Prestige Brands Holdings, Inc.
Form 10-Q
November 09, 2006

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

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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

For the transition period from ____ to _____

PRESTIGE BRANDS HOLDINGS, INC.

Delaware	**20-1297589**	**001-32433**
(State of Incorporation)	(I.R.S. Employer Identification No.)	(Commission File Number)

PRESTIGE BRANDS INTERNATIONAL, LLC

Delaware	**20-0941337**	**333-117152-18**
(State of Incorporation)	(I.R.S. Employer Identification No.)	(Commission File Number)

(Exact name of Registrants as specified in their charters)

90 North Broadway **Irvington, New York 10533**	**(914) 524-6810**
(Address of Registrants' Principal Executive Offices)	(Registrants' telephone number, including area code)

This Quarterly Report on Form 10-Q is a combined quarterly report being filed separately by Prestige Brands Holdings, Inc. ("PBH") and Prestige Brands International, LLC ("PBI"). PBI, an indirect wholly-owned subsidiary of PBH, is an indirect parent company of Prestige Brands, Inc., the issuer of our 9¼% senior subordinated notes due 2012, and the parent guarantor of such notes. As the indirect holding company of PBI, PBH does not conduct ongoing business operations. As a result, the financial information for PBH and PBI are identical for the purposes of the discussion of operating results in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Unless otherwise indicated, we have presented information throughout this Form 10-Q for PBH and its consolidated subsidiaries, including PBI. The information contained herein relating to each individual Registrant is filed by such Registrant on its own behalf. Neither Registrant makes any representation as to information relating to

the other Registrant. PBI meets the conditions set forth in general instructions (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Prestige Brands Holdings, Inc. Yes [ ] No x
Prestige Brands International, LLC Yes [x] No [ ]

Indicate by check mark whether the Registrants (1) have 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 Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether each Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

	Large Accelerated Filer	**Accelerated Filer**	**Non Accelerated Filer**
Prestige Brands Holdings, Inc.		X	
Prestige Brands International, LLC			X

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12 b-2 of the Exchange Act). Yes [ ] No x

As of November 8, 2006, PBH had 50,007,589 shares of common stock outstanding. As of such date, Prestige International Holdings, LLC, a wholly-owned subsidiary of PBH, owned 100% of the uncertificated ownership interests of PBI.

Prestige Brands Holdings, Inc.
Form 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30		Six Months Ended September 30	
(In thousands, except per share data)	2006	2005	2006	2005
Revenues				
Net sales	$ 84,033	$ 73,320	$ 159,600	$ 136,748
Other revenues	518	25	874	50
Total revenues	84,551	73,345	160,474	136,798
Cost of Sales				
Costs of sales	41,259	35,549	77,584	64,498
Gross profit	43,292	37,796	82,890	72,300
Operating Expenses				
Advertising and promotion	9,455	10,217	16,857	18,922
General and administrative	7,259	4,117	13,693	9,023
Depreciation	219	487	439	975
Amortization of intangible assets	2,193	2,148	4,386	4,296
Total operating expenses	19,126	16,969	35,375	33,216
Operating income	24,166	20,827	47,515	39,084
Other income (expense)				
Interest income	403	226	588	307
Interest expense	(10,146)	(8,897)	(20,123)	(17,488)
Total other income (expense)	(9,743)	(8,671)	(19,535)	(17,181)
Income before provision for income taxes	14,423	12,156	27,980	21,903
Provision for income taxes	5,639	4,782	10,940	8,600
Net income	$ 8,784	$ 7,374	$ 17,040	$ 13,303
Basic earnings per share	$ 0.18	$ 0.15	$ 0.35	$ 0.27
Diluted earnings per share	$ 0.18	$ 0.15	$ 0.34	$ 0.27
Weighted average shares outstanding:				
Basic	49,451	48,791	49,389	48,757
Diluted	49,994	49,949	49,991	49,932

See accompanying notes.

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

(In thousands)	September 30, 2006	March 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 10,508	$ 8,200
Accounts receivable	37,447	40,042
Inventories	29,272	33,841
Deferred income tax assets	2,405	3,227
Prepaid expenses and other current assets	1,748	701
Total current assets	81,380	86,011
Property and equipment	1,527	1,653
Goodwill	302,786	297,935
Intangible assets	662,411	637,197
Other long-term assets	13,694	15,849
Total Assets	$ 1,061,798	$ 1,038,645
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 22,584	$ 18,065
Accrued interest payable	7,773	7,563
Income taxes payable	64	1,795
Other accrued liabilities	8,714	4,582
Current portion of long-term debt	3,730	3,730
Total current liabilities	42,865	35,735
Long-term debt	486,035	494,900
Other accrued liabilities	2,801	--
Deferred income tax liabilities	103,954	98,603
Total Liabilities	635,655	629,238
Commitments and Contingencies - Note 14		
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 at September 30, 2006 and 50,056 shares at March 31, 2006	501	501
Additional paid-in capital	378,794	378,570
Treasury stock, at cost - 52 shares at September 30, 2006 and 18 shares at March 31, 2006	(36)	(30)
Accumulated other comprehensive income	587	1,109

Retained earnings		46,297		29,257
Total stockholders’ equity		426,143		409,407
Total Liabilities and Stockholders’ Equity	$	1,061,798	$	1,038,645

See accompanying notes.

Prestige Brands Holdings, Inc.
Consolidated Statement of Changes in Stockholders' Equity
and Comprehensive Income
Six Months Ended September 30, 2006
(Unaudited)

(In thousands)	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Income	Retained Earnings	Totals
Balances - March 31, 2006	50,056	$ 501	$ 378,570	18	$ (30)	$ 1,109	$ 29,257	$ 409,407
Stock-based compensation	4		224					224
Purchase of common stock for treasury				34	(6)			(6)
Components of comprehensive income								
Net income							17,040	17,040
Amortization of interest rate caps						535		535
Unrealized loss on interest rate caps, net of income tax benefit of $423						(1,057)		(1,057)
Total comprehensive income								16,518
Balances - September 30, 2006	50,060	$ 501	$ 378,794	52	$ (36)	$ 587	$ 46,297	$ 426,143

See accompanying notes.

