

ASCENDIA BRANDS, INC.  
Form 10-Q  
October 27, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the fiscal thirteen weeks ended August 26, 2006

Commission File Number: 033-25900

## **ASCENDIA BRANDS, INC.**

(formerly Cenuco, Inc.)

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

75-2228820  
(I.R.S. Employer  
Identification No.)

100 AMERICAN METRO BOULEVARD, SUITE 108

HAMILTON, NEW JERSEY 08619

(Address of principal executive offices)

(Zip Code)

(609) 219-0930

(Registrant's Telephone Number, Including Area Code)

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(Former Address, If Changed Since Last Report.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

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

On October 27, 2006, the issuer had outstanding 13,913,056 shares of common stock, \$.001 par value per share.

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ASCENDIA BRANDS, INC. AND SUBSIDIARIES

FORM 10-Q

THIRTEEN WEEKS ENDED AUGUST 26, 2006

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## PART I. FINANCIAL INFORMATION

Ascendia Brands, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in thousands, except for share and per share data)

|   | August 26, 2006<br>(unaudited) | February 28, 2006 |
|---|--------------------------------|-------------------|
| <b><u>ASSETS</u></b>  |                                |                   |
| Current Assets:   |                                |                   |
| Cash and cash equivalents   | \$ 225                         | \$ 1,876          |
| Trade receivables, net of allowances of<br>\$734 at August 26, 2006 and \$528 at February 28, 2006  | 12,255                         | 6,471             |
| Inventories   | 14,987                         | 16,269            |
| Miscellaneous receivables   | 44                             | 1,693             |
| Note receivable, current portion  | 97                             | 95                |
| Prepaid expenses and other  | 808                            | 679               |
| Total current assets  | 28,416                         | 27,083            |
| Property, plant and equipment, net  | 6,542                          | 6,502             |
| Goodwill  | 14,554                         | 14,554            |
| Intangibles, net  | 50,928                         | 53,203            |
| Notes receivable, less current portion  | 282                            | 340               |
| Other assets, net   | 7,819                          | 1,264             |
| Total assets  | \$ 108,541                     | \$ 102,946        |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |                                |                   |
| Current Liabilities:  |                                |                   |
| Accounts payable  | \$ 10,329                      | \$ 9,024          |
| Accrued expenses  | 3,457                          | 2,852             |
| Accrued interest  | 600                            | 1,202             |
| Current portion of long-term debt   | 9                              | 32                |
| Total current liabilities   | 14,395                         | 13,110            |
| Long-term debt, less current portion  | 83,591                         | 80,000            |
| Long-term pension obligation  | 1,017                          | 967               |
| Total liabilities   | 99,003                         | 94,077            |
| Stockholders' equity:   |                                |                   |
| Convertible preferred stock, par value \$.001 per share; Authorized 1,000,000<br>shares; issued and outstanding 2,347,7746 shares at August 26, 2006 and issued<br>and outstanding 2,553.6746 shares at February 28, 2006 |                                |                   |
| Common stock, par value \$.001 per share; Authorized 225,000,000 shares; issued<br>and outstanding 13,913,056 shares at August 26, 2006 and issued and outstanding<br>13,882,056 shares at February 28, 2006              | 14                             | 14                |
| Additional paid in capital  | 42,721                         | 37,907            |
| Accumulated deficit   | (32,453)                       | (28,378)          |
| Accumulated comprehensive loss  | (744)                          | (674)             |
| Total stockholders' equity  | 9,538                          | 8,869             |

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|  |    |         |    |         |
|--|----|---------|----|---------|
| Total liabilities and stockholders' equity | \$ | 108,541 | \$ | 102,946 |
|--|----|---------|----|---------|

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. and Subsidiaries

Consolidated Statement of Operations

(Unaudited)

(Amounts in thousands, except for share and per share data)

|  | For the thirteen weeks ended |                    | For the twenty-six weeks ended |                    |
|--|------------------------------|--------------------|--------------------------------|--------------------|
|  | August 26,<br>2006           | August 27,<br>2005 | August 26,<br>2006             | August 27,<br>2005 |
| Net sales  | \$24,404                     | \$16,841           | \$49,326                       | \$34,192           |
| Cost of sales  | 19,935                       | 15,600             | 40,130                         | 31,900             |
| Gross Profit   | 4,469                        | 1,241              | 9,196                          | 2,292              |
| Operating expenses:                                  |                              |                    |                                |                    |
| Selling and marketing                                | 1,457                        | 877                | 2,858                          | 1,844              |
| General and administrative                           | 4,364                        | 2,653              | 7,723                          | 4,389              |
| Total operating expenses                             | 5,821                        | 3,530              | 10,581                         | 6,233              |
| Loss from operations                                 | (1,352)                      | (2,289)            | (1,385)                        | (3,941)            |
| Other income (loss):                                 |                              |                    |                                |                    |
| Interest expense, net                                | (3,118)                      | (369)              | (5,603)                        | (765)              |
| Loss on issuance of debt                             | (6,872)                      |                    | (6,872)                        |                    |
| Amortization of finance fees and debt discount       | (390)                        |                    | (1,561)                        |                    |
| Gain on revaluation of compound derivative liability | 11,202                       |                    | 11,202                         |                    |
| Other income (expense), net                          | (1)                          | 153                | 144                            | 72                 |
| Total other income (loss)                            | 821                          | (216)              | (2,690)                        | (693)              |
| Loss before income taxes                             | (531)                        | (2,505)            | (4,075)                        | (4,634)            |
| Income taxes   |                              |                    |                                |                    |
| Net loss   | \$(531)                      | \$(2,505)          | \$(4,075)                      | \$(4,634)          |
| Basic and diluted loss per common share              | \$(0.04)                     | \$(0.18)           | \$(0.29)                       | \$(0.20)           |
| Basic and diluted loss per preferred share           | \$                           | \$(718)            | \$                             | \$(718)            |
| Shares used in computing loss per share:             |                              |                    |                                |                    |
| Basic - common                                       | 13,913,056                   | 13,768,930         | 13,910,252                     | 13,734,420         |
| Basic - preferred                                    | 2,347.8                      | 2,553.7            | 2,347.8                        | 2,553.7            |
| Diluted - common                                     | 13,913,056                   | 13,768,930         | 13,910,252                     | 13,734,420         |
| Diluted - preferred                                  | 2,347.8                      | 2,553.7            | 2,347.8                        | 2,553.7            |

See accompanying notes to consolidated financial statements.

