,678**	49,437	-	(20,957)	28,480
Total Personal Care	**224,165**	**(46,490)**	**(39,563)**	**138,112**	236,214	(46,490)	(36,599)	153,125
Total	**$ 916,746**	**$ (46,490)**	**$ (84,097)**	**$ 786,159**	$ 928,703	$ (46,490)	$ (73,344)	$ 808,869

The following table summarizes the amortization expense attributable to intangible assets for the periods covered in the accompanying consolidated condensed statements of income, as well as our estimated amortization expense for the fiscal years 2014 through 2019.

AMORTIZATION OF INTANGIBLE ASSETS

(in thousands)

Aggregate Amortization Expense For the three months ended		
August 31, 2013	**$**	**5,408**

August 31, 2012	$	5,626

Aggregate Amortization Expense
For the six months ended

August 31, 2013	**$**	**10,839**
August 31, 2012	$	11,262

Estimated Amortization Expense
For the fiscal years ended

February 2014	$	21,557
February 2015	$	21,018
February 2016	$	20,838
February 2017	$	20,515
February 2018	$	16,697
February 2019	$	11,917

Table of Contents

Note 9 *Debt*

Revolving Line of Credit - We have a Credit Agreement (the Credit Agreement) with Bank of America, N.A. that provides for an unsecured total revolving commitment of up to $250.00 million. The commitment under the Credit Agreement terminates on December 30, 2015. Borrowings accrue interest under one of two alternative methods as described in the Credit Agreement. With each borrowing against our credit line, we can elect the interest rate method based on our funding needs at the time. We also incur loan commitment fees and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of August 31, 2013, the outstanding revolving loan principal balance was $23.50 million and there were $0.31 million of open letters of credit outstanding against the Credit Agreement. For both the three- and six-months ended August 31, 2013, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.18 to 3.63 percent. For the three- and six-months ended August 31, 2012, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.61 to 3.63 percent and 1.61 to 4.00 percent, respectively. As of August 31, 2013, the amount available for borrowings under the Credit Agreement was $226.19 million.

Long-Term Debt A summary of our long-term debt is as follows:

LONG-TERM DEBT

(dollars in thousands)

	Original Date Borrowed	Interest Rates	Matures	August 31, 2013	February 28, 2013
$38 million unsecured loan with a state industrial development corporation, interim draws, interest is set and payable quarterly at the Base Rate, as defined below, plus a margin of up to 1.125%, or applicable LIBOR plus a margin of up to 2.125%, as determined by the interest rate elected. Loan subject to holder s call on or after March 1, 2018. Loan can be prepaid without penalty any time after March 20, 2014.	03/13	**1.18% to 1.57%**	03/23	**$ 29,147**	$ -
$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 in June 2014. Notes can be prepaid without penalty. (1)	06/04	**6.01%**	06/14	**75,000**	75,000
$100 million unsecured Senior Notes payable at a fixed interest rate of 3.90%. Interest payable semi-annually. Annual principal payments of $20 million begin in January 2014. Prepayment of notes are subject to a make whole premium.	01/11	**3.90%**	01/18	**100,000**	100,000
Total long-term debt				**204,147**	175,000
Less current maturities of long-term debt				**(96,900)**	(20,000)
Long-term debt, excluding current maturities				**$ 107,247**	$ 155,000

(1) Floating interest rates have been hedged with an interest rate swap to effectively fix interest rates. Additional information regarding the swap is provided in Note 12 to these consolidated condensed financial statements.

In March 2013, Kaz USA, Inc. (Kaz USA), a wholly owned subsidiary of the Company, entered into a Loan Agreement, dated as of March 1, 2013, with the Mississippi Business Finance Corporation (the MBFC) in connection with the issuance by MBFC of up to $38.00 million of taxable industrial development revenue bonds (the Bonds). The Bonds are issued under a Trust Indenture (the IRB Indenture), between MBFC and Deutsche Bank National Trust Company, as trustee. Interim draws, accumulating up to a $38.00 million aggregate maximum, may be made through March 20, 2014. The Bonds and the related loan to Kaz USA (the MBFC Loan) will bear interest at a variable rate as elected by Kaz USA equal to either (a) a Base Rate plus a margin of 0.00 to 1.125 percent, depending upon the leverage ratio at the time of the borrowing or (b) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 to 2.125 percent, depending upon the leverage ratio at the time of the borrowing. The Base Rate is equal to the highest of (i) the federal funds rate for the day,

Table of Contents

plus 0.50 percent, (ii) the prime rate of Bank of America, N.A., or (iii) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 percent. The proceeds of the MBFC Loan are being used by Kaz USA to finance the purchase of land, construction of a distribution facility and the acquisition and installation of equipment, machinery and related assets located in Olive Branch, Mississippi.

Assuming the $38.00 million aggregate maximum is borrowed, outstanding principal of the MBFC Loan will be payable as follows: $1.90 million on March 1 in each of 2014, 2015, 2018, 2019, 2020, 2021 and 2022; $3.80 million on March 1, 2016; $5.70 million on March 1, 2017; and $15.20 million on March 1, 2023. Any remaining outstanding principal and interest is due upon maturity on March 1, 2023. The MBFC Loan may be prepaid in whole or part without penalty any time after March 20, 2014. Additionally, Bank of America, N.A., the purchaser of the Bonds, may elect for the MBFC Loan to be prepaid in full on March 1, 2018. Following March 1, 2018, Bank of America, N.A. may elect for the MBFC Loan to be prepaid on March 1 of each subsequent year prior to maturity upon at least 90 days notice. In lieu of any prepayment, the Bonds may be purchased by a transferee, as permitted under the IRB Indenture.

The fair market value of the fixed rate debt at August 31, 2013, computed using a discounted cash flow analysis, was $103.96 million compared to the $100.00 million book value and represents a Level 2 liability. All other long-term debt has floating interest rates, and its book value approximates its fair value at August 31, 2013.

All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. Our debt agreements require the maintenance of certain financial covenants, including maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms is defined in the various agreements). Our debt agreements also contain other customary covenants, including, among other things, covenants restricting or limiting the Company, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) repurchasing shares of our common stock and paying dividends.

As of August 31, 2013, our debt agreements effectively limited our ability to incur more than $354.23 million of additional debt from all sources, including draws on the Credit Agreement. As of August 31, 2013, we were in compliance with the terms of all of our debt agreements.

Note 10 *Income Taxes*

Income tax expense for the three- and six-month periods ended August 31, 2013 was 17.4 and 18.0 percent of income before income taxes, respectively, compared to 17.2 and 16.5 percent, respectively, for the same periods last year. Our effective tax rate for the six months ended August 31, 2013 was also impacted by asset impairment charges of $12.05 million, for which the related tax benefit was only $0.02 million.

Table of Contents

Note 11 *Fair Value*

The fair value hierarchy of our financial assets and liabilities carried at fair value and measured on a recurring basis is as follows:

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES
(in thousands)

Description	Fair Values at August 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Market Inputs (Level 2)
Assets:			
Money market accounts	$ 913	$ 913	$ -
Foreign currency contracts	140	-	140
Total assets	$ 1,053	$ 913	$ 140
Liabilities:			
Long-term debt - fixed rate (1)	$ 103,960	$ -	$ 103,960
Long-term debt - floating rate	104,147	-	104,147
Interest rate swaps	3,012	-	3,012
Total liabilities	$ 211,119	$ -	$ 211,119

Description	Fair Values at February 28, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Market Inputs (Level 2)
Assets:			
Money market accounts	$ 1,091	$ 1,091	$ -
Foreign currency contracts	496	-	496
Total assets	$ 1,587	$ 1,091	$ 496
Liabilities:			
Long-term debt - fixed rate (1)	$ 105,725	$ -	$ 105,725
Long-term debt - floating rate	75,000	-	75,000
Interest rate swaps	4,824	-	4,824
Total liabilities	$ 185,549	$ -	$ 185,549

(1) Debt values are reported at estimated fair value in these tables, but are recorded in the accompanying consolidated condensed balance sheets at the undiscounted value of remaining principal payments due.

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value because of the short maturity of these items. Money market accounts are included in cash and cash equivalents in the accompanying consolidated condensed balance sheets and are classified as Level 1 assets.

We classify our fixed and floating rate debt as Level 2 liabilities because the estimation of the fair market value of these financial liabilities requires the use of discount rates based upon current market rates of interest for debt with comparable remaining terms. Such comparable rates are significant other observable market inputs. The fair market value of the fixed rate debt was computed using a discounted cash flow analysis and discount rates of 2.16 and 1.83 percent at August 31, 2013 and February 28, 2013, respectively. All other long-term debt has floating interest rates, and its book value approximates its fair value as of the reporting date.

We use derivatives for hedging purposes and our derivatives are primarily foreign currency contracts and an interest rate swap. We determine the fair value of our derivative instruments based on Level 2 inputs in the fair

Table of Contents

value hierarchy. See Note 12 to these consolidated condensed financial statements for more information on our hedging activities.

The Company s other non-financial assets include goodwill and other intangible assets, which we classify as Level 3 assets. These assets are measured at fair value on a non-recurring basis as part of the Company s impairment assessments and as circumstances require. As discussed in Note 8, in connection with our annual impairment testing during the fiscal quarter ended May 31, 2013, we recorded a non-cash asset impairment charge of $12.05 million ($12.03 million after tax). The charge related to certain trademarks in our Personal Care segment, which were written down to their estimated fair value, determined on the basis of future discounted cash flows using the relief from royalty valuation method.

