

Prestige Brands Holdings, Inc.
Form 10-Q
November 08, 2007

**U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2007

or

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

For the transition period from ____ to ____

Commission File Number: 001-32433

PRESTIGE BRANDS HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-1297589
(I.R.S. Employer Identification
No.)

90 North Broadway
Irvington, New York 10533
(Address of Principal Executive Offices, including zip code)

(914) 524-6810
(Registrant's telephone number, including area code)

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

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

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Large accelerated filer

Accelerated filer x

Non-accelerated filer

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

Yes No x

As of October 31, 2007, there were 50,003,321 shares of common stock outstanding.

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PART I**FINANCIAL INFORMATION****Item 1.****FINANCIAL STATEMENTS**

Prestige Brands Holdings, Inc.
Consolidated Statements of Operations
(Unaudited)

<i>(In thousands, except per share data)</i>	Three Months		Six Months	
	Ended September 30		Ended September 30	
	2007	2006	2007	2006
Revenues				
Net sales	\$ 86,840	\$ 84,033	\$ 164,881	\$ 159,600
Other revenues	497	518	1,067	874
Total revenues	87,337	84,551	165,948	160,474
Cost of Sales				
Costs of sales	42,770	41,259	80,092	77,584
Gross profit	44,567	43,292	85,856	82,890
Operating Expenses				
Advertising and promotion	11,017	9,455	18,803	16,857
General and administrative	10,184	7,259	17,830	13,693
Depreciation	129	219	253	439
Amortization of intangible assets	2,627	2,193	5,254	4,386
Total operating expenses	23,957	19,126	42,140	35,375
Operating income	20,610	24,166	43,716	47,515
Other income (expense)				
Interest income	173	403	360	588
Interest expense	(9,768)	(10,146)	(19,642)	(20,123)
Total other income (expense)	(9,595)	(9,743)	(19,282)	(19,535)
Income before provision for income taxes	11,015	14,423	24,434	27,980
Provision for income taxes	4,186	5,639	9,285	10,940
Net income	\$ 6,829	\$ 8,784	\$ 15,149	\$ 17,040
Basic earnings per share				
Basic earnings per share	\$ 0.14	\$ 0.18	\$ 0.30	\$ 0.35
Diluted earnings per share				
Diluted earnings per share	\$ 0.14	\$ 0.18	\$ 0.30	\$ 0.34
Weighted average shares outstanding:				
Basic	49,710	49,451	49,686	49,389
Diluted	50,046	49,994	50,042	49,991

See accompanying notes.

Prestige Brands Holdings, Inc.
Consolidated Balance Sheets
(Unaudited)

(In thousands)

	September 30, 2007	March 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 8,799	\$ 13,758
Accounts receivable	46,512	35,167
Inventories	27,783	30,173
Deferred income tax assets	3,337	2,735
Prepaid expenses and other current assets	3,628	1,935
Total current assets	90,059	83,768
Property and equipment		
Goodwill	1,391	1,449
Intangible assets	308,915	310,947
Other long-term assets	651,903	657,157
	8,310	10,095
Total Assets	\$ 1,060,578	\$ 1,063,416

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	\$ 21,318	\$ 19,303
Accrued interest payable	7,556	7,552
Other accrued liabilities	12,771	10,505
Current portion of long-term debt	3,550	3,550
Total current liabilities	45,195	40,910
Long-term debt		
Other long-term liabilities	433,563	459,800
Deferred income tax liabilities	2,801	2,801
	117,609	114,571
Total Liabilities	599,168	618,082

Commitments and Contingencies – Note 13**Stockholders' Equity**

Preferred stock - \$0.01 par value		
Authorized – 5,000 shares		
Issued and outstanding – None	--	--
Common stock - \$0.01 par value		
Authorized – 250,000 shares		
Issued – 50,060 shares	501	501
Additional paid-in capital	380,371	379,225
Treasury stock, at cost – 57 shares at September 30, 2007 and 55 shares at March 31, 2007	(44)	(40)
Accumulated other comprehensive income	98	313
Retained earnings	80,484	65,335
Total stockholders' equity	461,410	445,334

Total Liabilities and Stockholders' Equity	\$	1,060,578	\$	1,063,416
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See accompanying notes.

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Prestige Brands Holdings, Inc.
Consolidated Statement of Changes in Stockholders' Equity
and Comprehensive Income
Six Months Ended September 30, 2007
(Unaudited)

	<u>Common Stock</u>			<u>Treasury Stock</u>		Accumulated	Retained	Totals	
	Par		Additional	Shares		Other	Earnings		
	Shares		Paid-in	Amount		Comprehensive			
	Value		Capital			Income			
<i>(In thousands)</i>									
Balances - March 31, 2007	50,060	\$ 501	\$ 379,225	55	\$ (40)	\$ 313	\$ 65,335	\$ 445,334	
Stock-based compensation	--	--	1,146	--	--	--	--	1,146	
Purchase of common stock for treasury	--	--	--	2	(4)	--	--	(4)	
Components of comprehensive income:									
Net income	--	--	--	--	--	--	15,149	15,149	
Amortization of interest rate caps reclassified into earnings, net of income tax expense of \$139	--	--	--	--	--	218	--	218	
Unrealized loss on interest rate caps, net of income tax benefit of \$277	--	--	--	--	--	(433)	--	(433)	
Total comprehensive income	--	--	--	--	--	--	--	14,934	
Balances – September 30, 2007	50,060	\$ 501	\$ 380,371	57	\$ (44)	\$ 98	\$ 80,484	\$ 461,410	

See accompanying notes.