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

(In thousands)	**Six Months Ended September 30 2006**	**2005**
Operating Activities		
Net income	$ 17,040	$ 13,303
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,825	5,271
Deferred income taxes	6,197	7,961
Amortization of deferred financing costs	1,609	1,136
Stock-based compensation	224	110
Changes in operating assets and liabilities		
Accounts receivable	2,595	3,366
Inventories	5,202	(8,054)
Prepaid expenses and other current assets	(1,047)	(104)
Accounts payable	4,494	1,020
Income taxes payable	(1,731)	--
Accrued liabilities	3,326	521
Net cash provided by operating activities	42,734	24,530
Investing Activities		
Purchases of equipment	(313)	(297)
Purchase of business	(31,242)	--
Net cash used for investing activities	(31,555)	(297)
Financing Activities		
Repayment of long-term debt	(8,865)	(1,865)
Payment of deferred financing costs	--	(33)
Purchase of common stock for treasury	(6)	(21)
Additional costs associated with initial public offering	--	(63)
Net cash used for financing activities	(8,871)	(1,982)
Increase in cash	2,308	22,251
Cash - beginning of period	8,200	5,334
Cash - end of period	$ 10,508	$ 27,585
Supplemental Cash Flow Information		
Fair value of assets acquired	$ 35,068	$ --
Fair value of liabilities assumed	(3,826)	--
Cash paid to purchase business	$ 31,242	$ --
Interest paid	$ 18,306	$ 16,408
Income taxes paid	$ 6,287	$ 565

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. and its subsidiaries (the "Company") are engaged in the marketing, sales and distribution of over-the-counter drug, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States and Canada.

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 generally accepted accounting principles for complete financial statements. 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 financial position, results of operations and cash flows for the interim periods. Operating results for the three and six month periods ended September 30, 2006 are not necessarily indicative of results that may be expected for the year ending March 31, 2007. 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, 2006.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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.

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 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 30 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 effective interest method over the term of the related debt.

Revenue Recognition
Revenues are recognized in accordance with Securities and Exchange Commission 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 generally 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 $6.5 million and $6.7 million for the three month periods ended September 30, 2006 and 2005, respectively, and $12.2 million for each of the six month periods ended September 30, 2006 and 2005.

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

The Company adopted FASB, Statement No. 123(R), "Share-Based Payment" ("Statement No. 123(R)"), effective April 1, 2005, 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. The Company recorded non-cash compensation expense of $233,000 during the three month period ended September 30, 2006, and net non-cash compensation expense of $224,000 for the six months ended September 30, 2006. During the three month period ended June 30, 2006, the Company recorded a net non-cash compensation credit of $9,000 as a result of the reversal of compensation charges in the amount of $142,000 associated with the departure of a former member of management. The Company recorded non-cash compensation expense of $110,000 during the three and six month periods ended September 30, 2005.

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 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.

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 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 September 30, 2006 and March 31, 2006 approximates fair value due to the short-term nature of these instruments. The carrying value of long-term debt at September 30, 2006 and March 31, 2006 approximates fair value based on interest rates for instruments with similar terms and maturities.

Recently Issued Accounting Standards

In November 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs” (“Statement No. 151”). Statement No. 151 amended the guidance in Accounting Research Bulletin No. 43, Chapter 4, “Inventory Pricing”, and requires the exclusion of certain costs, such as abnormal amounts of freight, handling costs and manufacturing overhead, from inventories. Additionally, Statement No. 151 requires the allocation of fixed production overhead to inventory based on normal capacity of the production facilities. The provisions of Statement No. 151 are effective for costs incurred during fiscal years beginning after September 15, 2005. The adoption of Statement No. 151 did not have a material impact on the Company’s financial condition, results of operations or cash flows for the three and six month periods ended September 30, 2006.

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 FASB Statement 109. FIN 48 is effective for fiscal years beginning after December 15, 2006, and 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. While the Company has not completed a comprehensive analysis of FIN 48, the adoption of FIN 48 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 generally accepted accounting principles (“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 interim financial statements issued during the fiscal year beginning after November 15, 2007.

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

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2. Acquisition of Wartner USA B.V.

On September 21, 2006, the Company completed the acquisition of the ownership interests of Wartner USA B.V. ("Wartner"), the owner and marketer of the Wartner® brand of over-the-counter wart treatment products. The Company expects that the Wartner brand, which is the #3 brand in the US over-the-counter wart treatment category, will enhance the Company's leadership in the category. Additionally, the Company believes that the brand will benefit from a targeted advertising and marketing program, as well as the Company's business model of outsourcing manufacturing and the elimination of redundant operations. The results from operations of the Wartner® brand were included within the Company's consolidated financial statements as a component of the over-the-counter segment commencing September 21, 2006.

The purchase price of the ownership interests was approximately $35.1 million, including fees and expenses of the acquisition of $216,000 and the assumption of approximately $5.0 million of contingent payments, with an estimated fair value of $3.8 million, owed to the former owner of Wartner through 2011. The Company funded the cash acquisition price from operating cash flows.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. The Company has obtained independent valuations of certain tangible and intangible assets; however, the final purchase price will not be determined until all preliminary valuations have been finalized. Consequently, the allocation of the purchase price is subject to refinement.

The preliminary fair values assigned to the net assets and liabilities acquired consist of the following:

(In thousands)		
Inventory	$	769
Intangible assets		29,600
Goodwill		4,699
Accrued liabilities		(3,826)
	$	31,242

The amount allocated to intangible assets of $29.6 million includes $17.8 million related to the Wartner® brand trademark which the Company estimates to have a useful life of 20 years, as well as $11.8 million related to a patent estimated to have a useful life of 14 years. Goodwill resulting from this transaction was $4.7 million. As discussed above, this recorded amount is subject to change as additional information becomes available; however, it is estimated that such amount will be fully deductible for income tax purposes.

The following table sets forth the unaudited results of the Company's operations on a pro forma basis as if the acquisition of Wartner had been completed on April 1, 2005. The pro forma amounts for the three and six month periods ended September 30, 2005 include the pro forma results from operations of Dental Concepts, LLC, which was acquired in November 2005, as if the acquisition of Dental Concepts had been completed on April 1, 2005. The pro forma financial information is not necessarily indicative of the operating results that the combined entities would have achieved had the acquisition been consummated on April 1, 2005, nor is it necessarily

indicative of the operating results that may be expected for the year ending March 31, 2007.

(In thousands, except per share data)	Three Months Ended September 30 2006	2005	Six Months Ended September 2006	2005
Revenues	$ 88,096	$ 80,463	$ 167,943	$ 150,585
Income before provision for income taxes	$ 14,866	$ 12,300	$ 28,143	$ 22,000
Net income	$ 9,055	$ 7,442	$ 17,140	$ 13,362
Basic earnings per share	$ 0.18	$ 0.15	$ 0.35	$ 0.27
Diluted earnings per share	$ 0.18	$ 0.15	$ 0.34	$ 0.27
Weighted average shares outstanding:				
Basic	49,451	48,791	49,389	48,757
Diluted	49,994	49,949	49,991	49,932

3. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	September 30, 2006	March 31, 2006
Accounts receivable	$ 37,539	$ 40,140
Other receivables	1,553	1,870
	39,092	42,010
Less allowances for discounts, returns and uncollectible accounts	(1,645)	(1,968)
	$ 37,447	$ 40,042

4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2006	March 31, 2006
Packaging and raw materials	$ 2,842	$ 3,278
Finished goods	26,430	30,563
	$ 29,272	$ 33,841

Inventories are shown net of allowances for obsolete and slow moving inventory of $1.5 million and $1.0 million at September 30, 2006 and March 31, 2006, respectively.