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Ascendia Brands, Inc. and Subsidiaries

Consolidated Statement of Stockholders Equity

For the twenty-six weeks ended August 26, 2006

(Amounts in thousands, except for share and per share data)

|                              | Series A<br>Preferred<br>Stock |    | Common<br>Shares | Stock<br>Amount | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Stockholders<br>Equity |
|------------------------------|--------------------------------|----|------------------|-----------------|----------------------------------|------------------------|---|------------------------|
| Balance at                   |                                |    |                  |                 |                                  |                        |   |                        |
| February 28, 2006            | 2,553.7                        | \$ | 13,882,056       | \$ 14           | \$ 37,907                        | \$ (28,378)            | \$ (674)                                      | \$ 8,869               |
| Net loss                     |                                |    |                  |                 |                                  | (4,075)                |   | (4,075)                |
| Other comprehensive loss:    |                                |    |                  |                 |                                  |                        |   |                        |
| Foreign currency translation |                                |    |                  |                 |                                  |                        | (70)  | (70)                   |
| Comprehensive loss           |                                |    |                  |                 |                                  |                        |   | (4,145)                |
| Warrants issued - fair value |                                |    |                  |                 | 8,429                            |                        |   | 8,429                  |
| Exercise of warrants         |                                |    | 31,000           |                 | 31                               |                        |   | 31                     |
| Redemption of Series A       |                                |    |                  |                 |                                  |                        |   |                        |
| Preferred shares             | (205.9)                        |    |                  |                 | (3,646)                          |                        |   | (3,646)                |
| Balance at                   |                                |    |                  |                 |                                  |                        |   |                        |
| August 26, 2006 (unaudited)  | 2,347.8                        | \$ | 13,913,056       | \$ 14           | \$ 42,721                        | \$ (32,453)            | \$ (744)                                      | \$ 9,538               |

See accompanying notes to consolidated financial statements.



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Ascendia Brands, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

(Unaudited)

(Amounts in thousands, except for share and per share data)

|  | <b>For the twenty-six weeks ended</b> |                        |
|--|---------------------------------------|------------------------|
|  | <b>August 26, 2006</b>                | <b>August 27, 2005</b> |
| <b>Cash flows from operating activities:</b>                                   |                                       |                        |
| Net loss   | \$ (4,075)                            | \$ (4,634)             |
| Adjustments to reconcile net loss<br>to net cash used in operating activities: |                                       |                        |
| Depreciation and amortization  | 2,758                                 | 911                    |
| Provision for accounts receivable  | 163                                   | 161                    |
| Amortization of deferred financing costs and debt discount                     | 1,561                                 | 109                    |
| Loss on issuance of debt   | 6,872                                 |                        |
| Gain on revaluation of compound derivative liability                           | (11,202)                              |                        |
| Non-cash interest  | 4,157                                 |                        |
| Changes in operating assets and liabilities:                                   |                                       |                        |
| Trade receivables  | (5,947)                               | (331)                  |
| Inventories  | 1,282                                 | 1,341                  |
| Prepaid expenses and other   | 1,520                                 | (642)                  |
| Other assets   | (45)                                  | (536)                  |
| Accounts payable   | 1,305                                 | (14)                   |
| Accrued expenses   | 32                                    | 164                    |
| Long-term pension obligations  | 50                                    | 58                     |
| <b>Net cash used in operating activities</b>                                   | <b>(1,569)</b>                        | <b>(3,413)</b>         |
| <b>Cash flows from investing activities</b>                                    |                                       |                        |
| Net increase in cash from reverse acquisition of Cenuco                        |                                       | 6,235                  |
| Proceeds from note receivable  | 56                                    | 200                    |
| Acquisition costs  | (741)                                 | (343)                  |
| Purchase of property, plant and equipment                                      | (543)                                 | (255)                  |
| Disposal of fixed assets   | 20                                    |                        |
| <b>Net cash (used in) provided by investing activities</b>                     | <b>(1,208)</b>                        | <b>5,837</b>           |
| <b>Cash flows from financing activities</b>                                    |                                       |                        |
| Net borrowings (repayments) of revolver  | 8,072                                 | (1,607)                |
| Net proceeds from issuance of convertible notes                                | 2,747                                 |                        |
| Financing costs  | (5,993)                               | (95)                   |
| Repayments of long-term debt   | (15)                                  | (339)                  |
| Repayments of capital lease  |                                       | (33)                   |
| Redemption of preferred stock  | (3,646)                               |                        |
| Proceeds from exercise of warrants   | 31                                    | 76                     |
| <b>Net cash provided by (used in) financing activities</b>                     | <b>1,196</b>                          | <b>(1,998)</b>         |
| Effect of exchange rates on cash   | (70)                                  | (27)                   |
| <b>Net (decrease) increase in cash and cash equivalents</b>                    | <b>(1,651)</b>                        | <b>399</b>             |
| Cash and cash equivalents at the beginning of period                           | 1,876                                 | 32                     |
| <b>Cash and cash equivalents at the end of period</b>                          | <b>\$ 225</b>                         | <b>\$ 431</b>          |
| <br>Supplemental disclosures of cash flow information:                         |                                       |                        |
| Cash paid for interest   | \$ 2,054                              | \$ 445                 |
| Non-cash fees and expenses related to issuance of convertible notes            | 4,195                                 |                        |
| Warrants in connection with issuance of convertible notes                      | 8,249                                 |                        |
| Reverse merger, excluding cash acquired (see Note 1):                          |                                       |                        |

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|  |    |    |        |
|--|----|----|--------|
| Fair value of tangible assets acquired               | \$ | \$ | 1,200  |
| Goodwill and identifiable intangible assets acquired |    |    | 38,975 |
| Liabilities assumed                                  |    |    | (474)  |
| Net assets acquired                                  | \$ | \$ | 39,701 |

See accompanying notes to consolidated financial statements.

**Ascendia Brands, Inc. (formerly Cenuco, Inc.) and Subsidiaries**

**Notes to Consolidated/ Combined Financial Statements August 26, 2006 (Unaudited)**

**NOTE 1 -- DESCRIPTION OF BUSINESS AND REORGANIZATION**

**Introduction**

Ascendia Brands, Inc. ( Ascendia , or the Company , the Registrant , we or us ) manufactures and markets a portfolio of nationally and internationally known branded products in the health and beauty care categories (The Health and Beauty Care division ( HBC )). The brand portfolio includes *Baby Magic*®, *Binaca*®, *Mr. Bubble*®, *Lander*®, *Lander essentials* , *Ogilvie*®, *Tek*®, *Dorothy Gray*® and *Tussy*®, competing in the Bath Products, Baby Toiletries, Deodorant/Antiperspirant, Home Permanent Treatment, Mouthwash, Portable Breath Sprays and Drops, Manual Toothbrush, and Skin Care segments within the personal care products category. Ascendia sells its brands through a variety of channels, concentrating primarily on the mass merchandise, drug, grocery and dollar store outlets. The Company also develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform (The Wireless Application Division ( WAD )).

**Corporate Structure**

On May 9, 2006 the Company (previously known as Cenuco, Inc.) changed its name to Ascendia Brands, Inc. The chart below depicts the current structure of Ascendia and its direct and indirect, wholly-owned subsidiaries, and the discussion that follows summarizes the functions and role of each company in this group.

*Ascendia Brands, Inc.* ( *Ascendia* , *the Company*, *the Registrant*, *we or us* ). The Company is a holding company, organized under Delaware law, with its executive offices in Hamilton, New Jersey. It owns directly the stock of Hermes Acquisition Company I LLC and Cenuco, Inc.