Note 12 *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 each of the three- and six-month periods ended August 31, 2013, approximately 14 percent of our net sales revenue was in foreign currencies. During each of the three- and six-month periods ended August 31, 2012, approximately 16 percent of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Australian Dollars, 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 statements of income, 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 from remeasurement are recognized in SG&A. For the three- and six-month periods ended August 31, 2013, we recorded net foreign exchange gains (losses), including the impact of currency hedges, of ($0.38) and ($0.50) million, respectively, in SG&A and ($0.02) and $0.03 million, respectively, in income tax expense. For the three- and six-month periods ended August 31, 2012, we recorded net foreign exchange gains (losses), including the impact of currency hedges and currency swaps, of $0.77 and ($0.17) million, respectively, in SG&A and ($0.03) and $0.16 million, respectively, in income tax expense.

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. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes.

Interest Rate Risk Interest on our outstanding debt as of August 31, 2013 is both floating and fixed. Fixed rates are in place on $100.00 million of Senior Notes at 3.90 percent, while floating rates are in place on $23.50 million of borrowings under our Credit Agreement, $29.15 million of interim draws under our MBFC Loan and $75.00 million of Senior Notes due June 2014. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under the Credit Agreement and MBFC Loan. The floating rate Senior Notes due June 2014 reset as described in Note 9, and have been effectively converted to fixed rate debt using an interest rate swap (the swap), as described below.

We manage our floating rate $75.00 million of Senior Notes due June 2014 using an interest rate swap. As of August 31, 2013, the swap converted an aggregate notional principal amount of $75.00 million from floating interest rate payments under our Senior Notes due June 2014 to fixed interest rate payments at 6.01 percent. In the swap transaction, we maintain contracts to pay fixed rates of interest on an aggregate notional principal amount of $75.00 million at a rate of 5.11 percent on our Senior Notes due June 2014, while simultaneously receiving floating rate interest payments set at 0.28 percent as of August 31, 2013 on the same notional amounts. The fixed rate side of the swap will not change over its life. 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. The swap is

Table of Contents

used to reduce our risk of increased interest costs; however, when interest rates drop significantly below the swap rate, we lose the benefit that our floating rate debt would provide, if not managed with a swap. The swap is considered 100 percent effective.

The fair values of our various derivative instruments are as follows:

FAIR VALUES OF DERIVATIVE INSTRUMENTS
(in thousands)

		August 31, 2013				
Designated as hedging instruments	**Hedge Type**	**Final Settlement Date**	**Notional Amount**	**Prepaid Expenses and Other Current Assets**	**Accrued Expenses and Other Current Liabilities**	**Other Liabilities, Noncurrent**
Foreign currency contracts - sell Euro	Cash flow	2/2014	**5,750**	**$ 60**	**$ -**	**$ -**
Foreign currency contracts - sell Pounds	Cash flow	2/2014	**£ 4,000**	**80**	**-**	**-**
Interest rate swap	Cash flow	6/2014	**$ 75,000**	**-**	**3,012**	**-**
Total fair value				**$ 140**	**$ 3,012**	**$ -**

		February 28, 2013				
Designated as hedging instruments	Hedge Type	Final Settlement Date	Notional Amount	Prepaid Expenses and Other Current Assets	Accrued Expenses and Other Current Liabilities	Other Liabilities, Noncurrent
Foreign currency contracts - sell Euro	Cash flow	10/2013	7,050	$ 239	$ -	$ -
Foreign currency contracts - sell Pounds	Cash flow	11/2013	£ 3,000	257	-	-
Interest rate swap	Cash flow	6/2014	$ 75,000	-	3,044	1,780
Total fair value				**$ 496**	**$ 3,044**	**$ 1,780**

The pre-tax effect of derivative instruments for the periods covered in the accompanying consolidated condensed financial statements are as follows:

PRE-TAX EFFECT OF DERIVATIVE INSTRUMENTS
(in thousands)

	Three Months Ended August 31,							
	Gain \ (Loss) Recognized in OCI (effective portion)		**Gain \ (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income**			**Gain \ (Loss) Recognized as Income (1)**		
	2013	2012	**Location**	**2013**	2012	**Location**	**2013**	2012
Currency contracts - cash flow hedges	**$ (68)**	$ (933)	SG&A	**$ 108**	$ 11	SG&A	**$ -**	$ 14
Interest rate swaps - cash flow hedges	**(24)**	(457)	Interest expense	**(925)**	(980)		**-**	-

Total	**$ (92)**	$ (1,390)		**$ (817)**	$ (969)		**$ -**	$ 14

	Six Months Ended August 31,							
	Gain \ (Loss) Recognized in OCI (effective portion)			**Gain \ (Loss) Reclassified from Accumulated Other Comprehensive Loss into Income**			**Gain \ (Loss) Recognized as Income (1)**	
	2013	2012	**Location**	**2013**	2012	**Location**	**2013**	2012
Currency contracts - cash flow hedges	**$ (32)**	$ (23)	SG&A	**$ 324**	$ 37	SG&A	**$ -**	$ 49
Interest rate swaps - cash flow hedges	**(27)**	(501)	Interest expense	**(1,839)**	(1,906)		**-**	-
Total	**$ (59)**	$ (524)		**$ (1,515)**	$ (1,869)		**$ -**	$ 49

(1) The amount shown represents the ineffective portion of the change in fair value of a cash flow hedge.

Table of Contents

We expect net gains of $0.14 million associated with foreign currency contracts and losses of $3.01 million associated with our interest rate swap, currently reported in accumulated other comprehensive loss, to be reclassified into income over the next ten months. The amount ultimately realized, however, will differ as exchange rates and interest rates change and the underlying contracts settle.

***Counterparty Credit Risk* -** Financial instruments, including foreign currency contracts and interest rate swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk by only dealing with counterparties who are substantial international financial institutions with significant experience using such derivative instruments. Although our theoretical credit risk is the replacement cost at the then- estimated fair value of these instruments, we believe that the risk of incurring credit risk losses is remote.

Note 13 *Repurchase of Helen of Troy Common Stock*

As of August 31, 2013, we were authorized by our Board of Directors to purchase up to 2,910,487 shares of common stock in the open market or through private transactions. Our current equity compensation plans include provisions that allow for the net exercise of stock options by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. Net exercises are accounted for by the Company as a purchase and retirement of shares.

During the fiscal quarter ended May 31, 2013, our Chief Executive Officer and President (the CEO) tendered 9,898 shares of restricted common stock having a market value of $0.35 million as payment for related federal tax obligations arising from the vesting and settlement of performance-based restricted share units (Performance RSUs). We accounted for this activity as a purchase and retirement of the shares at a price of $35.55 per share.

For the periods covered in the accompanying consolidated condensed financial statements, open market repurchase activity and common stock option exercises resulted in the following share repurchases:

SHARE REPURCHASES

	Three Months Ended August 31,		**Six Months Ended August 31,**	
	2013	2012	**2013**	2012
Common stock repurchased on the open market				
Number of shares	**-**	-	**33,862**	-
Aggregate market value of shares (in thousands)	**$ -**	$ -	**$ 1,311**	$ -
Average price per share	**$ -**	$ -	**$ 38.71**	$ -
Common stock received in settlement of stock options and Performance RSUs				
Number of shares	**636**	2,595	**13,453**	47,039
Aggregate market value of shares (in thousands)	**$ 27**	$ 82	**$ 490**	$ 1,558
Average price per share	**$ 42.89**	$ 31.46	**$ 36.44**	$ 33.11

Note 14 ***Share-Based Compensation Plans***

We have share-based awards outstanding under two expired and three active share-based compensation plans.

During the three- and six-months ended August 31, 2013, the Company granted options to purchase 8,000 and 258,750 shares of common stock, respectively, to certain of our officers, employees and new hires. For the fiscal year-to-date, these options were granted at exercise prices ranging from \$36.03 to \$42.25 per share. The fair value of the options were estimated using the Black-Scholes option pricing model to estimate fair values ranging from \$10.82 to \$13.17 for grants with terms of four and five years. The following assumptions were used for the grants: expected lives ranging from 4.05 to 4.35 years; risk-free interest rates ranging from 0.55 to 1.14 percent; zero dividend yield; and expected volatilities ranging from 36.00 to 41.67 percent.

Table of Contents

During the three- and six-month periods ending August 31, 2013, the Company awarded restricted stock grants with total values of $0.15 and $0.29 million, respectively, to certain Board members based upon fair values at the date of grant ranging from $36.56 to $40.09, respectively. Over the same three- and six-month periods, the grants were settled with 2,628 and 5,256 restricted shares, respectively, and cash of $0.04 and $0.08 million, respectively. The restricted stock awards vested immediately.

On April 22, 2013, under the terms of his employment agreement, bonus plan and relevant stock plans, our CEO earned and received the following equity awards as a component of his fiscal year 2013 performance-based incentive compensation:

- 159,666 shares of restricted stock with a total grant date fair value of $5.68 million, or $35.55 per share, which vest on February 28, 2015; and

- 100,000 Performance RSUs, originally granted on March 1, 2012 with an original grant date fair market value of $3.29 million, or $32.88 per share, of which 33,400 shares vested on April 22, 2013, 33,300 shares vest on February 28, 2014 and 33,300 shares vest on February 28, 2015.

We are recording the expense for these awards in accordance with their vesting over their related service periods.