5. Property and Equipment

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

	September 30, 2006	March 31, 2006
Machinery	$ 3,942	$ 3,722
Computer equipment	852	987
Furniture and fixtures	267	303
Leasehold improvements	340	340
	5,401	5,352
Accumulated depreciation	(3,874)	(3,699)
	$ 1,527	$ 1,653

6. Goodwill

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

	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Balance - March 31, 2006	$ 222,635	$ 72,549	$ 2,751	$ 297,935
Additions	4,851	--	--	4,851
Balance - September 30, 2006	$ 227,486	$ 72,549	$ 2,751	$ 302,786

At September 30, 2006, approximately $33.1 million of the Company's goodwill is deductible for income tax purposes.

7. Intangible Assets

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

	Indefinite Lived Intangibles	Finite Lived Intangibles	Total
Carrying Amounts			
Balance - March 31, 2006	$ 544,963	$ 110,066	$ 655,029
Additions	--	29,600	29,600
Balance - September 30, 2006	$ 544,963	$ 139,666	$ 684,629
Accumulated Amortization			
Balance - March 31, 2006	$ --	$ 17,832	$ 17,832

Amortization	--	4,386	4,386
Balance - September 30, 2006	$ --	$ 22,218	$ 22,218

At September 30, 2006, intangible assets are expected to be amortized over a period of five to 30 years as follows (in thousands):

Year Ending September 30		
2007	$	10,507
2008		10,507
2009		10,502
2010		9,086
2011		9,071
Thereafter		67,775
	$	117,448

8. Other Accrued Liabilities

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

		September 30, 2006		**March 31, 2006**
Accrued marketing costs	$	4,989	$	2,513
Accrued payroll		1,835		813
Accrued commissions		275		248
Other		1,615		1,008
	$	8,714	$	4,582

9. Long-Term Debt

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

	September 30, 2006	March 31, 2006
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, 2006, the interest rate on the Revolving Credit Facility was 9.5% 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, 2006, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets.	$ --	$ 7,000
Senior secured term loan facility ("Tranche B Term Loan 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, 2006, the weighted average applicable interest rate on the Tranche B Term Loan Facility was 7.26%. Principal payments of $933,000 and interest are payable quarterly. In February 2005, the Tranche B Term Loan Facility was amended to increase the additional amount available thereunder by $50.0 million to $200.0 million, all of which is available at September 30, 2006. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while amounts borrowed pursuant to the amendment will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets.	363,765	365,630
Senior Subordinated Notes ("Senior Notes") that bear interest at 9.25% which is payable on April 15th and October 15th of each year. The Senior Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior 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 Notes. The Senior Notes are unconditionally guaranteed by Prestige Brands International, LLC ("Prestige International"), a wholly-owned subsidiary of Prestige Brands Holdings, Inc., and Prestige International's 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
	489,765	498,630
Current portion of long-term debt	(3,730)	(3,730)
	$ 486,035	$ 494,900

The Revolving Credit Facility and the Tranche B Term Loan Facility (together the "Senior Credit Facility") contain 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 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 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. The Company was in compliance with its applicable financial and restrictive covenants under the Senior Credit Facility and the indenture governing the Senior Notes at September 30, 2006.

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

Year Ending September 30,		
2007	$	3,730
2008		3,730
2009		3,730
2010		3,730
2011		348,845
Thereafter		126,000
	$	489,765

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. The remaining agreements terminate on May 30, 2007 and 2008 as to notional amounts of $80.0 million and $50.0 million, respectively. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair value of the interest rate cap agreements, which is included in other long-term assets, was $2.2 million and $3.3 million at September 30, 2006 and March 31, 2006, respectively.

10. 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, 2006.

11. Earnings Per Share

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

	Three Months Ended September 30		Six Months Ended September 30	
	2006	2005	2006	2005
Numerator				
Net income	$ 8,784	$ 7,374	$ 17,040	$ 13,303
Denominator				
Denominator for basic earnings per share - weighted average shares	49,451	48,791	49,389	48,757
Dilutive effect of unvested restricted common stock	543	1,158	602	1,175
Denominator for diluted earnings per share	49,994	49,949	49,991	49,932
Earnings per Common Share:				
Basic	$ 0.18	$ 0.15	$ 0.35	$ 0.27
Diluted	$ 0.18	$ 0.15	$ 0.34	$ 0.27

At September 30, 2006, 522,000 shares of restricted stock issued to officers, directors and employees were unvested, and were therefore, excluded from the calculation of basic earnings per share for the period ended September 30, 2006. However, such shares are included in the calculation of diluted earnings per share. An additional 278,000 shares of restricted stock granted to officers 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 which have not been met as of September 30, 2006. At September 30, 2005, 1.1 million shares of restricted stock issued to officers, were unvested and were therefore, excluded from the calculation of basic earnings per share for the period ended September 30, 2005.

12. Stock-Based Compensation

In connection with the Company's February 2005 initial public offering, the Board of Directors adopted the Plan which provides for the grant, up to a maximum of 5.0 million shares, of stock options, restricted stock, 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.

Restricted Shares

Restricted shares granted under the Plan generally vest in 3 to 5 years, contingent on attainment of Company performance goals, including both revenue and earnings per share growth targets. 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. During the three month period ended September 30, 2006, the Company granted awards aggregating 156,500 shares of restricted stock

with an estimated fair value of $1.3 million.

Performance Shares
On the vesting date, the recipient of performance shares will receive the difference between the closing price of the Company's common stock on such date and the grant date price, times the number of performance shares underlying the grant. These awards may be settled in cash, common stock or some combination thereof at the option of the Company. During the three month period ended September 30, 2006, the Company granted awards aggregating 16,100 performance shares with an estimated fair value of $60,000.

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 to 5 years. Certain option awards provide for accelerated vesting if there is a change in control. There were no option awards during the three and six month periods ended September 30, 2006.

The fair value of option and performance share awards is estimated on the date of grant using the Black-Scholes Option Pricing Model. As of September 30, 2006, there was approximately $1.8 million of total unrecognized compensation cost 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 4.0 years. However, the restricted shares vest upon the attainment of Company performance goals; if such goals are not met, no compensation cost would ultimately be recognized and any previously recognized compensation cost would be reversed. At September 30, 2006, there were 4.7 million shares available for issuance under the Plan.