*Hermes Acquisition Company I LLC* ( *HACI* ). Hermes is a Delaware limited liability company that acts as the holding company for the Company's health and beauty care division.

*Ascendia Brands Co., Inc.* ( *Ascendia Brands* ). Ascendia Brands is a New Jersey corporation with its executive offices in Hamilton, New Jersey. As of May 1, 2006, Ascendia Brands assumed the manufacturing and distribution operations formerly conducted through Lander Co., Inc. (*see, infra*). As the successor to Lander Co., Inc., Ascendia Brands manufactures and sells branded health and beauty care products in the value and premium value categories, through mass market retailers (such as Wal-Mart and K-Mart), dollar stores, supermarkets and pharmacies. Ascendia's brands include *Baby Magic*, *Binaca*, *Mr. Bubble*, *Lander*, *Lander essentials*, *Ogilvie*, *Tek*, *Dentax*, *Dorothy Gray* and *Tussy*. Ascendia Brands operates a manufacturing plant in Binghamton, New York, which is leased from a related party, Ascendia Real Estate LLC.

*Lander Co., Inc.* ( *Lander* ). Lander is a Delaware corporation with its executive offices in Wilmington, Delaware. During the period ended February 28, 2006, Lander was the principal operating company in Ascendia's health and beauty care division. Following the transition of manufacturing and distribution activities to Ascendia Brands, Lander acts as an intellectual property holding company for trademarks and other intellectual property associated with the *Lander* brands.

*Lander Co. Canada Ltd* ( *Lander Canada* ). Lander Canada, a Canadian limited company, is the Canadian manufacturing and distribution arm of Ascendia's health and beauty care division. Lander Canada operates a manufacturing facility in Toronto, Ontario, which it leases from a third party.

*Ascendia Real Estate LLC (f/k/a Hermes Real Estate I LLC)* ( *Ascendia Real Estate* ). Ascendia Real Estate, a New York limited liability company, is a real estate holding company. Its sole asset is the Binghamton plant, which it leases to Ascendia Brands.

*Lander Intangibles Corporation* ( *Lander Intangibles* ). Lander Intangibles is a Delaware corporation with its executive offices in Wilmington, Delaware. Lander Intangibles is an intellectual property holding company that was formed to acquire and hold certain of the intellectual property that the Company purchased from Playtex Products Inc. and its affiliates ( *Playtex* ) on November 16, 2005.

*Cenuco, Inc.* ( *Cenuco Wireless* ). Cenuco Wireless is a Florida corporation with executive offices in Boca Raton. Cenuco Wireless develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform.

## **THE MERGER**

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., a public company, ( *ICU* ) merged (the *Merger* ) with HACI.

The Merger was completed through the issuance of 2,553.7 shares of Cenuco, Inc.'s Series A Junior Participating Preferred Stock (representing 65 percent of the aggregate outstanding voting power of Cenuco capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Lander, Ascendia Real Estate, and Lander Canada, became wholly owned subsidiaries of Cenuco.

For financial reporting purposes, the Merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco, Inc. by HACI for a purchase price equivalent to the total market value of Cenuco, Inc.'s stock outstanding prior to the Merger, plus the fair value of the options that automatically vested on the date of the Merger (approximately \$45.7 million in the aggregate). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of the Company, Inc. prior to the date of the Merger reflect the financial position and results of operations of HACI and Ascendia Real Estate, with the results of operations of Cenuco, Inc. being included commencing on May 20, 2005. Effective with the completion of the Merger, Cenuco, Inc. changed its fiscal year end to be the last day of February, consistent with HACI's prior fiscal year.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, the Company determined the fair value of the assets acquired and liabilities assumed in the reverse acquisition of Cenuco, to be as follows:

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|   | (Amounts in thousands) |
|---|------------------------|
| Cash and cash equivalents                       | \$ 6,003               |
| Other current assets                            | 497                    |
| Total current assets                            | 6,500                  |
| Property, plant, and equipment                  | 111                    |
| Goodwill  | 30,975                 |
| Intangibles - acquired core software technology | 8,000                  |
| Other Assets                                    | 592                    |
| <br>Total assets acquired                       | <br>46,178             |
| Total liabilities assumed                       | (474)                  |
| <br>Estimated fair value of net assets acquired | <br>\$ 45,704          |

Following the Merger, the Company's principal business activity has been the manufacture and distribution of health, beauty and oral-care products, as described above. In addition, through its Cenuco Wireless subsidiary, the Company is engaged in a wireless application technology business (the WAD division), primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. All goodwill associated with the Cenuco acquisition was allocated to the WAD division. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of this goodwill for impairment. This led to a Goodwill impairment of \$16.4 million being recorded.

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

The accompanying financial statements of Ascendia as of and for the thirteen weeks ended August 26, 2006 and August 27, 2005 have been prepared in accordance with generally accepted accounting principles. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

A summary of the Ascendia's significant accounting policies follows:

**Basis of Consolidation:** As of August 26, 2006 and February 28, 2006 and for the thirteen and twenty-six weeks ended August 26, 2006 and for the period from May 20, 2005 to August 27, 2005, the statements are prepared on a consolidated basis. For the period from March 1, 2005 to May 19, 2005 the statements are prepared on a combined basis. The accompanying consolidated financial statements include the accounts of Ascendia Brands, Inc. and subsidiaries. All intercompany accounts have been eliminated in consolidation.

**Cash Equivalents:** The Company considers all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

**Accounts Receivable:** Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would increase our operating costs.

**Inventories:** Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company's health, beauty and oral care products, as well as, finished goods that consist of the Company's product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

**Note Receivable:** On September 30, 2004, Cenuco Wireless sold substantially all of its assets of the then existing education subsidiary for a net price of \$0.8 million. At closing Cenuco Wireless received \$0.3 million in cash and a note receivable for \$0.5 million. At August 26, 2006 and February 28, 2006 the note receivable had a balance of approximately \$0.4 million and \$0.4 million, respectively.

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. If the Company determines that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly.

**Impairment of Long-Lived Assets:** Accounting for the impairment of long-lived assets, including property, plant and equipment, requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under such circumstances, the accounting principles require that such assets be reported at the lower of their carrying amount or fair value less cost to sell. Accordingly, when events or circumstances indicate that long-lived assets may be impaired, the Company estimates the assets' future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the asset.

**Goodwill and Indefinite Lived Intangibles**

As a result of the Merger on May 20, 2005 (see Note 1), the Company recorded goodwill of \$31.0 million. Goodwill represents the excess of cost over the fair value of identifiable net assets acquired. As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in \$16.9 million being allocated to intangible assets (brand names and product formulas), initially estimated to have indefinite lives. SFAS No. 142, *Goodwill and Other Intangible Assets*, requires goodwill and other intangibles that have indefinite lives to not be amortized but to be reviewed at least annually for impairment or more frequently if impairment indicators arise. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of goodwill for impairment. This led to a goodwill impairment charge of \$16.4 million being recorded at that time.