Accruals for the CEO s remaining Performance RSUs and the CEO s restricted stock awards associated with his annual bonus are subject to the achievement of specified performance goals for the fiscal year and are estimated until earned, subject to a probability assessment of achieving the associated performance criteria. These accruals and the service period expense associated with the CEO s fiscal year 2013 and 2014 awards are shown in the line below entitled Performance-based restricted stock awards and units.

During the three- and six-months ended August 31, 2013, employees and directors exercised stock options to purchase 45,784 and 153,720 shares of common stock, respectively.

We recorded share-based compensation expense in SG&A for the periods covered in the accompanying consolidated condensed financial statements as follows:

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2013	2012	**2013**	2012
[redacted]	**$ 613**	[redacted]	**$ 1,202**	[redacted]
	150		**287**	
	2,543		**5,236**	

[redacted]	158	[redacted]	158	[redacted]
	3,464		6,883	
	(686)		(1,411)	
	$ 2,778		$ 5,472	
	$ 0.09		$ 0.17	
	$ 0.09		$ 0.17	

- 19 -

Table of Contents

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 Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk and Information Regarding Forward- Looking Statements in this report and Risk Factors in the Company s most recent annual report on Form 10-K and its other filings with the Securities and Exchange Commission (the SEC). This discussion should be read in conjunction with our consolidated condensed financial statements included under Part I, Item 1 of this report.

OVERVIEW OF THE QUARTER S RESULTS:

Our business is dependent upon discretionary consumer demand for most of our products and most of our business operates within mature and highly developed consumer markets. The principal driver of our operating performance is the strength of the U.S. economy. Domestic macroeconomic conditions have been moderately improving for some time and lately we have begun to see indications of economic improvement in key Western European and Latin American markets. While there are a number of favorable domestic economic indicators, including a robust stock market, moderating fuel prices, modestly positive employment figures, an uptick in manufacturing and recovering domestic housing markets, we believe consumers continue to be cautious with their disposable personal income. Recent reports of weaker than expected back-to-school results now have retailers and forecasters increasingly guarded about the upcoming holiday season. Additionally, though we believe unemployment rates have come down domestically and in certain key international markets, we remain cautious regarding the current and long-term prospects of the strength of the consumer workforce and demand due to the impact of shifting demographics and displacement of workers from the last recession. Finally, the underlying global dynamics that have kept consumers and businesses unsettled over the last several years still remain: Middle East tensions and related political instabilities, U.S. government budget issues, uncertainty regarding tax policy, the emerging impact of healthcare legislation on U.S. business s cost structures, cost variability, and frequent supplier instabilities. Accordingly, we remain cautious regarding our business outlook.

We have made the following progress on key initiatives:

- The Healthcare / Home Environment segment converted from their legacy Enterprise Resource Planning (ERP) system onto our global ERP system. We believe this migration will eliminate a number of costs associated with managing multiple ERP systems and continue to improve uniformity of execution throughout our organization. In addition, we are constantly upgrading and adding functionality to the overall system with key enhancements underway in the product development and finance areas that will further streamline and improve the quality of our back office operations.

- We commenced shipments out of our new 1.3 million square foot distribution facility in Olive Branch, Mississippi during the first week of September 2013. The new facility will house the distribution operations of both our Personal Care and Healthcare / Home Environment appliance business. We have moved the domestic Healthcare / Home Environment distribution out of its current leased Memphis, Tennessee location and are exiting that facility. The lease is scheduled to terminate on October 31, 2013. At the quarter s end, approximately 96 percent of our domestic Healthcare / Home Environment inventory had been moved to the new facility, with the balance to be moved in early September. In accordance with our original plan, we will not transition our domestic Personal Care appliance distribution to the new facility until after the end of our peak shipping season and expect to complete that move early in fiscal year 2015. We are pleased that the project is currently on schedule and on budget.

These investments will improve the infrastructure that supports our current business, stage us for additional operating efficiencies over the foreseeable future and provide a platform for further growth.

Consolidated net sales revenue for the three- and six-month periods ended August 31, 2013 increased $31.98 and $36.28 million to $319.39 and $623.90 million, respectively, compared to $287.41 and $587.62

Table of Contents

million, respectively, for the same periods last year. Net sales revenue in our Housewares segment increased $5.60 million, or 8.7 percent, for the three month period ended August 31, 2013, and increased $8.88 million, or 7.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Healthcare / Home Environment segment increased $22.57 million, or 20.4 percent, for the three month period ended August 31, 2013, and increased $25.76 million, or 11.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Personal Care segment increased $3.81 million, or 3.4 percent, for the three month period ended August 31, 2013, and increased $1.65 million, or 0.7 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. In addition to our net sales revenue performance discussed above, key results for the three- and six-month periods ended August 31, 2013 include the following:

- Consolidated gross profit margin as a percentage of net sales revenue for the fiscal quarter ended August 31, 2013 decreased 2.1 percentage points to 38.6 percent compared to 40.7 percent for the same period last year. Consolidated gross profit margin as a percentage of net sales revenue for the six month period ended August 31, 2013 decreased 1.5 percentage points to 39.0 percent compared to 40.5 percent for the same period last year.

- Selling, general and administrative expense (SG&A) as a percentage of net sales revenue decreased 0.9 percentage points to 29.1 percent for the three months ended August 31, 2013 compared to 30.0 percent for the same period last year. SG&A as a percentage of net sales revenue for the six months ended August 31, 2013 decreased 1.1 percentage points to 28.9 percent compared to 30.0 percent for the same period last year.

- For the three- and six-month periods ended August 31, 2013, operating income decreased to $30.36 and $50.98 million compared to $30.84 and $61.99 million, respectively, for the same periods last year. For the three- and six-month periods ended August 31, 2013, operating income as a percentage of net sales revenue decreased 1.2 and 2.3 percentage points, respectively. Operating income for the six month period ended August 31, 2013 includes a non-cash asset impairment charge of $12.05 million, which represents 1.9 percentage points of the year-over-year decline. We recorded no non-cash asset impairment charges during the same period last year.

- For the three- and six-month periods ended August 31, 2013, our net income was $23.32 and $37.71 million, respectively, compared to $22.97 and $46.44 million, respectively, for the same periods last year, an increase of 1.5 and decrease of 18.8 percent, respectively. For the three- and six-month periods ended August 31, 2013, our diluted earnings per share was $0.72 and $1.17 compared to $0.72 and $1.46, respectively, for the same periods last year.

- Income without impairments was $23.32 and $49.74 million, respectively, for the three- and six-month periods ended August 31, 2013, compared to $22.97 and $46.44 million, respectively, for the same periods last year. Our diluted earnings per share without impairments was $0.72 and $1.54 for the three- and six-month periods ended August 31, 2013, compared to $0.72 and $1.46, respectively, for the same periods last year. Income without impairments and diluted earnings per share without impairments are non-GAAP financial measures as contemplated by SEC Regulation G, Rule 100. These measures are discussed further, and reconciled to their applicable GAAP-based measures, beginning on page 27.

Table of Contents

RESULTS OF OPERATIONS

Comparison of the three- and six-month periods ended August 31, 2013 to the same periods ended August 31, 2012

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

SELECTED OPERATING DATA

(dollars in thousands)

	Three Months Ended August 31,				% of Sales Revenue, net	
	2013	2012	**$ Change**	**% Change**	**2013**	2012
Sales revenue by segment, net						
Housewares	**$ 70,165**	$ 64,570	$ 5,595	8.7%	**22.0%**	22.5%
Healthcare / Home Environment	**133,044**	110,477	22,567	20.4%	**41.7%**	38.4%
Personal Care	**116,178**	112,364	3,814	3.4%	**36.4%**	39.1%
Total sales revenue, net	**319,387**	287,411	31,976	11.1%	**100.0%**	100.0%
Cost of goods sold	**196,132**	170,381	25,751	15.1%	**61.4%**	59.3%
Gross profit	**123,255**	117,030	6,225	5.3%	**38.6%**	40.7%
Selling, general and administrative expense	**92,899**	86,189	6,710	7.8%	**29.1%**	30.0%
Asset impairment charges	**-**	-	-	0.0%	**0.0%**	0.0%
Operating income	**30,356**	30,841	(485)	-1.6%	**9.5%**	10.7%
Nonoperating income (expense), net	**56**	31	25	80.6%	**0.0%**	0.0%
Interest expense	**(2,192)**	(3,130)	938	-30.0%	**-0.7%**	-1.1%
Total other income (expense)	**(2,136)**	(3,099)	963	-31.1%	**-0.7%**	-1.1%
Income before income taxes	**28,220**	27,742	478	1.7%	**8.8%**	9.7%
Income tax expense	**4,902**	4,774	128	2.7%	**1.5%**	1.7%
Net income	**$ 23,318**	$ 22,968	$ 350	1.5%	**7.3%**	8.0%

	Six Months Ended August 31,				% of Sales Revenue, net	
	2013	2012	**$ Change**	**% Change**	**2013**	2012
Sales revenue by segment, net						
Housewares	**$ 133,695**	$ 124,819	$ 8,876	7.1%	**21.4%**	21.2%
Healthcare / Home Environment	**258,646**	232,887	25,759	11.1%	**41.5%**	39.6%
Personal Care	**231,562**	229,916	1,646	0.7%	**37.1%**	39.1%
Total sales revenue, net	**623,903**	587,622	36,281	6.2%	**100.0%**	100.0%
Cost of goods sold	**380,484**	349,444	31,040	8.9%	**61.0%**	59.5%
Gross profit	**243,419**	238,178	5,241	2.2%	**39.0%**	40.5%
Selling, general and administrative expense	**180,389**	176,189	4,200	2.4%	**28.9%**	30.0%
Asset impairment charges	**12,049**	-	12,049	*	**1.9%**	0.0%
Operating income	**50,981**	61,989	(11,008)	-17.8%	**8.2%**	10.5%