13. 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 rates used in the calculation of income taxes were 39.1% for three and six month periods ended September 30, 2006, and 39.3% for the three and six month periods ended September 30, 2005.

14. Commitments and Contingencies

The Company and certain of its officers and directors are defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Southern District of New York (the "Consolidated Action"). The first of the six consolidated cases was filed on August 3, 2005. Plaintiffs purport to represent a class of stockholders of the Company who purchased shares between February 9, 2005 through November 15, 2005. Plaintiffs also name as defendants the underwriters in the Company's initial public offering and a private equity fund that was a selling stockholder in the offering. The District Court has appointed a Lead Plaintiff. On December 23, 2005, the Lead Plaintiff filed a Consolidated Class Action Complaint, which asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934. The Lead Plaintiff generally alleged that the Company issued a series of materially false and misleading statements in connection with its initial public offering and thereafter in regard to the following areas: the accounting issues described in the Company's press release issued on or about November 15, 2005; and the alleged failure to disclose that demand for certain of the Company's products was declining and that the Company was planning to withdraw several products from the market. Plaintiffs seek an unspecified amount of damages. The Company filed a motion to dismiss the Consolidated Class Action Complaint in February 2006. On July 10, 2006, the Court dismissed all claims against the Company and the individual defendants arising under the Securities Exchange Act of 1934. The Company's management believes the remaining claims are legally deficient and subject to meritorious defenses. The Company intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

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On September 6, 2005, another putative securities class action lawsuit substantially similar to the initially-filed complaints in the Consolidated Action described above was filed against the same defendants in the Circuit Court of Cook County, Illinois (the “Chicago Action”). In light of the first-filed Consolidated Action, proceedings in the Chicago Action were stayed until a ruling on defendants’ anticipated motions to dismiss the consolidated complaint in the Consolidated Action. Subsequent to the Court's decision on the motions to dismiss in the Consolidated Action, on August 11, 2006, the Plaintiffs in the Chicago Action agreed to dismiss the Chicago Action.

On May 23, 2006, Similasan Corporation filed a lawsuit against the Company in the United States District Court for the District of Colorado in which Similasan alleged false designation of origin, trademark and trade dress infringement, and deceptive trade practices by the Company related to *Murine* for Allergy Eye Relief, *Murine* for Tired Eye Relief and *Murine* for Earache Relief, as applicable. Similasan has requested injunctive relief, an accounting of profits and damages and litigation costs and attorneys’ fees. The Company has filed an answer to the complaint with a potentially dispositive motion. In addition to the lawsuit filed by Similasan in the U.S. District Court for the District of Colorado, the Company also received a cease and desist letter from Swiss legal counsel to Similasan and its parent company, Similasan AG, a Swiss company. In the cease and desist letter, Similasan and Similasan AG have alleged a breach of the Secrecy Agreement executed by the Company and demanded that the Company cease and desist from (i) using confidential information covered by the Secrecy Agreement; and (ii) manufacturing, distributing, marketing or selling certain of its homeopathic products. The complaint in the Colorado action has now been amended to include allegations relating to the breach of confidentiality’ and the Company has filed an answer responsive thereto. The Company’s management believes the allegations to be without merit and intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 28, 2006, OraSure Technologies, Inc. moved in the Supreme Court of the State of New York for a preliminary injunction prohibiting the Company from selling cryogenic wart removal products under the Wartner® brand, which the Company acquired on September 21, 2006. OraSure Technologies is a supplier to the Company for the Company’s Compound W Freeze Off® business. The distribution agreement in place calls for mediation of contract disputes, followed by arbitration, if necessary. The contract in question is of five years duration ending in December 2007. On October 30, 2006, the Court denied OraSure Technologies’ motion for a preliminary injunction. To the extent the contract dispute is not resolved through mediation, the Company intends to seek resolution of the matter through arbitration.

The Company is also 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 of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter 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 generally accepted accounting principles 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 July 2009.

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

Year Ending September 30	Facilities	Equipment	Total
2007	$ 535	$ 121	$ 656
2008	499	120	619
2009	324	96	420
2010	--	71	71
	$ 1,358	$ 408	$ 1,766

15. Concentrations of Risk

The Company's sales are concentrated in the areas of over-the-counter pharmaceutical products, personal care products and household cleaning 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, 2006 approximately 61.1% and 60.2%, 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, 2005, approximately 65.0% and 63.4%, respectively, of the Company's total sales were derived from these four major brands. During the three month periods ended September 30, 2006 and 2005, approximately 24.1% and 24.6%, respectively, of the Company's sales were made to one customer, while during the three and six month periods ended September 30, 2005, 22.3% and 23.2% of sales were to this customer. At September 30, 2006, approximately 19.6% 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 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 effect 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 78% of the Company's gross sales for the six month period ended September 30, 2006. The Company does not have long-term contracts with 3 of these manufacturers and certain manufacturers of various smaller brands, which collectively, represent approximately 32% of the Company's gross sales. 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.

16. 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 Drugs, (ii) Personal Care and (iii) Household Cleaning.

There were no inter-segment sales or transfers during the three and six month periods ended September 30, 2006 and 2005. 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, 2006			
	Over-the-Counter Drug	Household Cleaning	Personal 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				5,639
Net income				$ 8,784

	Six Months Ended September 30, 2006			
	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Net sales	$ 85,853	$ 60,470	$ 13,277	$ 159,600
Other revenues	--	874	--	874
Total revenues	85,853	61,344	13,277	160,474
Cost of sales	32,398	37,095	8,091	77,584
Gross profit	53,455	24,249	5,186	82,890
Advertising and promotion	12,483	3,710	664	16,857
Contribution margin	$ 40,972	$ 20,539	$ 4,522	66,033
Other operating expenses				18,518
Operating income				47,515
Other (income) expense				19,535
Provision for income taxes				10,940
Net income				$ 17,040

	Three Months Ended September 30, 2005			
	Over-the-Counter Drug	**Household Cleaning**	**Personal Care**	**Consolidated**
Net sales	$ 40,759	$ 25,229	$ 7,332	$ 73,320
Other revenues	--	25	--	25
Total revenues	40,759	25,254	7,332	73,345
Cost of sales	15,558	15,535	4,456	35,549
Gross profit	25,201	9,719	2,876	37,796
Advertising and promotion	7,127	1,740	1,350	10,217
Contribution margin	$ 18,074	$ 7,979	$ 1,526	27,579
Other operating expenses				6,752
Operating income				20,827
Other (income) expense				8,671
Provision for income taxes				4,782
Net income				$ 7,374