**Amortizable Intangible Assets**

SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for impairment. As a result of the merger on May 20, 2005, and as revised in the quarter ended February 28, 2006, the Company recorded intangible assets of \$8.0 million, related to acquired core software technology, with an estimated useful life of five years. Amortization expense for the acquired software technology was \$0.4 million and \$0.8 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense for the acquired software technology was \$0.4 million and \$0.4 million respectively, for the thirteen and twenty-six weeks ended August 27, 2005.

As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the assets acquired, in proportion to their respective estimated fair values, which resulted in \$30.4 million being allocated to customer relationships. Management has adopted the straight-line method of amortizing these assets over their estimated useful lives of 10 years. Amortization expense for the customer relationships was \$0.7 million and \$1.5 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. There was no amortization expense for the customer relationships for the thirteen and twenty-six weeks ended August 27, 2005.

**Goodwill and Other Intangible Assets**

No changes occurred in the carrying amount of goodwill for the thirteen or twenty-six weeks ended August 26, 2006.

Balances of acquired intangible assets, excluding goodwill are as follows:

(\$Millions)

|   | Purchased<br>Technology | Formulae<br>And<br>Tradenames | Customer<br>Relationships | Total   |
|---|-------------------------|-------------------------------|---------------------------|---------|
| Intangible assets                         |                         |                               |                           |         |
| as of August 26, 2006:                    | \$ 8.0                  | \$ 16.9                       | \$ 30.4                   | \$ 55.3 |
| Accumulated amortization                  | (2.0)                   |                               | (2.4)                     | (4.4)   |
| Carrying value                            | \$ 6.0                  | \$ 16.9                       | \$ 28.0                   | \$ 50.9 |
| Weighted average original life (in years) | 5                       | indefinite                    | 10                        |         |

Amortization expense for the thirteen and twenty-six weeks ended August 26, 2006 is \$1.1 million and \$2.3 million respectively.

Estimated aggregate amortization expense based on the current carrying value of intangible assets for the next five years is as follows:

| Fiscal Year | (000 s) |        |
|-------------|---------|--------|
|             |         | Amount |
| 2007        | \$      | 4,639  |
| 2008        |         | 4,652  |
| 2009        |         | 4,639  |
| 2010        |         | 4,639  |
| 2011        |         | 3,390  |

**Other Assets, Net:** Other assets, net of approximately \$7.7 million, consist primarily of deferred financing costs related to the Long-Term Convertible Note Financing and the CIT revolving line of credit (see Note 6). The deferred financing costs are being amortized using the effective interest method over the term of the respective financing arrangements. Amortization expense related to deferred financing costs was \$0.2 million and \$1.4 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense related to deferred financing costs was \$0.1 million and \$0.1 million respectively, for the thirteen and twenty-six weeks ended August 27, 2005.

**Fair Value of Financial Instruments:** The carrying amounts reported in the accompanying balance sheets for accounts receivable, notes receivable, accounts payable and accrued expenses approximate fair value due to the short-term nature of these accounts. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history, and current economic conditions. The carrying amounts for warrant derivative liability and for conversion option liability are based on estimated fair value at each reporting date.

**Accounting for Derivative Instruments:** We have issued and have outstanding convertible debt and warrants related to the convertible debt with embedded derivative features which we have analyzed in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in A Company's Own Stock, to determine if these instruments have embedded derivatives that must be bifurcated. Under EITF No. 00-19, the estimated value of such embedded derivatives is recorded as a liability utilizing an appropriate valuation model (with an offsetting debt discount that is amortized over the term of the convertible notes). Such liability is marked-to-market and adjusted to fair value at each reporting date with the change in fair value being recorded to other income (expense) in the period of the change. The warrants are not required to be accounted for as a liability. They are accounted for under EITF 98-5 as further described in Note 6.



**Revenue Recognition:** For the Health & Beauty Care division, revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to the customer is recognized at the time the products are shipped and included in cost of sales.

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Wireless Application Development (WAD) division recognizes revenue as services are performed on a pro-rata basis over the contract term or when products are delivered. WAD periodically enters into agreements whereby the customer or distributor may purchase wireless products on a consignment type basis. Revenues are recognized under these arrangements only when the customer or distributor has resold the product and the Company has an enforcement right to its sales price.

**Cooperative Advertising:** Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Task Force 01-09, *Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor's Products* in the period in which the related sales are recognized. Cooperative advertising expenses were approximately \$1.2 million and \$1.7 million, respectively for thirteen and twenty-six weeks ended August 26, 2006. Cooperative advertising expenses were approximately \$0.1 million and \$0.1 million, respectively for thirteen and twenty-six weeks ended August 27, 2005.

**Foreign Currency Translation:** In accordance with SFAS No. 52, *Foreign Currency Translation*, the financial statements are measured using local currency as the functional currency. Assets and liabilities of Lander Canada have been translated into U.S. dollars at the fiscal period-end exchange rates. Revenues and expenses have been translated at average exchange rates for the related period. Net translation gains and losses are reflected as a separate component of stockholders' equity until there is a sale or liquidation of the underlying foreign investment.

Foreign currency gains and losses resulting from transactions are included in the consolidated statements of operations.

**Estimates:** The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates the estimates and may adjust them based upon the latest information available. These estimates generally include those related to product returns, bad debts, inventory reserves for excess and discontinued products, income taxes and contingencies. The Company bases the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

**Concentration of Credit Risk:** Ascendia provides credit to its customers in the normal course of business and does not require collateral. To reduce credit risk, Ascendia performs ongoing credit evaluations of its customers.

Five trade customers comprised 51 percent and 50 percent, respectively of Ascendia's net sales, (with one customer comprising approximately 38 percent and 37 percent, respectively) for the thirteen and twenty-six weeks ended August 26, 2006. At August 26, 2006 the same five trade customers represented 54 percent of receivables, with one customer comprising 43 percent. This top customer represents a significant concentration. Accordingly, if this customer was not able to pay the amount owed to us and/or stopped purchasing from us, the impact would have a material adverse effect on our liquidity, financial position, and results of operations.

Five trade customers comprised 51 percent and 48 percent, respectively of Ascendia's net sales, (with one customer comprising approximately 33 percent and 32 percent respectively) for the thirteen and twenty-six weeks ended August 27, 2005. At August 27, 2005 the same five trade customers represented 55 percent of receivables, with one customer comprising 42 percent.

**Income Taxes:** Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the Company's ability to realize deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A full valuation allowance at August 26, 2006 and February 28, 2006 has been recorded by management due to the uncertainty that future income will be generated and the related deferred tax assets realized.