Nonoperating income (expense), net		**140**		54		86	*	**0.0%**	0.0%
Interest expense		**(5,134)**		(6,442)		1,308	-20.3%	**-0.8%**	-1.1%
Total other income (expense)		**(4,994)**		(6,388)		1,394	-21.8%	**-0.8%**	-1.1%
Income before income taxes		**45,987**		55,601		(9,614)	-17.3%	**7.4%**	9.5%
Income tax expense		**8,278**		9,161		(883)	-9.6%	**1.3%**	1.6%
Net income	**$**	**37,709**	$	46,440	$	(8,731)	-18.8%	**6.0%**	7.9%

* Calculation is not meaningful

Table of Contents

Consolidated net sales revenue:

Consolidated net sales revenue for the three- and six-month periods ended August 31, 2013 increased $31.98 and $36.28 million to $319.39 and $623.90 million, respectively, compared to $287.41 and $587.62 million, respectively, for the same periods last year. Net sales revenue in our Housewares segment increased $5.60 million, or 8.7 percent, for the three month period ended August 31, 2013, and increased $8.88 million, or 7.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Healthcare / Home Environment segment increased $22.57 million, or 20.4 percent, for the three month period ended August 31, 2013, and increased $25.76 million, or 11.1 percent, for the six month period ended August 31, 2013, when compared to the same periods last year. Net sales revenue in our Personal Care segment increased $3.81 million, or 3.4 percent, for the three month period ended August 31, 2013, and increased $1.65 million, or 0.7 percent, for the six month period ended August 31, 2013, when compared to the same periods last year.

Impact of acquisitions on net sales revenue:

Because we are an acquisition-oriented company, we have historically provided an analysis of our net sales revenues in terms of organic growth from our core business (business owned and operated over the same fiscal period last year) and growth from acquisitions (business that we have acquired and operated for less than twelve months during each period presented). Our last acquisition occurred on December 30, 2011. Accordingly for the three- and six-month periods ended August 31, 2013, all net sales revenue growth is organic growth from our core business, as shown in the tables below.

IMPACT OF ACQUISITIONS ON NET SALES REVENUE

(in thousands)

	Three Months Ended August 31,			
	2013		2012	
Prior year s sales revenue, net	**$**	**287,411**	$	277,420
Components of net sales revenue change				
Core business		**31,976**		(16,261)
Incremental net sales revenue from acquisitions:				
PUR (three months in fiscal 2013)		**-**		26,252
Change in sales revenue, net		**31,976**		9,991
Sales revenue, net	**$**	**319,387**	$	287,411
Total net sales revenue growth		**11.1%**		3.6%
Core business		**11.1%**		-5.9%
Acquisitions		-		9.5%

IMPACT OF ACQUISITIONS ON NET SALES REVENUE

(in thousands)

	Six Months Ended August 31,	
	2013	2012

Prior year s sales revenue, net	**$**	**587,622**	$	548,887
Components of net sales revenue change				
Core business		**36,281**		(11,808)
Incremental net sales revenue from acquisitions:				
PUR (six months in fiscal 2013)		-		50,543
Change in sales revenue, net		**36,281**		38,735
Sales revenue, net	**$**	**623,903**	$	587,622
Total net sales revenue growth		**6.2%**		7.1%
Core business		**6.2%**		-2.2%
Acquisitions		-		9.2%

Table of Contents

In the preceding tables, core business is net sales revenue associated with product lines or brands after the first twelve months from the date a business, product line or brand was acquired. Net sales revenue from internally developed brands or product lines is always considered to be core business. Net sales revenue from acquisitions is net sales revenues associated with product lines or brands that we have acquired and operated for less than twelve months during each period presented.

Impact of foreign currencies on net sales revenue:

During each of the three- and six-month periods ended August 31, 2013, we transacted approximately 14 percent of our net sales revenues in foreign currencies. During each of the three- and six-month periods ended August 31, 2012, we transacted approximately 16 percent of our net sales revenues in foreign currencies. These transactions were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Australian Dollars, Peruvian Soles, and Venezuelan Bolivares Fuertes. For the three- and six-month periods ended August 31, 2013, the impact of net foreign currency exchange rates decreased our international net sales revenue by approximately $0.91 and $2.10 million, respectively. Approximately 86 percent of the impact of these fluctuations affected sales in our Personal Care segment.

Segment net sales revenue:

We operate our business under three segments: Housewares, Healthcare / Home Environment and Personal Care. Our Housewares segment reports the operations of OXO, whose product offerings include food preparation and storage, cleaning, organization, and baby and toddler care products. The Healthcare / Home Environment segment sells products in the following categories: health care devices, such as thermometers, blood pressure monitors, humidifiers, and heating pads; water filtration systems; and small home appliances, such as air purifiers, portable heaters, fans, and insect control devices (bug zappers). Our Personal Care segment currently offers products in three categories: hair care, beauty care and wellness appliances; grooming, skin care and hair care solutions; and brushes, combs and accessories.

Housewares Segment   Net sales revenue in the Housewares segment for the three month period ended August 31, 2013 increased $5.60 million, or 8.7 percent, to $70.17 million compared with $64.57 million for the same period last year. Net sales revenue in the Housewares segment for the six month period ended August 31, 2013 increased $8.88 million, or 7.1 percent, to $133.70 million compared with $124.82 million for the same period last year. From a product perspective, the Housewares segment s net sales revenue growth was principally driven by overall growth in kitchen tools, gadgets and kitchen storage lines, the success of the revamped OXO cleaning utility line, and continued market penetration of our OXO tot line of infant and toddler care products. From a customer perspective, growth was driven by expanded shelf space and assortments at several key retailers, continued growth in internet sales, an expansion of the wholesale club business, and new customer distribution in the current fiscal year.

Healthcare / Home Environment Segment   Net sales revenue in the Healthcare / Home Environment segment for the three month period ended August 31, 2013 increased $22.57 million, or 20.4 percent, to $133.04 million compared with $110.48 million for the same period last year. Net sales revenue in the Healthcare / Home Environment segment for the six month period ended August 31, 2013 increased $25.76 million, or 11.1 percent, to $258.65 million compared with $232.89 million for the same period last year. The segment experienced net sales revenue increases in the water filtration category largely as a result of advertising and promotional activity. The segment has also seen strong performance in air purification and its Braun Thermoscan line of thermometry. Additionally, fan sales have had solid year-to-date increases as a result of a very warm summer in Europe. This growth was partially offset by a sales decline in the insect control category, resulting from a cool spring in North America.

Personal Care Segment - Net sales revenue in the Personal Care segment for the three month period ended August 31, 2013 increased $3.81 million, or 3.4 percent, to $116.18 million compared with $112.36 million for the same period last year. Net sales revenue in the Personal Care segment for the six month period ended August 31, 2013 increased $1.65 million, or 0.7 percent, to $231.56 million compared with $229.92 million for the same period last year. The increase in net sales revenue was primarily due to gains in our professional appliances, brushes, combs and accessories categories and in Europe and Latin America. Europe benefited from a new product distribution arrangement specific to the current fiscal year. The gains were partially offset by declines in our domestic retail appliance and grooming, skin care and hair care solutions product categories. The domestic retail appliance product category has been negatively impacted by lost shelf space at a major retailer, which was partially offset by increased distribution elsewhere. The grooming, skin care and hair care solutions product category continues to encounter particularly difficult retail conditions, including significant new competitive product launches and promotional spending in hair care, inventory rationalization at large retailers, and changing customer order replenishment practices leading to elevated out-of-stock positions on retail shelves.

Consolidated gross profit margin:

Consolidated gross profit margin as a percentage of net sales revenue for the three months ended August 31, 2013 decreased 2.1 percentage points to 38.6 percent compared to 40.7 percent for the same period last year. Consolidated gross profit margin as a percentage of net sales revenue for the six months ended August 31, 2013 decreased 1.5 percentage points to 39.0 percent compared to 40.5 percent for the same period last year. Our consolidated gross profit margin was unfavorably impacted by the combined effects of increased promotional program costs, the effect of foreign currency exchange rates on net sales revenue and the continuing trend of general product cost increases across all segments. In addition, the growth of the Healthcare / Home Environment segment s net sales revenue has a dilutive impact on gross margins because its overall gross margins are lower than our other two segments.

Our product sourcing mix is heavily dependent on imports from China. China s currency is no longer pegged solely to the U.S. dollar. As a result, we believe China s currency will continue to appreciate against the U.S. Dollar in the short-to-intermediate-term, resulting in increased product costs over time. Furthermore, if increases in the underlying costs of labor and commodities in China occur, we expect that they would also result in future increases in our product costs.

Selling, general and administrative expense:

SG&A decreased 0.9 percentage points, to 29.1 percent of net sales revenue for the three month period ended August 31, 2013, compared to 30.0 percent for the same period last year. SG&A decreased 1.1 percentage points, to 28.9 percent of net sales revenue for the six month period ended August 31, 2013, compared to 30.0 percent for the same period last year. The year-over-year decreases in SG&A as a percentage of net sales revenue is primarily due to: lower outbound freight and distribution costs, reduced media advertising costs and a gain from a litigation settlement. These expense reductions were partially offset by higher incentive compensation costs and higher cooperative advertising costs during the three- and six-month periods ended August 31, 2013.