	Six Months Ended September 30, 2005			
	Over-the-Counter Drug	**Household Cleaning**	**Personal Care**	**Consolidated**
Net sales	$ 74,148	$ 48,012	$ 14,588	$ 136,748
Other revenues		50	--	50
Total revenues	74,148	48,062	14,588	136,798
Cost of sales	27,223	28,922	8,353	64,498
Gross profit	46,925	19,140	6,235	72,300
Advertising and promotion	13,266	3,510	2,146	18,922
Contribution margin	$ 33,659	$ 15,630	$ 4,089	53,378
Other operating expenses				14,294
Operating income				39,084
Other (income) expense				17,181
Provision for income taxes				8,600
Net income				$ 13,303

During the three month periods ended September 30, 2006 and 2005, approximately 96.4% and 97.6%, respectively, of the Company's sales were made to customers in the United States and Canada, while during the six month periods ended September 30, 2006 and 2005, approximately 96.2% and 97.7%, respectively, of sales were made to customers in the United States and Canada. At September 30, 2006 and March 31, 2006, substantially all of the Company's long-term assets were located in the United States of America and have been

allocated to the operating segments as follows:

	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Goodwill	$ 227,486	$ 72,549	$ 2,751	$ 302,786
Intangible assets				
Indefinite lived	374,070	170,893	--	544,963
Finite lived	98,566	27	18,855	117,448
	472,636	170,920	18,855	662,411
	$ 700,122	$ 243,469	$ 21,606	$ 965,197

Prestige Brands International, LLC

Unaudited Financial Statements

September 30, 2006

Prestige Brands International, LLC
Consolidated Statements of Operations
(Unaudited)

(In thousands)	Three Months Ended September 30 2006	Three Months Ended September 30 2005	Six Months Ended September 30 2006	Six Months Ended September 30 2004
Revenues				
Net sales	$ 84,033	$ 73,320	$ 159,600	$ 136,748
Other revenues	518	25	874	50
Total revenues	84,551	73,345	160,474	136,798
Cost of Sales				
Costs of sales	41,259	35,549	77,584	64,498
Gross profit	43,292	37,796	82,890	72,300
Operating Expenses				
Advertising and promotion	9,455	10,217	16,857	18,922
General and administrative	7,259	4,117	13,693	9,023
Depreciation	219	487	439	975
Amortization of intangible assets	2,193	2,148	4,386	4,296
Total operating expenses	19,126	16,969	35,375	33,216
Operating income	24,166	20,827	47,515	39,084
Other income (expense)				
Interest income	403	226	588	307
Interest expense	(10,146)	(8,897)	(20,123)	(17,488)
Total other income (expense)	(9,743)	(8,671)	(19,535)	(17,181)
Income before provision for income taxes	14,423	12,156	27,980	21,903
Provision for income taxes	5,639	4,782	10,940	8,600
Net income	$ 8,784	7,374	$ 17,040	13,303

See accompanying notes.

Prestige Brands International, LLC
Consolidated Balance Sheets
(Unaudited)

(In thousands)

	September 30, 2006	March 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 10,508	$ 8,200
Accounts receivable	37,447	40,042
Inventories	29,272	33,841
Deferred income tax assets	2,405	3,227
Prepaid expenses and other current assets	1,748	701
Total current assets	81,380	86,011
Property and equipment	1,527	1,653
Goodwill	302,786	297,935
Intangible assets	662,411	637,197
Other long-term assets	13,694	15,849
Total Assets	$ 1,061,798	$ 1,038,645
Liabilities and Members' Equity		
Current liabilities		
Accounts payable	$ 22,584	$ 18,065
Accrued interest payable	7,773	7,563
Income taxes payable	64	1,795
Other accrued liabilities	8,714	4,582
Current portion of long-term debt	3,730	3,730
Total current liabilities	42,865	35,735
Long-term debt	486,035	494,900
Other accrued liabilities	2,801	--
Deferred income tax liabilities	103,954	98,603
Total Liabilities	635,655	629,238
Commitments and Contingencies - Note 12		
Members' Equity		
Contributed capital - Prestige Holdings	370,790	370,572
Accumulated other comprehensive income	587	1,109
Retained earnings	54,766	37,726
Total members' equity	426,143	409,407
Total liabilities and members' equity	$ 1,061,798	$ 1,038,645

See accompanying notes.

Prestige Brands International, LLC
Consolidated Statement of Changes in Members' Equity
and Comprehensive Income
Six Months Ended September 30, 2006
(Unaudited)

(In thousands)	**Contributed Capital Prestige Holdings**	**Accumulated Other Comprehensive Income**	**Retained Earnings**	**Totals**
Balances - March 31, 2006	$ 370,572	$ 1,109	$ 37,726	$ 409,407
Stock-based compensation	224			224
Distribution to Prestige Holdings for the purchase of common stock for treasury	(6)			(6)
Components of comprehensive income				
Net income			17,040	17,040
Amortization of interest rate caps		535		535
Unrealized loss on interest rate caps, net of tax benefit of $423		(1,057)		(1,057)
Total comprehensive income				16,518
Balances - September 30, 2006	$ 370,790	$ 587	$ 54,766	$ 426,143

See accompanying notes.

Prestige Brands International, LLC
Consolidated Statements of Cash Flows
(Unaudited)

(In thousands)	Six Months Ended September 30 2006		Six Months Ended September 30 2005	
Operating Activities				
Net income	$	17,040	$	13,303
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		4,825		5,271
Deferred income taxes		6,197		7,961
Amortization of deferred financing costs		1,609		1,136
Stock-based compensation		224		110
Changes in operating assets and liabilities				
Accounts receivable		2,595		3,366
Inventories		5,202		(8,054)
Prepaid expenses and other current assets		(1,047)		(104)
Accounts payable		4,494		1,020
Income taxes payable		(1,731)		
Accrued liabilities		3,326		521
Net cash provided by operating activities		42,734		24,530
Investing Activities				
Purchases of equipment		(313)		(297)
Purchase of business		(31,242)		--
Net cash used for investing activities		(31,555)		(297)
Financing Activities				
Repayment of long-term debt		(8,865)		(1,865)
Distribution to Prestige Holdings for the purchase of common stock for treasury		(6)		(21)
Payment of deferred financing costs		--		(33)
Additional costs associated with initial public offering		--		(63)
Net cash used for financing activities		(8,871)		(1,982)
Increase in cash		2,308		22,251
Cash - beginning of period		8,200		5,334
Cash - end of period	$	10,508	$	27,585
Supplemental Cash Flow Information				
Fair value of assets acquired	$	35,068	$	--
Fair value of liabilities assumed		(3,826)		--
Cash paid to purchase business	$	31,242	$	--
Interest paid	$	18,306	$	16,408
Income taxes paid	$	6,287	$	565

See accompanying notes.