**Earnings per share:** Emerging Issues Task Force ( EITF ) 03-~~6~~*Participating Securities and the Two-Class Method under FASB Statement No. 128* ( EITF 03-6 ) provides guidance in determining when the two-class method, as defined in SFAS 128 *Earnings per Share*, must be utilized in calculating earnings per share by a Company that has issued securities other than common stock that contractually entitles the holder to participate in dividends and earnings of the Company when, and if, the Company declares dividends on its common stock. Under the two-class method earnings are allocated to common stock and participating securities to the extent that each security may share in such earnings and as if such earnings for the period had been distributed. Under the two-class method losses are allocated to participating securities to the extent that such security is obligated to fund the losses of the issuing entity or the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. In accordance with EITF 03-6, basic earnings per share for the Company's common stock and Series A Junior Participating Preferred Stock ( Series A Preferred ) would be calculated by dividing net income allocated to common stock and Series A Preferred by the weighted average number of shares of common stock and Series A Preferred outstanding, respectively. Diluted earnings per share for the Company's common stock would be calculated similarly, except that the calculation includes the effect, if dilutive, of the assumed exercise of stock options issuable under the Company's stock-based employee compensation plan, the assumption of the conversion of the Company's Series A Preferred stock to common stock, if dilutive and the assumption of the conversion of the Convertible Notes, if dilutive. Basic and diluted loss per share for the Company's common stock is calculated by dividing the net loss for the period during which such shares were outstanding by the weighted average number of shares outstanding. No losses are allocated to the Series A Preferred for the period during which the Company's common stock is outstanding since the holders of the Series A Preferred are not obligated to share in the Company's losses as described above.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-An interpretation of FASB Statement No. 109 ( FIN 48 ) , which clarifies the accounting for uncertainty in tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

As of March 1, 2006, the Company adopted the Statement of Financial Accounting Standards (SFAS No. 123 (R), Share Based Payment . Prior to the adoption of SFAS No. 123 (R), the Company recognized and measured the share-based compensation in accordance with Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. The adoption of SFAS No. 123 (R) did not have a material impact on the results of operations for the thirteen or twenty-six week periods ended August 26, 2006. See Note 9, Stock Options and Warrants , for more information regarding the Company s adoption of SFAS No. 123 (R).

**NOTE 3 -- PLAYTEX ASSET ACQUISITION AND RELATED BRIDGE LOAN**

On November 16, 2005, Lander and Lander Intangibles acquired certain brands and brand-related assets from Playtex. The acquired brands included *Baby Magic*®, *Binaca*®, *Mr. Bubble*®, *Ogilvie*®, *Tek*®, *Dorothy Gray*®, and *Tussy*®. At the closing, Lander and Lander Intangibles paid a total cash purchase price of \$59.1 million, including \$2.1 million of costs related to acquisition. The \$57.0 million purchase price paid to Playtex was subject to certain post closing adjustments dependent upon the amount of product inventory delivered to Lander at the closing. In December 2005, this adjustment was determined to result in a purchase price reduction of approximately \$1.3 million (bringing the total to \$57.8 million, including acquisition costs). In accordance with SFAS 142, the Company allocated the total purchase price to the assets acquired based on relative fair value. The allocation is as follows:

|                                  | (\$000 s)        |
|----------------------------------|------------------|
| Inventory                        | \$ 9,600         |
| Property, Plant and Equipment    | 900              |
| Brand Names and Product Formulae | 16,924           |
| Customer Relationships           | 30,394           |
| <b>Total Purchase Price</b>      | <b>\$ 57,818</b> |

In order to finance the acquisition of the brands from Playtex (\$57.8 million), fund financing fees (\$2.8 million), repay certain existing indebtedness of the Company and its subsidiaries including the Seller Note and the Financing Arrangement referred to below under Long-Term Debt (approximately \$13.8 million in total) and provide working capital for the operations of Lander (approximately \$5.6 million), on November 15, 2005, Cenuco, Lander, HACI and Lander Intangibles (collectively, the Borrowers), entered into an \$80.0 million Bridge Loan Term Agreement (the Bridge Loan) with Prencen, LLC (Prencen) and Highgate House Funds Ltd. (Highgate), as lenders, and Prencen, as agent for the lenders.

For the first 90 days following closing, the Bridge Loan bore interest at an annual rate of 5.5 percent above the three-month LIBOR (set 2 days in advance on November 14, 2005 at 4.34 percent). The interest rate margin over LIBOR increased by 5 percent per annum at the end of that 90-day period to 10.5 percent. Also at the end of the 90-day period the three-month LIBOR was reset on February 12, 2006 for the next 90 days (February 15, 2006 to May 15, 2006). The reset three-month LIBOR rate of 4.74 percent plus the increased interest rate margin of 10.5 percent generated an interest rate on the Bridge Loan of 15.24 percent for the period February 15, 2006 to May 15, 2006. Upon the occurrence and during the continuance of an event of default, the annual rate of interest will increase by 5.5 percent over the rate of interest otherwise in effect. Interest accrues monthly, in arrears.

The Bridge Loan was originally due and payable on May 15, 2006. The Bridge Loan term was extended to coincide with the August 2, 2006 closing of the Second and Restated Securities Purchase Agreement described in Note 6, with principal and accrued interest paid at closing. The Bridge Loan principal was repaid on August 2, 2006 with the long-term financing described in Note 6.

**NOTE 4 -- INVENTORIES**

Inventory consists of the following:

(\$000 s)

|                | AUGUST 26,<br>2006 | FEBRUARY 28,<br>2006 |
|----------------|--------------------|----------------------|
| Raw materials  | \$ 4,871           | \$ 3,708             |
| Finished goods | 10,116             | 12,561               |
|                | <b>\$ 14,987</b>   | <b>\$ 16,269</b>     |

**NOTE 5 -- PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

(\$000\_s)

|  | AUGUST 26,<br>2006 | FEBRUARY 28,<br>2006 |
|--|--------------------|----------------------|
| Land   | \$ 660             | \$ 660               |
| Computer equipment and software                | 958                | 1,093                |
| Furniture and fixtures                         | 250                | 253                  |
| Building                                       | 2,645              | 2,645                |
| Machinery and equipment                        | 4,220              | 3,953                |
| Dies and molds                                 | 76                 | 87                   |
| Leasehold improvements                         | 142                | 138                  |
| Construction in progress                       | 681                | 280                  |
|  | 9,632              | 9,109                |
| Less accumulated depreciation and amortization | (3,090)            | (2,607)              |
| Total  | \$ 6,542           | \$ 6,502             |

Depreciation and amortization expense related to property, plant and equipment was \$0.2 million and \$0.4 million, respectively for the thirteen and twenty-six weeks ended August 26, 2006. Depreciation and amortization expense related to property, plant and equipment was \$0.4 million and \$0.6 million, respectively for the thirteen and twenty-six weeks ended August 27, 2005.

As of August 26, 2006 and February 28, 2006, machinery and equipment includes assets under capital leases totaling \$153.6 thousand. Accumulated amortization on the capital leases was \$47.3 thousand and \$39.7 thousand as of August 26, 2006 and February 28, 2006, respectively. Amortization expense related to capital leases is included in depreciation and amortization expense for the thirteen and twenty-six weeks ended August 26, 2006 and August 27, 2005.