Asset impairment charges:

We performed our annual evaluation of goodwill and indefinite-lived intangible assets for impairment during the first quarter of fiscal year 2014. As a result of our testing of indefinite-lived trademarks and licenses, we recorded a non-cash asset impairment charge of $12.05 million ($12.03 million after tax) during the fiscal quarter ended May 31, 2013. The charge was related to certain trademarks in our Personal Care segment, which were written down to their estimated fair value as a result of lower revenue outlooks due to competitive factors. The fair values were determined on the basis of future discounted cash flows using the relief from royalty valuation method.

Table of Contents

Operating income by segment:

The following tables set forth, for the periods indicated, our operating income by segment as a year-over-year percentage change and as a percentage of net sales revenue for each segment and the Company overall:

OPERATING INCOME BY SEGMENT

(dollars in thousands)

	Three Months Ended August 31,		$ Change	% Change	% of Sales Revenue, net	
	2013	**2012**			**2013**	**2012**
Housewares	**$ 13,772**	$ 12,078	$ 1,694	14.0%	**19.6%**	18.7%
Healthcare / Home Environment	**4,974**	6,883	(1,909)	-27.7%	**3.7%**	6.2%
Personal Care	**11,610**	11,880	(270)	-2.3%	**10.0%**	10.6%
Total operating income	**$ 30,356**	$ 30,841	$ (485)	-1.6%	**9.5%**	10.7%

	Six Months Ended August 31,		$ Change	% Change	% of Sales Revenue, net	
	2013	**2012**			**2013**	**2012**
Housewares	**$ 26,228**	$ 23,355	$ 2,873	12.3%	**19.6%**	18.7%
Healthcare / Home Environment	**11,510**	14,874	(3,364)	-22.6%	**4.5%**	6.4%
Personal Care	**13,243**	23,760	(10,517)	-44.3%	**5.7%**	10.3%
Total operating income	**$ 50,981**	$ 61,989	$ (11,008)	-17.8%	**8.2%**	10.5%

We compute operating income for each segment based on net sales revenue, less cost of goods sold and SG&A associated with the segment. The SG&A used to compute each segment s operating income is directly associated with the segment, plus overhead expenses that are allocable to the segment. We make allocations of overhead between operating segments using a number of relevant allocation criteria, depending on the nature of the expense, the most significant of which are relative revenues, estimates of relative labor expenditures, headcount, and facility square footage. We do not allocate nonoperating income and expense, interest or income taxes to operating segments.

Housewares Segment The Housewares segment s operating income for the three month period ended August 31, 2013 increased $1.69 million, or 14.0 percent, compared to the same period last year. The Housewares segment s operating income for the six month period ended August 31, 2013 increased $2.87 million, or 12.3 percent, compared to the same period last year. The increase in operating income for the periods reported is principally due to an increase in net sales revenue, improved overall operating leverage, and lower domestic distribution costs due to year-over-year efficiency gains. These favorable factors have been partially offset by higher product costs.

Healthcare / Home Environment Segment The Healthcare / Home Environment segment s operating income for the three month period ended August 31, 2013 decreased $1.91 million, or 27.7 percent, compared to the same period last year. The Healthcare / Home Environment segment s operating income for the six month period ended August 31, 2013 decreased $3.36 million, or 22.6 percent, compared to the same period last year. The decrease in operating income over the periods reported was principally due to higher product and incentive compensation costs and higher allocations of overhead.

Personal Care Segment The Personal Care segment s operating income for the three month period ended August 31, 2013 decreased $0.27 million, or 2.3 percent, compared to the same period last year. The Personal Care segment s operating income for the six month period ended August 31, 2013 decreased $10.52 million, or 44.3 percent, compared to the same period last year. The decrease in operating income for the three month period ended August 31, 2013 was principally due to higher product costs, less favorable sales mix and increased incentive compensation cost allocations. These unfavorable factors were partially offset by lower media advertising costs and lower outbound freight and distribution costs. The decrease in operating income for the six month period ended August 31, 2013 was principally due to the impact of higher promotional allowances and cooperative advertising, higher product costs, the unfavorable impact of foreign exchange fluctuations, increased incentive compensation cost allocations, and a non-cash asset impairment charge (as further discussed above under

Table of Contents

Asset impairment charges). These unfavorable factors were partially offset by lower media advertising costs, a gain from a litigation settlement and lower outbound freight and distribution costs.

Interest expense:

Interest expense for the three- and six-month periods ended August 31, 2013 was $2.19 and $5.13 million, respectively, compared to $3.13 and $6.44 million, respectively, for the same periods last year. Interest expense was lower when compared to the same periods last year principally due to lower levels of debt outstanding.

Income tax expense:

Income tax expense as a percentage of income before taxes for the three- and six-month periods ended August 31, 2013 was 17.4 and 18.0 percent, respectively, compared to 17.2 and 16.5 percent, respectively, for the same periods last year. Our effective tax rate for the six month period ended August 31, 2013 was impacted by asset impairment charges of $12.05 million recorded during the fiscal quarter ended May 31, 2013, for which the related tax benefit was only $0.02 million. As a result, we now expect our effective tax rate for the full fiscal year 2014 to range between 17.0 and 19.0 percent.

Net Income:

Net income for the three month period ended August 31, 2013 increased by $0.35 million compared to the same period last year. Net income for the six months ended August 31, 2013 decreased by $8.73 million compared to the same period last year. The decline for the six months ended August 31, 2013 is due to the unfavorable impact of asset impairment charges of $12.03 million, net of tax, recorded during the first quarter of fiscal 2014 as a result of our annual evaluation of goodwill and indefinite-lived intangible assets, as well as the other factors described above.

Income without impairments was $23.32 and $49.74 million, respectively, for the three- and six-month periods ended August 31, 2013, compared to $22.97 and $46.44 million, respectively, for the same periods last year. Income without impairments for the six month period ended August 31, 2013 increased by $3.30 million when compared to the same period last year due to organic net sales revenue growth of 6.2 percent and a 1.1 percentage point decline in SG&A, partially offset by higher product costs. The following table presents the comparative impact of the asset impairment charges on our net income, and basic and diluted earnings per share for three- and six-month periods ended August 31, 2013 and 2012:

IMPACT OF ASSET IMPAIRMENT CHARGES ON NET INCOME AND EARNINGS PER SHARE

(dollars in thousands, except per share data)

	Three Months Ended August 31,		Basic Earnings per Share		Diluted Earnings per Share	
	2013	2012	**2013**	2012	**2013**	2012
Net income, as reported	**$ 23,318**	$ 22,968	**$ 0.73**	$ 0.72	**$ 0.72**	$ 0.72
Asset impairment charges, net of tax	**-**	-	**-**	-	**-**	-
Income without impairments	**$ 23,318**	$ 22,968	**$ 0.73**	$ 0.72	**$ 0.72**	$ 0.72

[redacted]

[redacted]	**2013**	[redacted]	**2013**	[redacted]	**2013**	[redacted]
[redacted]	**$ 37,709**	[redacted]	**$ 1.18**	[redacted]	**$ 1.17**	[redacted]
[redacted]	**12,034**	[redacted]	**0.38**	[redacted]	**0.37**	[redacted]
[redacted]	**$ 49,743**	[redacted]	**$ 1.56**	[redacted]	**$ 1.54**	[redacted]

The table shown above entitled Impact of Asset Impairment Charges on Net Income and Earnings per Share reports income and earnings per share which exclude asset impairment charges. Income without impairments and earnings per share without impairments, as discussed in the preceding table, may be considered non-GAAP financial information as contemplated by SEC Regulation G, Rule 100. The preceding

Table of Contents

table reconciles these measures to their corresponding GAAP-based measures presented in our consolidated condensed statements of income. The Company believes that income without impairments and earnings per share without impairments measures provide useful information to management and investors regarding financial and business trends relating to its financial condition and results of operations. The Company believes that income without impairments and earnings per share without impairments measures, in combination with the Company s financial results calculated in accordance with GAAP, provide investors with additional perspective regarding the impact of asset impairment charges on net income and earnings per share. The Company also believes that these non-GAAP measures facilitate a more direct comparison of its performance with its competitors. The Company further believes including the excluded asset impairment charges would not accurately reflect the underlying performance of its continuing operations for the period in which the impairments are incurred, even though asset impairment charges may be incurred and reflected in the Company s GAAP financial results in the foreseeable future. The material limitation associated with the use of the non-GAAP financial measures is that the non-GAAP measures do not reflect the full economic impact of the Company s activities. The Company s income without impairments and earnings per share without impairments measures are not prepared in accordance with GAAP, are not an alternative to GAAP financial information and may be calculated differently than non-GAAP financial information disclosed by other companies. Accordingly, undue reliance should not be placed on non-GAAP information.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Selected measures of our liquidity and capital resources for the six month periods ended August 31, 2013 and 2012 are shown below:

SELECTED MEASURES OF OUR LIQUIDITY AND CAPITAL UTILIZATION

	Six Months Ended August 31,	
	2013	2012
Accounts Receivable Turnover (Days) (1)	**61.9**	61.1
Inventory Turnover (Times) (1)	**2.7**	2.7
Working Capital *(in thousands)*	**$ 227,230**	$ 173,061
Current Ratio	**1.6 : 1**	1.4 : 1
Ending Debt to Ending Equity Ratio (2)	**23.5%**	39.4%
Return on Average Equity (1)(3)	**11.7%**	13.7%

(1) 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) 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, Long-term debt, current maturities and Long-term debt, excluding current maturities.