Prestige Brands International, LLC
Notes to Consolidated Financial Statements
(Unaudited)

1. Business and Basis of Presentation

Nature of Business
Prestige Brands International, LLC ("PBI" or the "Company") is an indirect wholly-owned subsidiary of Prestige Brands Holdings, Inc. ("PBH") and the indirect parent company of Prestige Brands, Inc., the issuer of the 9.25% senior subordinated notes due 2012 ("Senior Notes") and the borrower under the senior credit facility consisting of a Revolving Credit Facility and a Tranche B Term Loan Facility (together the "Senior Credit Facility"). PBI is a holding company with no assets or operations and is also the parent guarantor of the Senior Notes and Senior Credit Facility. PBH through its subsidiaries, is engaged in the marketing, sales and distribution of over-the-counter drug, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States and Canada.

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 generally accepted accounting principles for complete financial statements. 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 financial position, results of operations and cash flows for the interim periods. Operating results for the three and six month periods ended September 30, 2006 are not necessarily indicative of results that may be expected for the year ending March 31, 2007. 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, 2006.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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.

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 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 30 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 effective interest method over the term of the related debt.

Revenue Recognition

Revenues are recognized in accordance with Securities and Exchange Commission 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 generally 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 $6.5 million and $6.7 million for the three month periods ended September 30, 2006 and 2005, respectively, and $12.2 million for each of the six month periods ended September 30, 2006 and 2005.

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

In connection with PBH's IPO, the Board of Directors of PBH adopted the 2005 Long-Term Equity Incentive Plan (the "Plan"). The Plan provides for grants of stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards. Directors, officers and other employees of PBH and its subsidiaries, as well as others performing services for PBH or its subsidiaries, are eligible for grants under the Plan. At September 30, 2006, there were 4.8 million shares available for issuance under the Plan.

The Company adopted FASB, Statement No. 123(R), "Share-Based Payment" ("Statement No. 123(R)"), effective April 1, 2005, with the grants of restricted stock and options to purchase common stock to employees and directors in accordance with the provisions of 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 since the benefits, as well as the costs associated with these relationships were contributed to the Company. 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. The Company recorded non-cash compensation expense of $233,000 during the three month period ended September 30, 2006, and net non-cash compensation expense of $224,000 for the six months ended September 30, 2006. During the three month period ended June 30, 2006, the Company recorded a net non-cash compensation credit of $9,000 as a result of the reversal of compensation charges in the amount of $142,000 associated with the departure of a former member of management. The Company recorded non-cash compensation expense of $110,000 during the three and six month periods ended September 30, 2005.

Income Taxes

PBI is a limited liability company and by itself is not a taxable entity. However, PBI's operating subsidiaries are taxable entities which are included in the consolidated corporate Federal income tax return of PBH. Since PBH is not

an operating entity, and by itself would not incur any income tax liability, income taxes are “pushed down” and allocated to the various operating entities.

Accordingly, income taxes are recorded by each subsidiary 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 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.

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.

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable and accounts payable at September 30, 2006 and March 31, 2006 approximates fair value due to the short-term nature of these instruments. The carrying value of long-term debt at September 30, 2006 and March 31, 2006 approximates fair value based on interest rates for instruments with similar terms and maturities.

Recently Issued Accounting Standards

In November 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs” (“Statement No. 151”). Statement No. 151 amended the guidance in Accounting Research Bulletin No. 43, Chapter 4, “Inventory Pricing”, and requires the exclusion of certain costs, such as abnormal amounts of freight, handling costs and manufacturing overhead, from inventories. Additionally, Statement No. 151 requires the allocation of fixed production overhead to inventory based on normal capacity of the production facilities. The provisions of Statement No. 151 are effective for costs incurred during fiscal years beginning after June 15, 2005. The adoption of Statement No. 151 did not have a material impact on the Company’s financial condition, results of operations or cash flows for the three and six month periods ended September 30, 2006.

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 FASB Statement 109. FIN 48 is effective for fiscal years beginning after December 15, 2006, and 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. While the Company has not completed a comprehensive analysis of FIN 48, the adoption of FIN 48 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 generally accepted accounting principles (“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 interim financial statements issued during the fiscal year beginning after November 15, 2007.

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

2. Acquisition of Wartner USA B.V.

On September 21, 2006, the Company completed the acquisition of the ownership interests of Wartner USA B.V. (“Wartner”), the owner and marketer of the Wartner® brand of over-the-counter wart treatment products. The Company expects that the Wartner brand, which is the #3 brand in the US over-the-counter wart treatment category, will enhance the Company’s leadership in the category. Additionally, the Company believes that the brand will benefit from a targeted advertising and marketing program, as well as the Company’s business model of outsourcing manufacturing and the elimination of redundant operations. The results from operations of the Wartner® brand were included within the Company’s financial statements as a component of the over-the-counter segment commencing September 21, 2006.

The purchase price of the ownership interests was approximately $35.1 million, including fees and expenses of the acquisition of $216,000 and the assumption of approximately $5.0 million of contingent payments, with an estimated fair value of $3.8 million, owed to the former owner of Wartner through 2011. The Company funded the cash acquisition price from operating cash flows.

The following table summarizes the estimated fair values of the assets and liabilities acquired at the date of acquisition. The Company has obtained independent valuations of certain tangible and intangible assets; however, the final purchase price will not be determined until all preliminary valuations have been finalized. Consequently, the allocation of the purchase price is subject to refinement.

The preliminary fair values assigned to the net assets and liabilities acquired consist of the following:

(In thousands)		
Inventory	$	769
Intangible assets		29,600
Goodwill		4,699
Accrued liabilities		(3,826)
	$	31,242

The amount allocated to intangible assets of $29.6 million includes $17.8 million related to the Wartner® brand trademark which the Company estimates to have a useful life of 20 years, as well as $11.8 million related to a patent estimated to have a useful life of 14 years. Goodwill resulting from this transaction was $4.7 million. As discussed above, this recorded amount is subject to change as additional information becomes available; however, it is estimated that such amount will be fully deductible for income tax purposes.

The following table sets forth the unaudited results of the Company’s operations on a pro forma basis as if the acquisition of Wartner had been completed on April 1, 2005. The pro forma amounts for the three and six month periods ended September 30, 2005 include the pro forma results from operations of Dental Concepts, LLC, which was acquired in November 2005, as if the acquisition of Dental Concepts had been completed on April 1, 2005. The pro forma financial information is not necessarily indicative of the operating results that the combined entities would have achieved had the acquisition been consummated on April 1, 2005, nor is it necessarily

indicative of the operating results that may be expected for the year ending March 31, 2007.