**NOTE 6 -- LONG-TERM DEBT**

Long-term debt consists of the following:

(\$000\_s)

|   | AUGUST 26,<br>2006 | FEBRUARY 28,<br>2006 |
|---|--------------------|----------------------|
| Bridge loan                                     | \$                 | \$ 80,000            |
| Convertible secured notes (including accretion) | 91,099             |                      |
| Debt discount                                   | (90,809)           |                      |
| Compound derivative liability                   | 75,221             |                      |
| Revolving line of credit                        | 8,080              |                      |
| Capital leases                                  | 9                  | 32                   |
|   | 83,600             | 80,032               |
| Less current portion                            | 9                  | 32                   |
| Total   | \$ 83,591          | \$ 80,000            |

*Prior Financing Arrangements*

On October 1, 2005, Ascendia (the parent of HACI following the merger (see Note 1), entered into a commitment with Prencen and Highgate (both of which are also lenders under the Bridge Loan noted above and further described in Note 3) for the provision of long-term debt and equity financing (the Debt/Equity Financing ) to repay the \$80.0 million Bridge Loan. The terms of this commitment were amended on November 15, 2005, concurrently with the closing of the Bridge Loan. Prior to its maturity, the parties agreed to an extension of the Bridge Loan pending the completion of discussions on further modifications to the Debt/Equity Financing. The parties also agreed to defer the payment of certain interest under the Bridge Loan pending its maturity.

*Convertible Secured Notes*

On June 30, 2006, Ascendia (i) agreed with Prencen and Highgate to amend the Debt/Equity Financing commitment and (ii) in connection with such amendment, entered into a Second and Restated Securities Purchase Agreement (the Securities Purchase Agreement ) with Prencen and Prencen Lending, LLC ( Prencen Lending ), which closed on August 2, 2006, as described below, the obligations to Highgate having been acquired by Prencen Lending. Under the Securities Purchase Agreement, the Company sold Prencen Lending convertible secured notes (the Notes ) in the principal amount of \$91.0 million (and Series A and B Warrants described below) in exchange for the settlement of obligations under the Bridge Loan (\$80.0 million) and \$11.0 million in funding which was used to pay (a) accrued interest on the Bridge Loan (\$4.1 million), (b) cash fees associated with the refinancing to an affiliate of Prencen Lending (\$3.7 million) and (c) third party cash fees associated with the refinancing (\$0.5 million), producing net cash proceeds to the Company of approximately \$2.7 million. In addition, Ascendia paid related fees and expenses of approximately \$5.6 million to Stanford Group Company ( Stanford ) and issued to Stanford warrants for the purchase of 137,615 shares of its common stock at an exercise price of \$3.76 per share, and 552,632 warrants for the purchase of its common stock at an exercise price of \$4.37 per share (collectively the Stanford warrants). The estimated fair value of the Stanford warrants (\$0.7 million) has been recorded as an increase to additional paid-in capital and deferred financing costs.

The Notes have a term of 10 years (subject to the put and call rights described below) and bear interest at the rate of 9.0 % per annum. During the first six months of the term, Ascendia has the option to defer payment of interest. As a result, the Company elected to defer \$0.6 million of interest as of August 26, 2006 on the Notes. In the event of Ascendia making an acquisition in the consumer products area that shall in form and substance be satisfactory to a majority of the holders of the Notes (an Approved Acquisition ), it may elect to defer and add to principal on the Notes interest payments otherwise due over the balance of the term of the Notes. Upon the consummation of such an Approved Acquisition, Ascendia also has the right to redeem up to \$40.0 million of the balance outstanding under the Notes at a premium of 15%. In addition, at any time after the fifth anniversary of the issuance of the Notes (August 2, 2011), Ascendia has the right to redeem, or any holder may require the Company to redeem, all or any portion of the balance outstanding under the Notes at a premium of 5% (the 5 Year Put Option ).

In connection with the amendment and restatement of the Debt/Equity Financing agreements and the sale of the Notes, Ascendia also issued certain warrants (the Series A Warrants ) entitling the lender to purchase 3,053,358 shares of its common stock at an exercise price of \$2.10. In addition, Ascendia committed to the issuance of certain warrants (the Series B Warrants ) entitling the lender to purchase shares of its common stock under terms that are contingent upon the balance outstanding on the Notes at the earlier to occur of an Approved Acquisition or October 31, 2006. If the balance outstanding under the Notes on such date is greater or less than \$61.0 million, Ascendia is required to issue to Prencen up to 3,000,000 Series B Warrants, at exercise prices ranging from \$1.15 to \$1.95. In the event the balance outstanding under the Notes is \$61.0 million, no Series B Warrants are required to be issued.

Any portion of the balance due under the Notes is convertible at any time, at the option of the holders(s), into the common stock of Ascendia at a price of \$1.75 per share (subject to certain ant-dilution adjustments for the subsequent issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect), provided that the holders may not convert any amounts due under the Notes if and to the extent that, following such a conversion, the holder and any affiliate would collectively own more than 9.99% of the aggregate number of shares of common stock of Ascendia outstanding following such conversion (the Conversion Option ). The Notes describe various events of default which include, but are not limited to (a) the failure to make effective by January 30, 2007, and keep effective thereafter a registration statement to register the

shares underlying the conversion of the Notes and the exercise of the Series A and B Warrants and other shares (the Registration Statement ), (b) the suspension in trading of the Company's stock for a defined period, (c) the failure to timely issue shares in response to a conversion notice received from a Note holder, and (d) the failure to have available conversion of the Notes. In the event of a default, the holders of the Notes may require the Company to redeem the Notes at the greater of a 25% premium, or the value of the shares underlying the conversion of such Notes at the time of the event of default (determined by reference to a definition of a maximum share price). In the event of a Change in Control of the Company (as defined), the holders of the Notes will have the right (the Change in Control Put ), for a period of 20 days subsequent to the receipt of notice of the Change in Control, to require the Company to redeem the Notes at the greater of a 20% premium, or the value of the shares underlying the conversion of such Notes at the time of the change in control (determined by reference to a definition of a maximum share price). The above described Conversion Option and specifically noted events of default (the Default Derivatives ), along with the Change in Control Put (collectively the Compound Derivative ) have been bifurcated as derivatives required to be accounted for separately under FASB Statement No. 133 *Accounting for Derivative Financial Instruments and Hedging Activities* and EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock* , and are considered in the determination of the estimated fair market value of the Compound Derivative liability noted below.

In the event the Registration Statement is not timely filed (by October 2, 2006, later extended to October 10, 2006 and subsequently extended to November 10, 2006), or make effective or maintained effective (as described above) the holders of the Notes are also entitled to a cash penalty in the amount of 2% of the face amount of the Notes for each 30-day period until such time as the default has been cured, subject to a maximum of 10%. In addition, in the event that the Company fails to timely issue shares in response to a conversion notice received from a Note holder or an exercise notice received from the holder of a Series A or B Warrant, the holders of such Notes or warrants will be entitled to damages in the amount of 1.5% per day of the then current value of the shares not timely delivered for each day that such delivery is not provided.

The Notes rank as senior secured debt of Ascendia, provided however that the Notes are subordinated to the new revolving credit facility of up to \$13.0 million secured by inventory and accounts receivable (described below). The Notes are also subordinated to indebtedness incurred in connection with an Approved Acquisition, in an amount up to \$250.0 million.