Prestige Brands Holdings, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

<i>(In thousands)</i>	Six Months Ended September 30	
	2007	2006
Operating Activities		
Net income	\$ 15,149	\$ 17,040
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,507	4,825
Deferred income taxes	4,622	6,197
Amortization of deferred financing costs	1,561	1,609
Stock-based compensation	1,146	224
Changes in operating assets and liabilities		
Accounts receivable	(11,345)	2,595
Inventories	2,390	5,202
Prepaid expenses and other current assets	(1,692)	(1,047)
Accounts payable	1,884	4,494
Income taxes payable	--	(1,731)
Accrued liabilities	2,270	3,326
Net cash provided by operating activities	21,492	42,734
Investing Activities		
Purchases of equipment	(194)	(313)
Purchase of business	(16)	(31,242)
Net cash used for investing activities	(210)	(31,555)
Financing Activities		
Repayment of long-term debt	(26,237)	(8,865)
Purchase of common stock for treasury	(4)	(6)
Net cash used for financing activities	(26,241)	(8,871)
Increase (decrease) in cash	(4,959)	2,308
Cash - beginning of period	13,758	8,200
Cash - end of period	\$ 8,799	\$ 10,508
Interest paid	\$ 18,078	\$ 18,306
Income taxes paid	\$ 5,664	\$ 6,287

See accompanying notes.

Prestige Brands Holdings, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Business and Basis of Presentation

Nature of Business

Prestige Brands Holdings, Inc. (referred to herein as the “Company” which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct or indirect wholly-owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter healthcare, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States, Canada and certain international markets. Prestige Brands Holdings, Inc. is a holding company with no assets or operations and is also the parent guarantor of the senior secured credit facility and the senior subordinated notes more fully described in Note 8 to the consolidated financial statements.

Basis of Presentation

The unaudited consolidated financial statements presented herein have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles (“GAAP”) for complete financial statements. All significant intercompany transactions and balances have been eliminated. In the opinion of management, the financial statements include all adjustments, consisting of normal recurring adjustments that are considered necessary for a fair presentation of the Company’s consolidated financial position, results of operations and cash flows for the interim periods. Operating results for the three and six month periods ended September 30, 2007 are not necessarily indicative of results that may be expected for the year ending March 31, 2008. This financial information should be read in conjunction with the Company’s financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended March 31, 2007.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Company’s knowledge of current events and actions that the Company may undertake in the future, actual results could differ materially from those estimates. As discussed below, the Company’s most significant estimates include those made in connection with the valuation of intangible assets, sales returns and allowances, trade promotional allowances and inventory obsolescence.

Cash and Cash Equivalents

The Company considers all short-term deposits and investments with original maturities of three months or less to be cash equivalents. Substantially all of the Company’s cash is held by one bank located in Wyoming. The Company does not believe that, as a result of this concentration, it is subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships.

Accounts Receivable

The Company extends non-interest bearing trade credit to its customers in the ordinary course of business. The Company maintains an allowance for doubtful accounts receivable based upon historical collection experience and expected collectibility of the accounts receivable. In an effort to reduce credit risk, the Company (i) has established credit limits for all of its customer relationships, (ii) performs ongoing credit evaluations of customers’ financial condition, (iii) monitors the payment history and aging of customers’ receivables, and (iv) monitors open orders

against an individual customer's outstanding receivable balance.

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Inventories

Inventories are stated at the lower of cost or fair value, where cost is determined by using the first-in, first-out method. The Company provides an allowance for slow moving and obsolete inventory, whereby it reduces inventories for the diminution of value, resulting from product obsolescence, damage or other issues affecting marketability, equal to the difference between the cost of the inventory and its estimated market value. Factors utilized in the determination of estimated market value include (i) current sales data and historical return rates, (ii) estimates of future demand, (iii) competitive pricing pressures, (iv) new product introductions, (v) product expiration dates, and (vi) component and packaging obsolescence.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method based on the following estimated useful lives:

	Years
Machinery	5
Computer equipment	3
Furniture and fixtures	7
Leasehold improvements	5

Expenditures for maintenance and repairs are charged to expense as incurred. When an asset is sold or otherwise disposed of, the cost and associated accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in the consolidated statement of operations.

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

Goodwill

The excess of the purchase price over the fair market value of assets acquired and liabilities assumed in purchase business combinations is classified as goodwill. In accordance with Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“Statement”) No. 142, “Goodwill and Other Intangible Assets,” the Company does not amortize goodwill, but performs impairment tests of the carrying value at least annually. The Company tests goodwill for impairment at the “brand” level which is one level below the operating segment level.

Intangible Assets

Intangible assets, which are composed primarily of trademarks, are stated at cost less accumulated amortization. For intangible assets with finite lives, amortization is computed on the straight-line method over estimated useful lives ranging from five to 20 years.

Indefinite lived intangible assets are tested for impairment at least annually, while intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

Deferred Financing Costs

The Company has incurred debt issuance costs in connection with its long-term debt. These costs are capitalized as deferred financing costs and amortized using the straight-line method, which approximates the effective interest method, over the term of the related debt.