(3) For the six month period ended August 31, 2013, a non-cash impairment charge of $12.05 million ($12.03 million after tax) had an unfavorable impact of 1.3 percentage points on return on average equity.

Operating activities:

Operating activities provided $57.14 million of cash during the first six months of fiscal year 2014, compared to $10.75 million of cash provided during the same period in fiscal year 2013. The increase in operating cash flow was primarily due to the timing of fluctuations in working capital components, particularly year-over-year changes in inventory activity, when compared to the same period last year.

Accounts receivable increased $11.59 million to $231.31 million as of August 31, 2013, compared to $219.72 million at the end of fiscal year 2013. Accounts receivable turnover increased to 61.9 days at August 31,

Table of Contents

2013 compared to 61.1 days at August 31, 2012. This calculation is based on a rolling five quarter accounts receivable balance.

Inventories increased $25.98 million to $306.85 million as of August 31, 2013, compared to $280.87 million at the end of fiscal year 2013. The year-to-date inventory increase is primarily due to normal seasonal fluctuations. The end of the second fiscal quarter is typically our peak inventory quarter because we build inventory in anticipation of back-to-school and holiday selling seasons. Inventories at August 31, 2013 decreased $11.84 million compared to the August 31, 2012 balance of $318.70 million. Inventory turnover was 2.7 times at August 31, 2013 and 2012.

Working capital was $227.23 million at August 31, 2013, compared to $173.06 million at August 31, 2012. The increase in working capital over the last twelve months is primarily caused by the repayment of our debt. Cash from operations was used to pay down $137.50 million of short-term debt. This was partially offset by the reclassification of $20.00 and $75.00 million of long-term debt scheduled to mature in January 2014, and June 2014, respectively, as current liabilities. As a result, our current ratio increased to 1.6:1 at August 31, 2013, compared to 1.4:1 at August 31, 2012.

Investing activities:

Investing activities used $34.58 million of cash during the six month period ended August 31, 2013. Highlights of those activities follow:

- We spent $29.57 million on building and improvements, primarily in connection with the construction of our new distribution facility in Olive Branch, Mississippi; and

- We spent $4.06 million on information technology infrastructure and other furniture and equipment, $0.77 million on tools, molds and other capital asset additions and $0.18 million on the development of new patents.

Financing activities:

Financing activities used $25.31 million of cash during the six month period ended August 31, 2013. Highlights of those activities follow:

- We had draws of $76.80 million against our revolving credit agreement;

- We repaid $135.30 million drawn against our revolving credit agreement;

- We had draws of $29.15 million against new debt to finance the construction of our new distribution facility in Olive Branch, Mississippi;

- We incurred $0.13 million in debt acquisition costs in connection with new long-term debt;

- Employees and certain members of our Board of Directors exercised options to purchase 153,720 shares of common stock, providing $4.51 million of cash, including tax benefits;

- We paid $0.44 million in tax obligations in connection with the vesting of certain restricted stock grants to our Chief Executive Officer and members of our Board of Directors;

- We repurchased and retired 33,862 shares of common stock at an average price of $38.71 per share for a total purchase price of $1.31 million; and

- Share-based compensation expenses provided $1.41 million in current tax benefits.

Table of Contents

Revolving Line of Credit Agreement and Other Debt Agreements:

We have a credit agreement (the Credit Agreement) with Bank of America, N.A., that provides for an unsecured total revolving commitment of up to $250.00 million. The commitment under the Credit Agreement terminates on December 30, 2015. With each borrowing, we can elect the interest rate method based on our funding needs at the time. Borrowings under the Credit Agreement accrue interest at a base rate plus a margin of 0.00 to 1.125 percent per annum based on the Leverage Ratio (as defined in the Credit Agreement) at the time of borrowing. The base rate is equal to the highest of the Federal Funds Rate (as defined in the Credit Agreement) plus 0.50 percent, Bank of America s prime rate or the one-month LIBOR rate plus 1.00 percent. Alternatively, if we elect, borrowings accrue interest based on the respective one-, two-, three-, or six-month LIBOR rate plus a margin of 1.00 to 2.125 percent per annum based upon the Leverage Ratio at the time of the borrowing. We also incur loan commitment fees and letter of credit fees under the Credit Agreement. Outstanding letters of credit reduce the borrowing availability under the Credit Agreement on a dollar-for-dollar basis. As of August 31, 2013, the outstanding revolving loan principal balance was $23.50 million and there were $0.31 million of open letters of credit outstanding against the Credit Agreement. For both the three- and six-months ended August 31, 2013, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.18 to 3.63 percent. For the three- and six-month periods ended August 31, 2012, borrowings under the Credit Agreement incurred interest charges at rates ranging from 1.61 to 3.63 percent and 1.61 to 4.00 percent, respectively. As of August 31, 2013, the amount available for borrowings under the Credit Agreement was $226.19 million.

In addition to the Credit Agreement, at August 31, 2013, we had an aggregate principal balance of $175.00 million of Senior Notes with varying maturities due between January 2014 and January 2018 and interest rates ranging from 3.90 to 6.01 percent. $75.00 million of the debt can be prepaid without penalty and $100.00 million of the debt is subject to a make-whole premium if repaid before maturity.

In March 2013, Kaz USA, Inc. (Kaz USA), a wholly owned subsidiary of the Company, entered into a Loan Agreement, dated as of March 1, 2013, with the Mississippi Business Finance Corporation (the MBFC) in connection with the issuance by MBFC of up to $38.00 million of taxable industrial development revenue bonds (the Bonds). The Bonds are issued under a Trust Indenture (the IRB Indenture), between MBFC and Deutsche Bank National Trust Company, as trustee. Interim draws, accumulating up to a $38.00 million aggregate maximum, may be made through March 20, 2014. The Bonds and the related loan to Kaz USA (the MBFC Loan) will bear interest at a variable rate as elected by Kaz USA equal to either (a) a Base Rate plus a margin of 0.00 to 1.125 percent depending upon the leverage ratio at the time of the borrowing or (b) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 to 2.125 percent, depending upon the leverage ratio at the time of the borrowing. The Base Rate is equal to the highest of (i) the federal funds rate for the day, plus 0.50 percent, (ii) the prime rate of Bank of America, N.A., or (iii) the respective one-, two-, three-, or six-month LIBOR rate plus 1.00 percent. The proceeds of the MBFC Loan are being used by Kaz USA to finance the purchase of land, construction of a distribution facility and the acquisition and installation of equipment, machinery and related assets located in Olive Branch, Mississippi.

Assuming the $38.00 million aggregate maximum is borrowed, outstanding principal of the MBFC Loan will be payable as follows: $1.90 million on March 1 in each of 2014, 2015, 2018, 2019, 2020, 2021, and 2022; $3.80 million on March 1, 2016; $5.70 million on March 1, 2017; and $15.20 million on March 1, 2023. Any remaining outstanding principal and interest is due upon the maturity of the MBFC Loan on March 1, 2023. The MBFC Loan may be prepaid in whole or part without penalty any time after March 20, 2014. Additionally, Bank of America, N.A., the purchaser of the Bonds, may elect for the MBFC Loan to be prepaid in full on March 1, 2018. Following March 1, 2018, Bank of America, N.A. may elect for the MBFC Loan to be prepaid on March 1 of each subsequent year prior to maturity upon at least 90 days notice. In lieu of any prepayment, the Bonds may be purchased by a transferee, as permitted under the IRB Indenture.

All of our debt is unconditionally guaranteed, on a joint and several basis, by the Company and certain of its subsidiaries. Our debt agreements require the maintenance of certain financial covenants, including maximum leverage ratios, minimum interest coverage ratios and minimum consolidated net worth levels (as each of these terms are defined in the various agreements). Our debt agreements also contain other customary covenants,

Table of Contents

including, among other things, covenants restricting or limiting the Company, except under certain conditions set forth therein, from (1) incurring debt, (2) incurring liens on its properties, (3) making certain types of investments, (4) selling certain assets or making other fundamental changes relating to mergers and consolidations, and (5) repurchasing shares of our common stock and paying dividends. Our debt agreements also contain customary events of default, including failure to pay principal or interest when due, among others. Our debt agreements are cross-defaulted to each other. Upon an event of default under our debt agreements, the holders or lenders may, among other things, accelerate the maturity of any amounts outstanding under our debt. Under the terms of our Credit Agreement, the commitments of the lenders to make loans to us are several and not joint. Accordingly, if any lender fails to make loans to us, our available liquidity could be reduced by an amount up to the aggregate amount of such lender s commitments under the revolving credit facility.