(In thousands)	Three Months Ended September 30 2006	2005	Six Months Ended September 2006	2005
Revenues	$ 88,096	$ 80,463	$ 167,943	$ 150,585
Income before provision for income taxes	$ 14,866	$ 12,300	$ 28,143	$ 22,000
Net income	$ 9,055	$ 7,442	$ 17,140	$ 13,362

3. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	September 30, 2006	March 31, 2006
Accounts receivable	$ 37,539	$ 40,140
Other receivables	1,553	1,870
	39,092	42,010
Less allowances for discounts, returns and uncollectible accounts	(1,645)	(1,968)
	$ 37,447	$ 40,042

4. Inventories

Inventories consist of the following (in thousands):

	September 30, 2006	March 31, 2006
Packaging and raw materials	$ 2,842	$ 3,278
Finished goods	26,430	30,563
	$ 29,272	$ 33,841

Inventories are shown net of allowances for obsolete and slow moving inventory of $1.5 million and $1.0 million at September 30, 2006 and March 31, 2006, respectively.

5. Property and Equipment

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

	September 30, 2006	March 31, 2006
Machinery	$ 3,942	$ 3,722
Computer equipment	852	987
Furniture and fixtures	267	303
Leasehold improvements	340	340
	5,401	5,352
Accumulated depreciation	(3,874)	(3,699)
	$ 1,527	$ 1,653

6. Goodwill

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

	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Balance - March 31, 2006	$ 222,635	$ 72,549	$ 2,751	$ 297,935
Additions	4,851	--	--	4,851
Balance - September 30, 2006	$ 227,486	$ 72,549	$ 2,751	$ 302,786

At September 30, 2006, approximately $33.1 million of the Company's goodwill is deductible for income tax purposes.

7. Intangible Assets

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

	Indefinite Lived Intangibles	Finite Lived Intangibles	Total
Carrying Amounts			
Balance - March 31, 2006	$ 544,963	$ 110,066	$ 655,029
Additions	--	29,600	29,600
Balance - September 30, 2006	$ 544,963	$ 139,666	$ 684,629
Accumulated Amortization			
Balance - March 31, 2006	$ --	$ 17,832	$ 17,832

Amortization	--	4,386	4,386
Balance - September 30, 2006	$ --	$ 22,218	$ 22,218

At September 30, 2006, intangible assets are expected to be amortized over a period of five to 30 years as follows (in thousands):

Year Ending September 30		
2007	$	10,507
2008		10,507
2009		10,502
2010		9,086
2011		9,071
Thereafter		67,775
	$	117,448

8. Other Accrued Liabilities

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

		September 30, 2006		**March 31, 2006**
Accrued marketing costs	$	4,989	$	2,513
Accrued payroll		1,835		813
Accrued commissions		275		248
Other		1,615		1,008
	$	8,714	$	4,582

9. Long-Term Debt

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

	September 30, 2006	March 31, 2006
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, 2006, the interest rate on the Revolving Credit Facility was 9.5% 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, 2006, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets.	$ --	$ 7,000
Senior secured term loan facility ("Tranche B Term Loan 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, 2006, the weighted average applicable interest rate on the Tranche B Term Loan Facility was 7.26%. Principal payments of $933,000 and interest are payable quarterly. In February 2005, the Tranche B Term Loan Facility was amended to increase the additional amount available thereunder by $50.0 million to $200.0 million, all of which is available at September 30, 2006. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while amounts borrowed pursuant to the amendment will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets.	363,765	365,630
Senior Subordinated Notes ("Senior Notes") that bear interest at 9.25% which is payable on April 15th and October 15th of each year. The Senior Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior 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 Notes. The Senior Notes are unconditionally guaranteed by the Company and the Company's 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
	489,765	498,630
Current portion of long-term debt	(3,730)	(3,730)
	$ 486,035	$ 494,900

The Revolving Credit Facility and the Tranche B Term Loan Facility (together the "Senior Credit Facility") contain 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 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 and transactions with affiliates. Additionally, the Senior Credit Facility and the Senior 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. The Company was in compliance with its applicable financial and restrictive covenants under the Senior Credit Facility and the indenture governing the Senior Notes at September 30, 2006.

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

Year Ending September 30,		
2007	$	3,730
2008		3,730
2009		3,730
2000		3,730
2011		348,845
Thereafter		126,000
	$	489,765

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 2005, 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. The remaining agreements terminate on May 30, 2007 and 2008 as to notional amounts of $80.0 million and $50.0 million, respectively. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair value of the interest rate cap agreements, which is included in other long-term assets, was $2.2 million and $3.3 million at September 30, 2006 and March 31, 2006, respectively.

10. Stock-Based Compensation

In connection with the Company's February 2005 initial public offering, the Board of Directors adopted the Plan which provides for the grant, up to a maximum of 5.0 million shares, of stock options, restricted stock, 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.

Restricted Shares

Restricted shares granted under the Plan generally vest in 3 to 5 years, contingent on attainment of Company performance goals, including both revenue and earnings per share growth targets. 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. During the three month period ended September 30, 2006, the Company granted awards aggregating 156,500 shares of restricted stock with an estimated fair value of $1.3 million.

Performance Shares

On the vesting date, the recipient of performance shares will receive the difference between the closing price of the Company's common stock on such date and the grant date price, times

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the number of performance shares underlying the grant. These awards may be settled in cash, common stock or some combination thereof at the option of the Company. During the three month period ended September 30, 2006, the Company granted awards aggregating 16,100 performance shares with an estimated fair value of $60,000.

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 to 5 years. Certain option awards provide for accelerated vesting if there is a change in control. There were no option awards during the three and six month periods ended September 30, 2006.

The fair value of option and performance share awards is estimated on the date of grant using the Black-Scholes Option Pricing Model. As of September 30, 2006, there was approximately $1.8 million of total unrecognized compensation cost 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 4.0 years. However, the restricted shares vest upon the attainment of Company performance goals; if such goals are not met, no compensation cost would ultimately be recognized and any previously recognized compensation cost would be reversed. At September 30, 2006, there were 4.7 million shares available for issuance under the Plan.

11. 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 rates used in the calculation of income taxes were 39.1% for three and six month periods ended September 30, 2006, and 39.3% for the three and six month periods ended September 30, 2005.