Revenue Recognition

Revenues are recognized in accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin 104, “Revenue Recognition,” when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company has determined that the transfer of risk of loss occurs when product is received by the customer and, accordingly, recognizes revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on the Company’s historical experience.

As is customary in the consumer products industry, the Company participates in the promotional programs of its customers to enhance the sale of its products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. The Company estimates the cost of such promotional programs at their inception based on historical experience and current market conditions and reduces sales by such estimates. These promotional programs consist of direct to consumer incentives such as coupons and temporary price reductions, as well as incentives to the Company’s customers, such as slotting fees and cooperative advertising. Estimates of the costs of these promotional programs are based on (i) historical sales experience, (ii) the current offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. At the completion of the promotional program, the estimated amounts are adjusted to actual results.

Due to the nature of the consumer products industry, the Company is required to estimate future product returns. Accordingly, the Company records an estimate of product returns concurrent with recording sales which is made after analyzing (i) historical return rates, (ii) current economic trends, (iii) changes in customer demand, (iv) product acceptance, (v) seasonality of the Company’s product offerings, and (vi) the impact of changes in product formulation, packaging and advertising.

Costs of Sales

Costs of sales include product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were \$6.6 million and \$6.5 million for the three month periods ended September 30, 2007 and 2006, respectively, and \$12.2 million for each of the six month periods ended September 30, 2007 and 2006, respectively.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Slotting fees associated with products are recognized as a reduction of sales. Under slotting arrangements, the retailers allow the Company’s products to be placed on the stores’ shelves in exchange for such fees. Direct reimbursements of advertising costs are reflected as a reduction of advertising costs in the period earned.

Stock-based Compensation

During fiscal 2006, the Company adopted FASB, Statement No. 123(R), “Share-Based Payment” (“Statement No. 123(R)”) with the grants of restricted stock and options to purchase common stock to employees and directors in accordance with the provisions of the Company’s 2005 Long-Term Equity Incentive Plan (the “Plan”). Statement No. 123(R) requires the Company to measure the cost of services to be rendered based on the grant-date fair value of the equity award. Compensation expense is to be recognized over the period an employee is required to provide service in exchange for the award, generally referred to as the requisite service period, and is included as a component of general and administrative expenses. The Company recorded stock-based compensation costs of \$685,000 and \$1.1 million during the three and six month periods ended September 30, 2007, respectively. During the three and six month periods ended September 30, 2006, the Company recorded stock-based compensation costs of \$233,000 and \$224,000, respectively. During the three month period ended June 30, 2006, the Company recorded a net stock-based compensation credit of \$9,000 due to the reversal of stock-based compensation costs in the amount of \$142,000

associated with the departure of a former member of management.

Income Taxes

Income taxes are recorded in accordance with the provisions of FASB Statement No. 109, "Accounting for Income Taxes" ("Statement No. 109"). Pursuant to Statement No. 109, deferred tax assets and liabilities are

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determined based on the differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result, the Company has applied a more-likely-than-not recognition threshold for all tax uncertainties. FIN 48 allows the recognition of only those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the various taxing authorities. The adoption of FIN 48, effective April 1, 2007, did not result in a cumulative effect adjustment to the opening balance of retained earnings or adjustment to any of the components of assets, liabilities or equity in the consolidated balance sheet.

The Company is subject to federal and state taxation in the US, as well as in various foreign jurisdictions. The Company remains subject to examination by tax authorities for years after 2003.

The Company classifies penalties and interest related to unrecognized tax benefits as income tax expense in the Statement of Operations.

Derivative Instruments

FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("Statement No. 133"), requires companies to recognize derivative instruments as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

The Company has designated its derivative financial instruments as cash flow hedges because they hedge exposure to variability in expected future cash flows that are attributable to interest rate risk. For these hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instruments is recorded in results of operations immediately.

Earnings Per Share

Basic earnings per share is calculated based on income available to common stockholders and the weighted-average number of shares outstanding during the reporting period. Diluted earnings per share is calculated based on income available to common stockholders and the weighted-average number of common and potential common shares outstanding during the reporting period. Potential common shares, composed of the incremental common shares issuable upon the exercise of stock options, stock appreciation rights and unvested restricted shares, are included in the earnings per share calculation to the extent that they are dilutive.

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable and accounts payable at both September 30, 2007 and March 31, 2007 approximates fair value due to the short-term nature of these instruments. The carrying value of long-term debt at both September 30, 2007 and March 31, 2007 approximates fair value based on interest rates for instruments with similar terms and maturities.

Recently Issued Accounting Standards

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115” (“Statement No. 159”). Statement No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value.

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Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. Statement No. 159 is effective for the Company's interim financial statements issued after April 1, 2008. The Company is evaluating the impact that the adoption of Statement No. 159 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("Statement No. 157") to address inconsistencies in the definition and determination of fair value pursuant to GAAP. Statement No. 157 provides a single definition of fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements in an effort to increase comparability related to the recognition of market-based assets and liabilities and their impact on earnings. Statement No. 157 is effective for the Company's interim financial statements issued after April 1, 2008. The Company is evaluating the impact that the adoption of Statement No. 157 will have on its consolidated financial statements.

Management has reviewed and continues to monitor the actions of the various financial and regulatory reporting agencies and is currently not aware of any other pronouncement that could have a material impact on the Company's consolidated financial position, results of operations or cash flows.

2. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	September 30, 2007	March 31, 2007
Accounts receivable	\$ 48,679	\$ 35,274
Other receivables	1,286	1,681
	49,965	36,955
Less allowances for discounts, returns and uncollectible accounts	(3,453)	(1,788)
	\$ 46,512	\$ 35,167

3. Inventories

Inventories consist of the following (in thousands):

	September 30, 2007	March 31, 2007
Packaging and raw materials	\$ 2,281	\$ 2,842
Finished goods	25,502	27,331
	\$ 27,783	\$ 30,173

Inventories are shown net of allowances for obsolete and slow moving inventory of \$1.3 million and \$1.8 million at September 30, 2007 and March 31, 2007, respectively.

4. Property and Equipment

Property and equipment consist of the following (in thousands):

	September 30, 2007	March 31, 2007
Machinery	\$ 1,397	\$ 1,480
Computer equipment	477	566
Furniture and fixtures	205	247
Leasehold improvements	319	372
	2,398	2,665
Accumulated depreciation	(1,007)	(1,216)
	\$ 1,391	\$ 1,449

5. Goodwill

A reconciliation of the activity affecting goodwill by operating segment is as follows (in thousands):

	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Balance – March 31, 2007	\$ 235,647	\$ 72,549	\$ 2,751	\$ 310,947
Acquisition purchase price adjustments	(2,032)	--	--	(2,032)
Balance – September 30, 2007	\$ 233,615	\$ 72,549	\$ 2,751	\$ 308,915

6. Intangible Assets

A reconciliation of the activity affecting intangible assets is as follows (in thousands):

	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Carrying Amounts				
Balance – March 31, 2007	\$ 544,963	\$ 139,470	\$ 196	\$ 684,629
Additions	--	--	--	--
Balance – September 30, 2007	\$ 544,963	\$ 139,470	\$ 196	\$ 684,629
Accumulated Amortization				
Balance – March 31, 2007	\$ --	\$ 27,375	\$ 97	\$ 27,472
Additions	--	5,232	22	5,254

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Balance – September 30, 2007	\$	--	\$	32,607	\$	119	\$	32,726
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At September 30, 2007, intangible assets are expected to be amortized over a period of five to 30 years as follows (in thousands):

Year Ending September 30	
2008	\$ 10,507
2009	9,799
2010	9,071
2011	9,071
2012	9,071
Thereafter	59,421
	\$ 106,940

7. Other Accrued Liabilities

Other accrued liabilities consist of the following (in thousands):

	September	
	30,	March 31,
	2007	2007
Accrued marketing costs	\$ 7,820	\$ 5,687
Accrued payroll	3,100	3,721
Accrued commissions	357	335
Other	1,494	762
	\$ 12,771	\$ 10,505

8. Long-Term Debt

Long-term debt consists of the following (in thousands):

	September 30, 2007	March 31, 2007
Senior revolving credit facility (“Revolving Credit Facility”), which expires on April 6, 2009 and is available for maximum borrowings of up to \$60.0 million. The Revolving Credit Facility bears interest at the Company’s option at either the prime rate plus a variable margin or LIBOR plus a variable margin. The variable margins range from 0.75% to 2.50% and at September 30, 2007, the interest rate on the Revolving Credit Facility was 8.75% per annum. The Company is also required to pay a variable commitment fee on the unused portion of the Revolving Credit Facility. At September 30, 2007, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company’s assets.	\$ --	\$ --
Senior secured term loan facility (“Tranche B Term Loan Facility” and together with the Revolving Credit Facility, the “Senior Credit Facility”) that bears interest at the Company’s option at either the prime rate plus a margin of 1.25% or LIBOR plus a margin of 2.25%. At September 30, 2007, the average interest rate on the Tranche B Term Loan Facility was 7.74%. Principal payments of \$887,500 plus accrued interest are payable quarterly. At September 30, 2007, the Company may borrow up to a maximum amount of \$200.0 million under the Tranche B Term Loan Facility. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while any additional amounts borrowed will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company’s assets.	311,113	337,350
Senior Subordinated Notes that bear interest at 9.25% which is payable on April 15 th and October 15 th of each year. The Senior Subordinated Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior Subordinated Notes on or prior to April 15, 2008 at a redemption price equal to 100% plus a make-whole premium, and after April 15, 2008, at redemption prices set forth in the Indenture governing the Senior Subordinated Notes. The Senior Subordinated Notes are unconditionally guaranteed by Prestige Brands Holdings, Inc. and its domestic wholly-owned subsidiaries other than Prestige Brands, Inc., the issuer. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries.	126,000	126,000
	437,113	463,350
Current portion of long-term debt	(3,550)	(3,550)
	\$ 433,563	\$ 459,800

Effective as of December 19, 2006: (i) a Second Supplemental Indenture (“Second Supplemental Indenture”), and (ii) a Guaranty Supplement (“Indenture Guaranty Supplement”) were entered into with the trustee for the holders

of the Senior Subordinated Notes. The Second Supplemental Indenture supplements and amends the Indenture, dated as of April 6, 2004, as supplemented on October 6, 2004 (“Indenture”). Pursuant to the terms of the Second Supplemental Indenture and the Indenture Guaranty Supplement, the Company agreed to guaranty all of the obligations of Prestige Brands, Inc., an indirect wholly-owned subsidiary of the Company (“PBI”), set forth in the Indenture governing PBI’s Senior Subordinated Notes. The Second Supplemental Indenture also amended the covenant requiring Prestige Brands International, LLC (“Prestige Brands International”), an indirect wholly-owned subsidiary of the Company, to file periodic reports with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (“Exchange Act”). So long as the Company or any other guarantor is required to file periodic reports under Section 13 or 15(d) of the Exchange Act that are substantially the same as the periodic reports that Prestige Brands International would otherwise be required to file with the SEC pursuant to the Indenture, Prestige Brands International is not required to file such reports.