The table below provides the formulas for certain key financial covenants as defined in our various debt agreements:

Applicable Financial Covenant	**Credit Agreement and MBFC Loan**	**$75 Million Floating Rate Senior Notes**	**$100 Million 3.90% Fixed Rate Senior Notes**
Minimum Consolidated Net Worth	$530 Million + 100% of Increase in Equity Due to Sale of Equity Interests After August 31, 2010 + 40% of Fiscal Quarter Net Earnings After August 31, 2010 (1)	$260 Million + 25% of Fiscal Quarter Net Earnings After February 29, 2004 (1)	$500 Million + 25% of Fiscal Quarter Net Earnings After August 31, 2010 (1)
Interest Coverage Ratio	EBIT (2) ÷ Interest Expense (2)	None	EBIT (2) ÷ Interest Expense (2)
	Minimum Required: 3.00 to 1.00		Minimum Required: 2.50 to 1.00
Maximum Leverage Ratio	Total Current and Long Term Debt (3) ÷ [EBITDA (2) + Pro Forma Effect of Acquisitions]	Total Current and Long Term Debt (3) ÷ Total Capitalization (3)	Total Current and Long Term Debt (3) ÷ [EBITDA (2) + Pro Forma Effect of Acquisitions]
	Maximum Allowed: 3:00 to 1:00	Maximum Allowed: 55%	Maximum Allowed: 3:25 to 1:00

Key Definitions:

EBIT:	Earnings Before Non-Cash Charges, Interest Expense and Taxes
EBITDA:	EBIT + Depreciation and Amortization Expense + Share Based Compensation

Total Capitalization:	Total Current and Long Term Debt + Total Equity
Pro Forma Effect of Acquisitions:	For any acquisition, pre-acquisition EBITDA of the acquired business is included so that the EBITDA of the acquired business included in the computation equals its twelve month trailing total.

Notes:

(1) Excluding any fiscal quarter net losses.

(2) Computed using totals for the latest reported four consecutive fiscal quarters.

(3) Computed using the ending balances as of the latest reported fiscal quarter.

Table of Contents

Contractual obligations and commercial commitments:

Our contractual obligations and commercial commitments at August 31, 2013, were:

PAYMENTS DUE BY PERIOD - TWELVE MONTHS ENDED AUGUST 31:

(in thousands)

	Total	2014 1 year	2015 2 years	2016 3 years	2017 4 years	2018 5 years	After 5 years
Term debt - fixed rate	$ 100,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ -
Term debt - floating rate (1)	104,147	76,900	1,900	3,800	5,700	1,900	13,947
Long-term incentive plan payouts	8,177	3,584	3,040	1,260	293	-	-
Interest on fixed rate debt	9,230	3,406	2,626	1,846	1,066	286	-
Interest on floating rate debt (1)	5,618	4,115	311	277	221	176	518
Open purchase orders	208,129	208,129	-	-	-	-	-
Long-term purchase commitments	3,029	606	606	606	606	605	-
Minimum royalty payments	81,657	12,964	12,735	12,628	9,736	9,440	24,154
Advertising and promotional	54,097	8,276	5,109	5,211	5,316	5,422	24,763
Operating leases	12,654	4,530	3,102	1,761	1,460	1,133	668
Capital spending commitments	4,982	4,982	-	-	-	-	-
Total contractual obligations (2)	$ 591,720	$ 347,492	$ 49,429	$ 47,389	$ 44,398	$ 38,962	$ 64,050

(1) The Company uses an interest rate hedge agreement (the swap) in conjunction with its unsecured, floating interest rate, $75.00 million Senior Notes due June 2014. The swap hedges the variable LIBOR rates used to reset the floating rates on these Senior Notes. The swap effectively fixes the interest rates on the Senior Notes due June 2014 at 6.01 percent.

(2) In addition to the contractual obligations and commercial commitments in the table above, as of August 31, 2013, we have recorded a provision for our uncertain tax positions of $15.90 million. We are unable to reliably estimate the timing of future payments, if any, related to uncertain tax positions. Therefore, we have excluded these tax liabilities from the table above.

During fiscal year 2012, we entered into certain employment and incentive compensation agreements with Gerald Rubin, our Chief Executive Officer and President (the CEO). The base and incentive compensation provisions of these agreements remain effective for fiscal years 2014 and 2015. Substantially all of the CEO s compensation pursuant to these agreements is performance-based and contingent upon our achievement of specified performance goals. The performance-based compensation is made up of the following three components:

- ***Restricted Stock Units*** - The CEO received a grant of 700,000 performance-based restricted stock units (Performance RSUs), which may be earned in tranches based on the Company s achievement of specified performance goals for fiscal years ending 2013, 2014 and 2015. The CEO earned 100,000 of the performance-based RSUs for the fiscal year ended February 28, 2013. All earned Performance RSUs are subject to additional time-based vesting requirements. Up to 200,000 Performance RSUs may be earned based on the Company s achievement of the specified performance goals for fiscal year 2014. With respect to fiscal year 2015, up to 700,000 Performance RSUs (less the number of Performance RSUs previously earned) may be earned based on the Company s achievement of either the specified performance goal for fiscal year 2015 or the three year average performance goal for the three fiscal years 2013 through 2015. A portion of any Performance RSUs earned in fiscal years 2013 and 2014 are subject to annual vesting requirements through fiscal year 2015. The Performance RSUs had a fair value at the date of grant of $32.88 per share for a grant date fair value of $23.02 million. Compensation expense associated with Performance RSUs is equal to the market value of our common stock on the date of the grant multiplied by the number of Performance RSUs vesting during any given period. Expense for each tranche must be estimated until earned, subject to a probability assessment of achieving the performance criteria specified for the tranche. We are recording the expense for each tranche over the related vesting and service periods in SG&A.

Table of Contents

- ***Annual Bonus*** - The CEO is also eligible to receive an annual bonus of up to $25.00 million in cash and stock, subject to the achievement of specified performance goals. Any such bonus that is earned and payable will be paid two-thirds in the form of cash or cash equivalents up to a maximum of $10.00 million. The remainder will be paid in the form of restricted stock. Any restricted stock granted will vest, with respect to annual bonuses for fiscal years 2013 and 2014, on February 28, 2015, and with respect to annual bonus for fiscal year 2015, on the date the Compensation Committee of the Company s Board of Directors certifies that the performance goals have been achieved.

- ***Life Insurance Bonuses*** - Two split-dollar life insurance policies and the obligation to pay the associated premiums remain to be transferred to the CEO through February 28, 2015 subject to the satisfaction of certain service and performance conditions. The amount of the value of the transfer of each of the two split-dollar life insurance policies (based on cash surrender values) is capped at $4.00 and $7.00 million, respectively.

The CEO s unvested Performance RSU s earned in fiscal year 2013 will generate $1.10 million of performance-based compensation expense in both fiscal years 2014 and 2015. The CEO s restricted stock bonus earned in fiscal year 2013 will generate $1.89 million of performance-based compensation expense in both fiscal years 2014 and 2015.

We currently expect Mr. Rubin to achieve certain performance targets for fiscal 2014 and the accompanying consolidated condensed financial statements include estimated accruals for his Performance RSU s, annual bonus and life insurance bonus under the various applicable agreements. To the extent of his achievement of performance targets for fiscal 2014 and 2015 (in full or in part), the resulting incentive compensation expense could have a significant impact upon SG&A and net income in those years. The expense we will actually record in fiscal years 2014 and 2015 will depend on the actual operating income achieved each year, as well as other factors that are components to the relevant performance targets underlying the compensation. Unanticipated events and circumstances may occur that could impact the timing of the accrual of the expense and the amount of incentive compensation expense recorded. For information concerning pro forma performance compensation expense, see Management Discussion and Analysis Financial Condition, Liquidity and Capital Resources in our annual report on Form 10-K for the year ended February 28, 2013. The timing and actual amount expensed as compensation during fiscal years 2014 and 2015 will vary from pro forma amounts described in the Form 10-K, and the variations might be material. Accordingly, the pro forma amounts in the Form 10-K are for illustrative purposes only.

Off-balance sheet arrangements:

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 our foreseeable short- and long-term liquidity requirements. These requirements include: $20.00 million of annual principal payments on the $100.00 million Senior Notes, beginning in January 2014; principal payments on the $38.00 million MBFC Loan beginning in March 2014; and the retirement of $75.00 million of Senior Notes in June 2014. We expect our capital needs to 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 continue to evaluate acquisition opportunities on a regular basis and may augment our internal growth with acquisitions of complementary businesses or product lines. We may finance acquisition activity with available cash, the issuance of common stock, additional debt, or other sources of financing, depending upon the size and nature of any such transaction and the status of the capital markets at the time of such acquisition.

Table of Contents

In addition to repurchases of shares associated with the net settlement of employee stock options, the Company may elect to repurchase additional common stock from time to time based upon its assessment of its liquidity position and market conditions at the time, and subject to limitations contained in its debt agreements. For additional information, see Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds in this report.

CRITICAL ACCOUNTING POLICIES

The SEC 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. For a discussion of our critical accounting policies, see Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations , under the heading Critical Accounting Policies in our annual report on Form 10-K for the year ended February 28, 2013. There have been no material changes to the Company s critical accounting policies from the information provided in our annual report on Form 10-K.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2 New Accounting Pronouncements, to the accompanying consolidated condensed financial statements of this report, for a discussion of the status and potential impact of new accounting pronouncements.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Changes in currency exchange rates and interest rates are our primary financial market risks.

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 each of the three- and six-month periods ended August 31, 2013, approximately 14 percent of our net sales revenue was in foreign currencies. During each of the three- and six-month periods ended August 31, 2012, approximately 16 percent of our net sales revenue was in foreign currencies. These sales were primarily denominated in British Pounds, Euros, Mexican Pesos, Canadian Dollars, Australian Dollars, 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 statements of income, 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 from remeasurement are recognized in SG&A.