#### *Accounting for Issuance of Convertible Secured Notes*

Consideration received from the issuance of the Notes (\$87.3 million net of a \$ 3.7 million origination fee paid to Prentice Capital Management, LP, an affiliate of Prencen Lending, was allocated to the Series A and B Warrants and the Notes based on the relative fair value of each. The resulting \$7.7 million value attributed to the Series A and B Warrants has been reflected as a credit to paid-in capital with an offsetting debt issuance discount recorded on the Notes. The resulting allocation to the Notes (\$79.6 million) was then further offset, as an additional debt issuance discount, by the estimated fair value of the liability for the Compound Derivative discussed above (amounting to \$86.4 million as of August 2, 2006). The \$6.8 million excess of the estimated fair value of the liability of \$86.4 million over the allocation to the discount on the Notes of \$79.6 million was recorded as a loss on the issuance of the Notes. The debt issuance discount (totaling \$91.0 million) and the cash and other deferred finance costs associated with the issuance of the Notes (totaling \$6.2 million), are being amortized to interest expense under the interest method over the 5-year period to the date that the 5 Year Put Option becomes exercisable (August 2, 2011). The 5% premium associated with the 5 Year Put Option (\$4.6 million) is being accreted over the same 5-year period, also under the interest method, as an increase to interest expense and recorded value of the Notes. Such amortization and accretion amounted to \$0.3 million in the current period. Given the significant initial issuance discount recorded on the Notes this treatment will result in substantially lower amortization and accretion being charged to interest expense in the earlier of the 5 years than the latter.

The liability recorded for the Compound Derivative will be adjusted to fair market value at each future reporting date with the difference in the fair value of such liability between such reporting dates being recorded as an increase or decrease in interest and other expense for that period. The value of the Compound Derivative liability was adjusted to \$75.2 million as of August 26, 2006, resulting in a decrease to interest and other expense for the period between August 2 and August 26, 2006 of \$11.2 million.

*Revolver*

On August 3, 2006, the Company closed on a revolving line of credit with a major financial institution for a \$13.0 million three year facility. This facility was used to fund approximately \$5.6 million of the above noted cash costs associated with the Long-Term Financing and approximately \$0.1 million in expenses associated with this facility. In addition, another \$0.9 million was drawn from the facility, which along with the \$2.7 million in net proceeds from the issuance of the Notes was used to redeem certain shares of the Company's Series A Preferred Stock from MarNan LLC and Dana Holdings LLC (see Note 12). The remainder of availability under the facility is to be used in the future for working capital and general corporate purposes. The facility is secured with the Company's United States accounts receivable and inventory

The Revolver contains the following key provisions:

**Line of credit** A revolving line of credit providing for revolving advances up to the lesser of (a) \$13.0 million or (b) the sum of (herein the **Borrowing Base**): (i) eighty-five percent of eligible domestic (US) accounts receivable, subject to dilution of 5%, plus (ii) eighty-five percent (85%) of the net orderly liquidation value as a percentage of cost of eligible US finished goods and raw materials inventory. The total inventory sublimit will not exceed \$8.0 million. The Agreement requires excess availability of \$2.0 million at closing and a permanent availability block against the Borrowing Base of \$0.75 million.

**Interest rate** Interest will be computed and payable monthly on all outstanding revolving loans at a rate equivalent to the Chase Bank Rate per annum or, at the Company's option, Libor plus two and one quarter percent (2¼%).

**Fees** A loan facility fee of \$100,000 earned at closing and payable: \$25,000 upon signing of commitment letter, \$25,000 payable at closing and \$50,000 payable six (6) months from closing. A collateral management fee of \$30,000 per year, earned at closing and on each Anniversary Date, payable monthly.

**Termination fee** A termination fee is charged of 1% of total facility if terminated prior to first Anniversary Date, three quarters percent (¾%) if terminated prior to second Anniversary Date, and one half percent (½%) if terminated anytime thereafter prior to an Anniversary Date.

**NOTE 7 -- INCOME TAXES**

In each period presented the effective income tax rate differs from the statutory rate of 34% primarily due to the inability to recognize tax benefits on current losses.

**NOTE 8 -- COMMITMENTS AND CONTINGENCIES**

The Company has various noncancelable operating leases for manufacturing and office facilities. Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments for each period are as follows:

(\$000\_s)

|  | <b>CAPITAL<br/>LEASES</b> | <b>OPERATING<br/>LEASES</b> |
|--|---------------------------|-----------------------------|
| 2007   | \$ 9                      | \$ 726                      |
| 2008   |                           | 1,310                       |
| 2009   |                           | 1,122                       |
| 2010   |                           | 1,117                       |
| 2011   |                           | 896                         |
| 2012   |                           | 106                         |
| Total minimum lease payments                   | \$ 9                      | \$ 5,277                    |
| Less amounts representing interest             |                           |                             |
| Present value of future minimum lease payments | \$ 9                      |                             |

Also the Company had purchase obligations of \$3.3 million as of August 26, 2006.





Cenuco, Inc. ( Cenuco Wireless ), the Company's wireless applications development subsidiary, is the defendant in a patent infringement case commenced on February 1, 2005 in Federal District Court for the Southern District of New York ( *Joao v. Cenuco, Inc.*, 05 Civ. 1037 (CM) (MDF)). The plaintiff, Raymond Anthony Joao, asserts in his complaint that Cenuco Wireless is infringing certain patents held by Joao, specifically United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130, which cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. Cenuco Wireless has timely answered the complaint denying infringement, and intends to defend this case vigorously on the merits. Management believes that the patents relied on by Joao are invalid and that the chances of Joao prevailing are remote. Nonetheless, there can be no assurance as to the outcome of the case, and a judicial determination that Cenuco Wireless is infringing Joao's patents, while unlikely, could have a material adverse effect on the ability of Cenuco Wireless to market and sell its current product line. Similarly, there is no assurance that Cenuco Wireless would be able to develop, at a reasonable cost, within a reasonable length of time or at all, a workaround to eliminate any patent infringement found to exist.

On September 16, 2006, Lander Co., Inc. ( Lander ) received correspondence from counsel to TMV Corporation ( TMV ), styled as a Demand for Arbitration, asserting claims in an aggregate amount in excess of \$26 million against Lander and Lander Co. Canada Limited ( Lander Canada ). TMV, the parent corporation of USA Labs, Inc. ( USA Labs ), asserts in its claim that Lander and Lander Canada breached a marketing agreement with U.S.A. Labs (to which TMV was a party for consent purposes only) by failing to account for in excess of \$1 million or more owed under that agreement; TMV further asserts that alleged breaches by Lander and Lander Canada of the marketing agreement were responsible for the bankruptcy of USA Labs, and TMV seeks indemnification from Lander and Lander Canada for the loss of its investment in USA Labs, alleged to be \$25 million. Management believes that the claims asserted by TMV lack merit, and that TMV lacks standing to bring actions arising out of the marketing agreement. Furthermore, although styled as a Demand for Arbitration, management believes that the correspondence from TMV's counsel does not constitute a valid demand for arbitration because TMV failed to serve or notify the American Arbitration Association, whose Commercial Arbitration Rules expressly govern the resolution of disputes arising under the marketing agreement. Should a demand for arbitration be properly served, management will contest the claims vigorously and believes that the chances of TMV prevailing are remote.