Also effective as of December 19, 2006, a Joinder Agreement (“Joinder Agreement”) and a Guaranty Supplement (“Credit Agreement Guaranty Supplement”) were entered into with the administrative agent for the lenders under the Senior Credit Facility. Pursuant to the terms of the Joinder Agreement and the Credit Agreement Guaranty Supplement, the Company agreed to become a party to the Pledge and Security Agreement (“Security Agreement”) and the Guaranty (“Credit Agreement Guaranty”), each dated as of April 6, 2004, by PBI and certain of its affiliates in favor of the lenders. The Security Agreement and the Credit Agreement Guaranty secure the performance by PBI of its obligations under the Credit Agreement, dated as of April 6, 2004, as amended (“Credit Agreement”), by granting security interests to PBI’s lenders in collateral owned by the Company and certain of its subsidiaries and providing guaranties of such obligations by certain of PBI’s affiliates.

The Senior Credit Facility contains various financial covenants, including provisions that require the Company to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios. The Senior Credit Facility and the Senior Subordinated Notes also contain provisions that restrict the Company from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchase of common shares outstanding, changes of control, incurrence of indebtedness, creation of liens, making of loans and transactions with affiliates. Additionally, the Senior Credit Facility and the Senior Subordinated Notes contain cross-default provisions whereby a default pursuant to the terms and conditions of either indebtedness will cause a default on the remaining indebtedness. At September 30, 2007, the Company was in compliance with its applicable financial and other covenants under the Senior Credit Facility and the Indenture.

Future principal payments required in accordance with the terms of the Senior Credit Facility and the Senior Subordinated Notes are as follows (in thousands):

<u>Year Ending September 30</u>	
2008	\$ 3,550
2009	3,550
2010	3,550
2011	300,463
2012	126,000
	\$ 437,113

In an effort to mitigate the impact of changing interest rates, the Company entered into interest rate cap agreements with various financial institutions. In June 2004, the Company purchased a 5% interest rate cap with a notional amount of \$20.0 million which expired in June 2006. In March 2005, the Company purchased interest rate cap agreements with a total notional amount of \$180.0 million and cap rates ranging from 3.25% to 3.75%. On May 31, 2006, an interest rate cap agreement with a notional amount of \$50.0 million and a 3.25% cap rate expired. Additionally, an interest rate cap agreement with a notional amount of \$80.0 million and a 3.50% cap rate expired on May 30, 2007. The remaining agreement, with a notional amount of \$50.0 million and a cap rate of 3.75%,

terminates on May 30, 2008. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair values of the interest rate cap agreements, which are included in other long-term assets, were \$486,000 and \$1.2 million at September 30, 2007 and March 31, 2007, respectively.

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9. Stockholders' Equity

The Company is authorized to issue 250.0 million shares of common stock, \$0.01 par value per share, and 5.0 million shares of preferred stock, \$0.01 par value per share. The Board of Directors may direct the issuance of the undesignated preferred stock in one or more series and determine preferences, privileges and restrictions thereof.

Each share of common stock has the right to one vote on all matters submitted to a vote of stockholders. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through September 30, 2007.

10. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands):

	Three Months Ended September 30		Six Months Ended September 30	
	2007	2006	2007	2006
Numerator				
Net income	\$ 6,829	\$ 8,784	\$ 15,149	\$ 17,040
Denominator				
Denominator for basic earnings per share – weighted average shares	49,710	49,451	49,686	49,389
Dilutive effect of unvested restricted common stock	336	543	356	602
Denominator for diluted earnings per share	50,046	49,994	50,042	49,991
Earnings per Common Share:				
Basic	\$ 0.14	\$ 0.18	\$ 0.30	\$ 0.35
Diluted	\$ 0.14	\$ 0.18	\$ 0.30	\$ 0.34

At September 30, 2007, 243,000 shares of restricted stock issued to management and employees prior to the Company's initial public offering are unvested and excluded from the calculation of basic earnings per share; however, such shares are included in the calculation of diluted earnings per share. At September 30, 2007, 160,000 shares of restricted stock granted to management, directors and employees, subject only to time vesting requirements, have been excluded from basic earnings per share; however, such shares are included in the calculation of diluted earnings per share. Additionally, 378,000 shares of restricted stock granted to management and employees, as well as 16,000 stock appreciation rights have been excluded from the calculation of both basic and diluted earnings per share since vesting of such shares is subject to contingencies, while options to purchase 255,000 shares of common stock have been excluded from diluted earnings per shares because their inclusion would be anti-dilutive.