A significant portion of the products we sell are purchased from third-party manufacturers in China. During fiscal year 2013, the Chinese Renminbi remained relatively flat against the U.S. Dollar. During fiscal years 2012 and 2011, the Chinese Renminbi appreciated against the U.S. Dollar approximately 4 percent each period. To the extent the Chinese Renminbi appreciates with respect to the U.S. Dollar in the future, the Company may experience cost increases on such purchases, and this can adversely impact profitability. China s currency intervention strategy with respect to the U.S. Dollar continues to evolve. Future interventions by China may result in further currency appreciation and increase our product costs over time.

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 rate 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 rate 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. We do not enter into any forward exchange contracts or similar instruments for trading or other speculative purposes. We expect that as currency market conditions warrant, and our foreign denominated transaction exposure grows, we will continue to execute additional contracts in order to hedge against certain potential foreign exchange losses.

Table of Contents

Interest Rate Risk:

Interest on our outstanding debt as of August 31, 2013 is both floating and fixed. Fixed rates are in place on $100.00 million of Senior Notes at 3.90 percent, while floating rates are in place on $23.50 million of borrowings under our Credit Agreement, $29.15 million of interim draws under our MBFC Loan and $75.00 million of Senior Notes due June 2014. If short-term interest rates increase, we will incur higher interest rates on any outstanding balances under the Credit Agreement and MBFC Loan. The floating rate Senior Notes due June 2014 reset as described in Note 9 in the accompanying consolidated condensed financial statements, and have been effectively converted to fixed rate debt using an interest rate swap (the swap), as described below.

We manage our floating rate $75.00 million of Senior Notes due June 2014 using an interest rate swap. As of August 31, 2013, the swap converted an aggregate notional principal amount of $75.00 million from floating interest rate payments under our Senior Notes due June 2014 to fixed interest rate payments at 6.01 percent. In the swap transaction, we maintain contracts to pay fixed rates of interest on an aggregate notional principal amount of $75.00 million at a rate of 5.11 percent on our Senior Notes due June 2014, while simultaneously receiving floating rate interest payments set at 0.28 percent as of August 31, 2013 on the same notional amounts. The fixed rate side of the swap will not change over its life. 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. The swap is used to reduce our risk of increased interest costs; however, when interest rates drop significantly below the swap rate, we lose the benefit that our floating rate debt would provide, if not managed with a swap. The swap is considered 100 percent effective.

The fair values of our various derivative instruments are as follows:

FAIR VALUES OF DERIVATIVE INSTRUMENTS

(in thousands)

August 31, 2013

[redacted]

2/2014		**5,750**	**$**	**60**	**$**	**-**	**$**	**-**
2/2014	**£**	**4,000**		**80**		**-**		**-**
6/2014	**$**	**75,000**		**-**		**3,012**		**-**
			$	**140**	**$**	**3,012**	**$**	**-**

February 28, 2013

Designated as hedging instruments	Hedge Type	Final Settlement Date	Notional Amount	Prepaid Expenses and Other Current Assets	Accrued Expenses and Other Current Liabilities	Other Liabilities, Noncurrent

Foreign currency contracts - sell Euro	Cash flow	10/2013		7,050	$	239	**$**	**-**	$	-
Foreign currency contracts - sell Pounds	Cash flow	11/2013	£	3,000		257		**-**		-
Interest rate swap	Cash flow	6/2014	$	75,000		**-**		3,044		1,780
Total fair value					**$**	**496**	**$**	**3,044**	**$**	**1,780**

Counterparty Credit Risk

Financial instruments, including foreign currency contracts and interest rate swaps, expose us to counterparty credit risk for nonperformance. We manage our exposure to counterparty credit risk by only dealing with counterparties who are substantial international financial institutions with significant experience using such derivative instruments. Although our theoretical credit risk is the replacement cost at the then-estimated fair value of these instruments, we believe that the risk of incurring credit risk losses is remote.

Table of Contents

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain written and oral statements made by our Company and subsidiaries 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 (SEC), in press releases, and in certain other oral and written presentations. Generally, the words anticipates , believes , expects , plans , may , will , should , seeks , estimates , project , predict , potential , continue , intend 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 and are based upon our current expectations and various assumptions. We believe there is a reasonable basis for our expectations and assumptions, but there can be no assurance that we will realize our expectations or that our assumptions will prove correct. Forward-looking statements are subject to risks that could cause them to differ materially from actual results. Accordingly, we caution readers not to place undue reliance on forward-looking statements. We believe that these risks include, but are not limited to, the risks described in Part 1, Item 1A. Risk Factors of our annual report on Form 10-K for the year ended February 28, 2013 and risks otherwise described from time to time in our SEC reports as filed. Such risks, uncertainties and other important factors include, among others:

- the departure and recruitment of key personnel;

- our ability to deliver products to our customers in a timely manner and according to their fulfillment standards;

- our geographic concentration of certain U.S. distribution facilities, which at certain times operate at or near capacity, and current plans to expand our U.S. distribution capacity, which increases our exposure to significant shipping disruptions and added shipping and storage costs;

- difficulties encountered during the transition to our new distribution facility could interrupt our logistical systems and cause shipping disruptions;

- our projections of product demand, sales and net income are highly subjective in nature and future sales and net income could vary in a material amount from such projections;

- expectations regarding our recent and future acquisitions, including our ability to realize anticipated cost savings, synergies and other benefits along with our ability to effectively integrate acquired businesses;

- our relationship with key customers and licensors;

- the costs of complying with the business demands and requirements of large sophisticated customers;

- our dependence on foreign sources of supply and foreign manufacturing, and associated operational risks including but not limited to long lead times, consistent local labor availability and capacity, and timely availability of sufficient shipping carrier capacity;

- the impact of changing costs of raw materials and energy on cost of goods sold and certain operating expenses;

- circumstances which may contribute to future impairment of goodwill, intangible or other long-lived assets;

- the risks associated with the use of trademarks licensed from and to third parties;

- our dependence on the strength of retail economies and vulnerabilities to a prolonged economic downturn;

- our ability to develop and introduce a continuing stream of new products to meet changing consumer preferences;

- disruptions in U.S., Euro zone and other international credit markets;

- foreign currency exchange rate fluctuations;

Table of Contents

- trade barriers, exchange controls, expropriations, and other risks associated with foreign operations;
- our debt leverage and the constraints it may impose on our cash resources and ability to operate our business;
- the costs, complexity and challenges of upgrading and managing our global information systems;
- the risks associated with information security breaches;
- the risks associated with tax audits and related disputes with taxing authorities;
- the risks of potential changes in laws, including tax laws, health insurance laws and new regulations related to conflict minerals along with the costs and complexities of compliance with such laws; and
- our ability to continue to avoid classification as a controlled foreign corporation.

We undertake no obligation to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), maintains disclosure controls and procedures as defined in Rules 13a-15(e) under the Exchange Act that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures. Because of inherent limitations, disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of disclosure controls and procedures are met.

Our management, including our CEO and CFO, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal quarter ended August 31, 2013. Based upon that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective at a reasonable level of assurance as of August 31, 2013, the end of the period covered by this quarterly report on Form 10-Q.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with the evaluation described above, we identified no change in our internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act that occurred during our fiscal quarter ended August 31, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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.

ITEM 1A. RISK FACTORS

The ownership of our common stock involves a number of risks and uncertainties. When evaluating the Company and our business before making an investment decision regarding our securities, potential investors should carefully consider the risk factors and uncertainties described in Part 1, Item 1A. Risk Factors of our annual report on Form 10-K for the fiscal year ended February 28, 2013. Since the filing of our annual report on Form 10-K, there have been no material changes in our risk factors from those disclosed therein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As of August 31, 2013, we were authorized by our Board of Directors to purchase up to 2,910,487 shares of common stock in the open market or through private transactions. Unless extended by our Board of Directors, the existing repurchase program ends on October 31, 2014. Our current equity compensation plans include provisions that allow for the net exercise of stock options by all plan participants. In a net exercise, any required payroll taxes, federal withholding taxes and exercise price of the shares due from the option holder can be paid for by having the option holder tender back to the Company a number of shares at fair value equal to the amounts due. Net exercises are accounted for by the Company as a purchase and retirement of shares.

During the fiscal quarter ended August 31, 2013, employees tendered 636 shares of common stock having an aggregate market value of $0.03 million, for an average price of $42.89 per share. We accounted for these activities as a purchase and retirement of shares.

The following schedule sets forth the purchase activity for the three month period ended August 31, 2013:

ISSUER PURCHASES OF EQUITY SECURITIES FOR THE THREE MONTHS ENDED AUGUST 31, 2013

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as	Maximum Number of Shares that May Yet Be

				Part of Publicly Announced Plans or Programs	Purchased Under the Plans or Programs
June 1 through June 30, 2013	187	$	40.28	187	2,910,936
July 1 through July 31, 2013	449		43.98	449	2,910,487
Aug 1 through Aug 31, 2013	-		-	-	2,910,487
Total	636	$	42.89	636	

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

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**	Joint certification of the Chief Executive Officer and 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.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

** Furnished herewith.

Table of Contents

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 10, 2013

/s/ Gerald J. Rubin
Gerald J. Rubin
Chairman of the Board, Chief Executive Officer and President

Date: October 10, 2013

/s/ Thomas J. Benson
Thomas J. Benson
Senior Vice President and Chief Financial Officer

Date: October 10, 2013

/s/ Richard J. Oppenheim
Richard J. Oppenheim
Financial Controller
(Principal Accounting Officer)

Table of Contents

Index to Exhibits

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