12. Commitments and Contingencies

The Company and certain of its officers and directors are defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Southern District of New York (the "Consolidated Action"). The first of the six consolidated cases was filed on August 3, 2005. Plaintiffs purport to represent a class of stockholders of the Company who purchased shares between February 9, 2005 through November 15, 2005. Plaintiffs also name as defendants the underwriters in the Company's initial public offering and a private equity fund that was a selling stockholder in the offering. The District Court has appointed a Lead Plaintiff. On December 23, 2005, the Lead Plaintiff filed a Consolidated Class Action Complaint, which asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934. The Lead Plaintiff generally alleged that the Company issued a series of materially false and misleading statements in connection with its initial public offering and thereafter in regard to the following areas: the accounting issues described in the Company's press release issued on or about November 15, 2005; and the alleged failure to disclose that demand for certain of the Company's products was declining and that the Company was planning to withdraw several products from the market. Plaintiffs seek an unspecified amount of damages. The Company filed a motion to dismiss the Consolidated Class Action Complaint in February 2006. On July 10, 2006, the Court dismissed all claims against the Company and the individual defendants arising under the Securities Exchange Act of 1934. The Company's management believes the remaining claims are legally deficient and subject to meritorious defenses. The Company intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 6, 2005, another putative securities class action lawsuit substantially similar to the initially-filed complaints in the Consolidated Action described above was filed against the same defendants in the Circuit Court of Cook County, Illinois (the "Chicago Action"). In light of the first-filed Consolidated Action, proceedings in the Chicago Action were stayed until a ruling on defendants' anticipated motions to dismiss the consolidated complaint in the Consolidated Action. Subsequent to the Court's decision on the motions to dismiss in the Consolidated Action, on August 11, 2006, the Plaintiffs in the Chicago Action agreed to dismiss the Chicago Action.

On May 23, 2006, Similasan Corporation filed a lawsuit against the Company in the United States District Court for the District of Colorado in which Similasan alleged false designation of origin, trademark and trade dress infringement, and deceptive trade practices by the Company related to *Murine* for Allergy Eye Relief, *Murine* for Tired Eye Relief and *Murine* for Earache Relief, as applicable. Similasan has requested injunctive relief, an accounting of profits and damages and litigation costs and attorneys' fees. The Company has filed an answer to the complaint with a potentially dispositive motion. In addition to the lawsuit filed by Similasan in the U.S. District Court for the District of Colorado, the Company also received a cease and desist letter from Swiss legal counsel to Similasan and its parent company, Similasan AG, a Swiss company. In the cease and desist letter, Similasan and Similasan AG have alleged a breach of the Secrecy Agreement executed by the Company and demanded that the Company cease and desist from (i) using confidential information covered by the Secrecy Agreement; and (ii) manufacturing, distributing, marketing or selling certain of its homeopathic products. The complaint in the Colorado action has now been amended to include allegations relating to the breach of confidentiality' and the Company has filed an answer responsive thereto. The Company's management believes the allegations to be without merit and intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 28, 2006, OraSure Technologies, Inc. moved in the Supreme Court of the State of New York for a preliminary injunction prohibiting the Company from selling cryogenic wart removal products under the Wartner® brand, which the Company acquired on September 21, 2006. OraSure Technologies is a supplier to the Company for the Company's Compound W Freeze Off® business. The distribution agreement in place calls for mediation of contract disputes, followed by arbitration, if necessary. The contract in question is of five years duration ending in December 2007. On October 30, 2006, the Court denied OraSure Technologies' motion for a preliminary injunction. To the extent the contract dispute is not resolved through mediation, the Company intends to seek resolution of the matter through arbitration.

The Company is also 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 of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter 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 generally accepted accounting principles 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 July 2009.

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

Year Ending September 30	Facilities	Equipment	Total
2007	$ 535	$ 121	$ 656
2008	499	120	619
2009	324	96	420
2010	--	71	71
	$ 1,358	$ 408	$ 1,766

13. Concentrations of Risk

The Company's sales are concentrated in the areas of over-the-counter pharmaceutical products, personal care products and household cleaning 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, 2006 approximately 61.1% and 60.2%, 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, 2005, approximately 65.0% and 63.4%, respectively, of the Company's total sales were derived from these four major brands. During the three month periods ended September 30, 2006 and 2005, approximately 24.1% and 24.6%, respectively, of the Company's sales were made to one customer, while during the three and six month periods ended September 30, 2005, 22.3% and 23.2% of sales were to this customer. At September 30, 2006, approximately 19.6% 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 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 effect 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 78% of the Company's gross sales for the six month period ended September 30, 2006. The Company does not have long-term contracts with 3 of these manufacturers and certain manufacturers of various smaller brands, which collectively, represent approximately 32% of the Company's gross sales. 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.

14. 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 Drugs, (ii) Personal Care and (iii) Household Cleaning.

There were no inter-segment sales or transfers during the three and six month periods ended September 30, 2006 and 2005. 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, 2006			
	Over-the-Counter Drug	Household Cleaning	Personal 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				5,639
Net income				$ 8,784

	Six Months Ended September 30, 2006			
	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Net sales	$ 85,853	$ 60,470	$ 13,277	$ 159,600
Other revenues	--	874	--	874
Total revenues	85,853	61,344	13,277	160,474
Cost of sales	32,398	37,095	8,091	77,584
Gross profit	53,455	24,249	5,186	82,890
Advertising and promotion	12,483	3,710	664	16,857
Contribution margin	$ 40,972	$ 20,539	$ 4,522	66,033
Other operating expenses				18,518
Operating income				47,515
Other (income) expense				19,535
Provision for income taxes				10,940
Net income				$ 17,040

	Three Months Ended September 30, 2005			
	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Net sales	$ 40,759	$ 25,229	$ 7,332	$ 73,320
Other revenues	--	25	--	25
Total revenues	40,759	25,254	7,332	73,345
Cost of sales	15,558	15,535	4,456	35,549
Gross profit	25,201	9,719	2,876	37,796
Advertising and promotion	7,127	1,740	1,350	10,217
Contribution margin	$ 18,074	$ 7,979	$ 1,526	27,579
Other operating expenses				6,752
Operating income				20,827
Other (income) expense				8,671
Provision for income taxes				4,782
Net income				$ 7,374

	Six Months Ended September 30, 2005			
	Over-the-Counter Drug	Household Cleaning	Personal Care	Consolidated
Net sales	$ 74,148	$ 48,012	$ 14,588	$ 136,748
Other revenues		50	--	50
Total revenues	74,148	48,062	14,588	136,798
Cost of sales	27,223	28,922	8,353	64,498
Gross profit	46,925	19,140	6,235	72,300
Advertising and promotion	13,266	3,510	2,146	18,922
Contribution margin	$ 33,659	$ 15,630	$ 4,089	53,378
Other operating expenses				14,294
Operating income				39,084
Other (income) expense				17,181
Provision for income taxes				8,600