At September 30, 2006, 522,000 shares of restricted stock issued to management and employees prior to the Company's initial public offering were unvested and excluded from the calculation of basic earnings per share; however, such shares are included in the calculation of diluted earnings per share. Additionally, at September 30, 2006, 278,000 shares of restricted stock granted to management and employees have been excluded from the calculation of both basic and diluted earnings per share since vesting of such shares is subject to contingencies.

11. Share-Based Compensation

In connection with the Company's initial public offering, the Board of Directors adopted the Plan which provides for the grant, to a maximum of 5.0 million shares, of stock options, restricted stock units, deferred stock units and other equity-based awards. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing services for the Company, are eligible for grants under the Plan. The Company believes that such awards better align the interests of its employees with those of its stockholders.

During 2006, the Company adopted Statement No. 123(R) with the initial grants of restricted stock and options to purchase common stock to employees and directors in accordance with the provisions of the Plan. During the six month period ended September 30, 2007, the Company recorded compensation costs and related tax benefits of \$1.1 million and \$418,000, respectively, while during the six month period ended September 30, 2006, the Company recorded compensation costs and related tax benefits of \$225,000 and \$88,000, respectively.

Restricted Shares

Restricted shares granted under the Plan generally vest in 3 years, contingent on attainment of Company performance goals, including both revenue and earnings per share growth targets, or time vesting, as determined by the Compensation Committee of the Board of Directors. Certain restricted share awards provide for accelerated vesting if there is a change of control. The fair value of nonvested restricted shares is determined as the closing price of the Company's common stock on the day preceding the grant date. The weighted-average grant-date fair value of restricted shares granted during 2007 was \$12.52.

A summary of the Company's restricted shares granted under the Plan is presented below:

Restricted Shares	Shares (000)	Weighted-Average Grant-Date Fair Value
Nonvested at March 31, 2006	198.0	\$ 12.32
Granted	156.5	9.83
Vested	(13.1)	10.67
Forfeited	(39.0)	12.82
Nonvested at September 30, 2006	302.4	\$ 11.04
Nonvested at March 31, 2007	294.4	\$ 11.05
Granted	292.0	12.52
Vested	(24.8)	10.09
Forfeited	(23.2)	11.39
Nonvested at September 30, 2007	538.4	\$ 11.88

Options

The Plan provides that the exercise price of the option granted shall be no less than the fair market value of the Company's common stock on the date the option is granted. Options granted have a term of no greater than 10 years from the date of grant and vest in accordance with a schedule determined at the time the option is granted, generally 3 years.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model ("Black-Scholes Model") that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's common stock and other factors, including the historical volatilities of comparable companies. The Company uses appropriate historical data, as well as current data, to estimate option exercise and employee termination behaviors. Employees that are expected to exhibit similar exercise or termination behaviors are grouped together for the purposes of valuation. The expected terms of the options granted are derived from management's estimates and information derived from the public filings of companies similar to the Company and represent the period of time that options granted are expected to be outstanding. The risk-free rate represents the yield on U.S. Treasury bonds with a maturity equal to the expected term of the granted option. The weighted-average grant-date fair value of the options granted during the six month period ended September 30, 2007 was \$5.30. There were no options granted during 2006.

	2007	2006
Expected volatility	33.2%	--
Expected dividends	--	--
Expected term in years	6.0	--
Risk-free rate	4.5%	--

A summary of option activity under the Plan is as follows:

Options	Shares (000)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at March 31, 2006	61.8	\$ 12.95	4.3
Granted	--	--	--
Exercised	--	--	--
Forfeited or expired	(61.8)	12.95	--
Outstanding at September 30, 2006	--	\$ --	--
Outstanding at March 31, 2007	--	\$ --	--
Granted	255.1	12.86	10.0
Exercised	--	--	--
Forfeited or expired	--	--	--
Outstanding at September 30, 2007	255.1	\$ 12.86	10.0
Exercisable at September 30, 2007	--	\$ --	--

Stock Appreciation Rights ("SARS")

The Plan provides that the issuance price of a SAR shall be no less than the market price of the Company's common stock on the date the SAR is granted. SARS may be granted with a term of no greater than 10 years from the date of grant and will vest in accordance with a schedule determined at the time the SAR is granted, generally 3 years. The

Board of Directors, in its sole discretion, may settle the Company's obligation to the executive in shares of the Company's common stock, cash, other securities of the Company or any combination thereof. The weighted-average grant date fair value of the SARS granted during the six month period ended September 30, 2006 was \$3.68. There were no SARS granted during the six month period ended September 30,

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2007. The fair value of each SAR award was estimated on the date of grant using the Black-Scholes Model using the assumptions noted in the following table.

	2007	2006
Expected volatility	--	50.0%
Expected dividends	--	--
Expected term in years	--	2.8
Risk-free rate	--	5.0%

A summary of SARS activity under the Plan is as follows:

SARS	Shares (000)	Grant Date Stock Price	Weighted- Average Remaining Contractual Term
Outstanding at March 31, 2006	--	\$ --	--
Granted	16.1	9.97	2.75
Forfeited or expired	--	--	--
Outstanding at September 30, 2006	16.1	\$ 9.97	2.5
Exercisable at September 30, 2006	--	\$ --	--
Outstanding at March 31, 2007	16.1	\$ 9.97	2.00
Granted	--	--	--
Forfeited or expired	--	--	--
Outstanding at September 30, 2007	16.1	\$ 9.97	1.50
Exercisable at September 30, 2007	--	\$ --	--

At September 30, 2007 and March 31, 2007, there were \$4.9 million and \$1.4 million, respectively, of unrecognized compensation costs related to nonvested share-based compensation arrangements under the Plan based on management's estimate of the shares that will ultimately vest. The Company expects to recognize such costs over the next 3.0 years. However, certain of the restricted shares vest upon the attainment of Company performance goals and if such goals are not met, no compensation costs would ultimately be recognized and any previously recognized compensation cost would be reversed. At September 30, 2007, there were 4.1 million shares available for issuance under the Plan.

12. Income Taxes

Income taxes are recorded in the Company's quarterly financial statements based on the Company's estimated annual effective income tax rate. The effective tax rates used in the calculation of income taxes were 38.0% and 39.1% for the periods ended September 30, 2007 and 2006, respectively. The reduction in the income tax rates results from the implementation of initiatives to obtain operational, as well as tax, efficiencies during the fiscal year ended March 31, 2007.

At September 30, 2007, Medtech Products Inc., a wholly-owned subsidiary of the Company, had a net operating loss carryforward of approximately \$2.6 million which may be used to offset future taxable income of the consolidated group and which begins to expire in 2020. The net operating loss carryforward is subject to an annual limitation as to usage under Internal Revenue Code Section 382 of approximately \$240,000.

13. Commitments and Contingencies

The legal proceedings in which we are involved have been disclosed previously in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007 and our Current Report on Form 8-K filed with the SEC on October 24, 2007. The following disclosure contains recent developments in our pending legal proceedings and should be read in conjunction with the legal proceedings disclosure contained in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007, Part II, Item 1 of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007 and our Current Report on Form 8-K filed with the SEC on October 24, 2007.

Securities Class Action Litigation

On September 4, 2007, the United States District Court for the Southern District of New York issued an Order certifying a class consisting of all persons who purchased the common stock of the Company pursuant to, or traceable to, the Company's initial public offering on or about February 9, 2005 through November 15, 2005 and were damaged thereby. The Company's management continues to believe that the remaining claims in the case are legally deficient and that it has meritorious defenses to the claims that remain. The Company intends to vigorously defend against the claims remaining in the case; however, the Company cannot reasonably estimate the potential range of loss, if any.

OraSure Technologies Arbitration

At the end of August 2007, the Company and OraSure Technologies, Inc. ("OraSure") participated in an arbitration hearing at which each party presented its case to the arbitration panel. On October 22, 2007, the Company received notification from the arbitrators that they had issued a Partial Final Award (the "Award") in the pending arbitration with OraSure. The arbitrators acknowledged that there was a technical breach of the non-compete clause in the Distribution Agreement between the parties but OraSure's proof of damages was speculative and not supported by credible evidence. Therefore, the arbitrators awarded nominal damages to OraSure in the amount of One Dollar (\$1.00). In addition, the arbitrators awarded to OraSure counsel fees and arbitrator compensation in an amount to be determined pursuant to further proceedings. The Company will vigorously contest the award of fees to OraSure as the Company believes that OraSure should only be entitled to a modest award in light of the arbitrators' rejection of OraSure's asserted damages and claims beyond the One Dollar (\$1.00) nominal award.

The arbitration panel also dismissed with prejudice OraSure's remaining claims for breach of the Distribution Agreement, OraSure's request for injunctive relief and the Company's counterclaims, respectively. Furthermore, the arbitrators confirmed the Company's position that the Distribution Agreement will terminate on December 31, 2007. The Company does not expect any interruptions in supply of its Compound W Freeze Off® branded cryosurgical wart remover as it transitions to a new supplier after December 31, 2007.

DenTek Oral Care, Inc. Litigation

In April 2007, the Company filed a lawsuit in the U.S. District Court in the Southern District of New York against DenTek Oral Care, Inc. ("DenTek") alleging (i) infringement of intellectual property associated with The Doctor's® NightGuard™ dental protector which is used for the protection of teeth from nighttime teeth grinding; and (ii) the violation of unfair competition and consumer protection laws. On October 4, 2007, the Company filed a Second Amended Complaint in which it named Kelly M. Kaplan, Raymond Duane and C.D.S. Associates, Inc. as additional defendants in the action against DenTek and added other claims to the previously filed complaint. Ms. Kaplan and Mr. Duane were formerly employed by the Company and C.D.S. Associates, Inc. is a corporation controlled by Mr. Duane. In the Second Amended Complaint, the Company has alleged patent, trademark and copyright infringement, unfair competition, unjust enrichment, violation of New York's Consumer Protection Act, breach of contract, tortious interference with contractual and business relations, civil conspiracy and trade secret misappropriation. On October 19, 2007, the Company filed a motion for preliminary injunction with the Court in which the Company has asked the Court to enjoin the defendants from (i) continuing to improperly use the Company's trade secrets; (ii) continuing to breach any contractual agreements with the Company; and (iii) marketing and selling any dental protector products or other products in which Ray Duane or Kelly Kaplan has had any involvement or provided any assistance to

DenTek. A hearing date for the motion for preliminary injunction has not yet been set by the Court. Discovery requests have been served by the parties and discovery is ongoing.

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In addition to the matters described above, the Company is involved from time to time in other routine legal matters and other claims incidental to its business. The Company reviews outstanding claims and proceedings internally and with external counsel as necessary to assess probability and amount of potential loss. These assessments are re-evaluated at each reporting period and as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under GAAP to establish a litigation reserve until the loss is both probable and estimable, in some cases there may be insufficient time to establish a reserve prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement). The Company believes the resolution of routine matters and other incidental claims, taking into account reserves and insurance, will not have a material adverse effect on its business, financial condition or results from operations.

Lease Commitments

The Company has operating leases for office facilities and equipment in New York, New Jersey and Wyoming, which expire at various dates through 2011.

The following summarizes future minimum lease payments for the Company's operating leases (in thousands):

	Facilities	Equipment	Total
Year Ending September 30,			
2008	\$ 650	\$ 122	\$ 772
2009	362	98	460
2010	--	67	67
2011	--	4	4
	\$ 1,012	\$ 291	\$ 1,303

Rent expense for the three month periods ended September 30, 2007 and 2006 was \$145,000 and \$136,000, respectively; while during the six month periods ended September 30, 2007 and 2006, rent expense was \$298,000 and \$275,000, respectively.

14. Concentrations of Risk

The Company's sales are concentrated in the areas of over-the-counter healthcare, household cleaning and personal care products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During the three and six month periods ended September 30, 2007 approximately 56.4% and 56.5%, respectively, of the Company's total sales were derived from its four major brands, while during the three and six month periods ended September 30, 2006, approximately 61.1% and 60.2%, respectively, of the Company's total sales were derived from these four major brands. During the three and six month periods ended September 30, 2007, approximately 22.8% and 23.8%, respectively, of the Company's sales were made to one customer, while during the three and six month periods ended September 30, 2006, 24.1% and 24.6% of sales were to this customer. At September 30, 2007, approximately 19.5% of accounts receivable were owed by the same customer.

The Company manages product distribution in the continental United States through a main distribution center in St. Louis, Missouri. A serious disruption, such as a flood or fire, to the main distribution center could damage the Company's inventories and could materially impair the Company's ability to distribute its products to customers in a timely manner or at a reasonable cost. The Company could incur significantly higher costs and experience longer lead times associated with the distribution of its products to its customers during the time that it takes the Company to reopen or replace its distribution center. As a result, any such disruption could have a material adverse affect on the Company's sales and profitability.

The Company has relationships with over 40 third-party manufacturers. Of those, the top 10 manufacturers produced items that accounted for approximately 79% of the Company's gross sales during the six months ended September 30, 2007. The Company does not have long-term contracts with 4 of these manufacturers and certain manufacturers of various smaller brands, which collectively, represented approximately 35% of the Company's gross sales for 2007. The lack of manufacturing agreements for these products exposes the Company to the risk that a manufacturer could stop producing the Company's products at any time, for any reason or fail to provide the Company with the level of products the Company needs to meet its customers' demands. Without adequate supplies of merchandise to sell to the Company's customers, sales would decrease materially and the Company's business would suffer.

15. Business Segments

Segment information has been prepared in accordance with FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's operating and reportable segments consist of (i) Over-the-Counter Healthcare, (ii) Household Cleaning and (iii) Personal Care.

There were no inter-segment sales or transfers during any of the periods presented. The Company evaluates the performance of its operating segments and allocates resources to them based primarily on contribution margin.

The table below summarizes information about the Company's operating and reportable segments (in thousands).

	Three Months Ended September 30, 2007			
	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Net sales	\$ 50,003	30,925	\$ 5,912	\$ 86,840
Other revenues	--	497	--	497
Total revenues	50,003	31,422	5,912	87,337
Cost of sales	19,688	19,587	3,495	42,770
Gross profit	30,315	11,835	2,417	44,567
Advertising and promotion	8,154	2,575	288	11,017
Contribution margin	\$ 22,161	\$ 9,260	\$ 2,129	33,550
Other operating expenses				12,940
Operating income				20,610
Other (income) expense				9,595
Provision for income taxes				4,186
Net income				\$ 6,829

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Six Months Ended September 30, 2007				
	Over-the-Counter	Household	Personal	
	Healthcare	Cleaning	Care	Consolidated
Net sales	\$ 92,429	\$ 60,270	\$ 12,182	\$ 164,881
Other revenues	--	1,039	28	1,067
Total revenues	92,429	61,309	12,210	165,948
Cost of sales	35,074	37,980	7,038	80,092
Gross profit	57,355	23,329	5,172	85,856
Advertising and promotion	14,035	4,203	565	18,803
Contribution margin	\$ 43,320	\$ 19,126	\$ 4,607	67,053
Other operating expenses				23,337
Operating income				43,716
Other (income) expense				19,282
Provision for income taxes				9,285
Net income				\$ 15,149

Three Months Ended September 30, 2006				
	Over-the-Counter	Household	Personal	
	Healthcare	Cleaning	Care	Consolidated
Net sales	\$ 46,255	\$ 30,732	\$ 7,046	\$ 84,033
Other revenues	--	518	--	518
Total revenues	46,255	31,250	7,046	84,551
Cost of sales	18,001	18,941	4,317	41,259
Gross profit	28,254	12,309	2,729	43,292
Advertising and promotion	7,058	2,020	377	9,455
Contribution margin	\$ 21,196	\$ 10,289	\$ 2,352	33,837
Other operating expenses				9,671
Operating income				24,166
Other (income) expense				9,743
Provision for income taxes				