We are also involved, from time to time, in routine legal proceedings and claims incidental to our business. Should it appear probable in management's judgment that we will incur monetary damages or costs in relation to any such proceedings or claims, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges recorded against earnings. We believe that the resolution of such claims, taking into account reserves and insurance, will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations.

**NOTE 9 -- STOCK OPTIONS AND WARRANTS**

SFAS No. 123 (R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service period.

The Company adopted SFAS No. 123 (R) using the modified prospective transition method, which requires application of the accounting standard as of March 1, 2006 and for all periods thereafter. All previously granted options have either expired or become fully vested prior to February 28, 2006 and no new options have been granted since then. Accordingly, there was no non-cash compensation recorded under SFAS No. 123 (R) in the thirteen week period ended May 27, 2006 and no unrecorded fair value based compensation with respect to options as of that date. In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS No. 123 (R).

Prior to the adoption of SFAS No. 123(R), we accounted for share-based payment awards using the intrinsic value method in accordance with APB No. 25 as allowed under SFAS No. 123. Under the intrinsic value method, no share-based compensation expense had been recognized in our consolidated statements of operations for periods prior to March 1, 2006 because the exercise price of our stock options granted equaled the fair market value of the underlying stock at the date of grant. In our pro forma disclosures required under SFAS No. 123 for the periods prior to March 1, 2006, the Company estimated forfeitures and in subsequent periods the Company will adjust forfeitures for actual amounts.

For purposes of determining the estimated fair value of share-based payment awards issued in the form of stock options, under SFAS No. 123(R) the Company utilizes the Black-Scholes option-pricing model ( Black-Scholes Model ). The Black-Scholes Model requires the input of certain assumptions that involve judgment. Because stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the existing models may not provide a reliable single measure of the fair value of the Company's stock options. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value under the Black-Scholes Model. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, and thereby materially impact our fair value determination.

The following information applies to options outstanding at August 26, 2006:

| <b>Range of Prices</b> | <b>Options Outstanding and Exercisable<br/>Weighted -<br/>Average<br/>Remaining<br/>Contractual<br/>Life (Years)</b> | <b>Shares</b> |
|------------------------|--|---------------|
| \$0.42                 | 6.01   | 73,332        |
| \$0.55                 | 0.33   | 40,000        |
| \$1.15                 | 7.28   | 218,335       |
| \$1.55                 | 6.37   | 35,001        |
| \$2.00                 | 4.51   | 130,000       |
| \$3.71                 | 7.91   | 40,000        |
| \$4.00                 | 7.93   | 20,000        |
|                        |  | 556,668       |

At August 26, 2006, the aggregate intrinsic value of options outstanding and exercisable was \$0.6 million. The weighted average remaining contractual term of options outstanding and exercisable at August 26, 2006 was 5.98 years. The aggregate intrinsic value represents the total pre-tax value, based on the Company's closing stock price as of August 26, 2006, which would have been received by the option holders had they exercised their in-the-money options as of that date. During the thirteen and twenty-six weeks ended August 26 2006, no outstanding options were exercised.

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From the date of the Merger to August 26, 2006, 162,500 warrants have been exercised at an exercise price of \$1 per share.

The following information applies to all warrants outstanding at August 26, 2006:

| Range of Prices  | Warrants Outstanding and Exercisable<br>Weighted -<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Shares    |
|------------------|---|-----------|
| \$1.00           | 2.30  | 119,000   |
| \$2.10           | 4.94  | 3,053,358 |
| \$3.76           | 4.94  | 137,615   |
| \$4.00           | 2.83  | 105,784   |
| \$4.37           | 4.94  | 552,632   |
| \$4.50           | 2.74  | 1,387,760 |
| \$5.00 to \$6.50 | 2.76  | 350,000   |
| \$6.00           | 3.73  | 500,000   |
|                  |   | 6,206,149 |

In addition, as further described in Note 6, 3 million warrants are committed to be issued depending upon the balance outstanding on the Convertible Secured Notes as of October 31, 2006.

### NOTE 10 -- CAPITAL STRUCTURE AND NET INCOME (LOSS) PER COMMON SHARE

#### Capital Structure:

At August 26, 2006, the outstanding share capital of the Company is comprised of: (i) 13,913,056 shares of common stock ( Common Stock ), and (ii) 2,347.8 shares of Series A Junior Participating Preferred Stock (the Series A Preferred Stock ).

The Series A Preferred Stock was issued in connection with the completion of the Merger as described in Note 1 to the consolidated financial statements. The holders of the Series A Preferred Stock are entitled to receive when, as and if declared by the Board of Directors, quarterly cumulative dividends commencing on March 31, 2006 in an amount per share equal to \$0.001. No dividends have been declared as of August 26, 2006. In addition to the dividends payable to the holders of Series A Preferred Stock, the Company shall declare a dividend or distribution on the Series A Preferred Stock equal to any amount declared on the Common Stock. Holders of the Series A Preferred Stock (using the number of common shares into which each share of Series A Preferred Stock is convertible) and the holders of Common Stock vote together as one class on all matters submitted to a vote of stockholders of the Company, provided however that the holders of the Series A Preferred Stock are not entitled to any voting rights on any matter relating to the Merger. Upon liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Stock are entitled to liquidation preferences over all other classes of capital stock. The holders of Series A Preferred Stock shall receive an amount equal to \$1,000 per share of the Series A Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions prior to any distribution to the holders of any other class of capital stock. If the assets available for distribution are sufficient to permit a full payment of the above amounts then, after such amounts have been fully distributed, holders of the Series A Preferred Stock shall share equally with holder of the Common Stock on a per share basis (using the number of common shares into which each share of Series A Preferred Stock is convertible). Each share of Series A Preferred Stock carries the voting rights on a basis such that the rights of the Series A Preferred Stock as a whole correspond to 65 percent of the aggregate rights of the Series A Preferred Stock and Common Stock outstanding as of the completion of the Merger. Upon the approval of the holders of the Common Stock and an increase in the Company's authorized share capital, each share of Series A Preferred Stock will automatically convert into shares of Common Stock on such a basis that, following conversion, the holders of the Series A Preferred Stock will hold the same proportional rights to general distributions and voting rights that they held immediately prior to such conversion. The Series A Preferred Stock is not redeemable.

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**Net loss per share:**

The following table shows how the net loss was allocated using the two-class method (see Note 2):

(Amounts in \$000 s, except for share and per share data)

|                        | For the thirteen weeks ended |                    | For the twenty-six weeks ended |                    |
|------------------------|------------------------------|--------------------|--------------------------------|--------------------|
|                        | August 26,<br>2006           | August 27,<br>2005 | August 26,<br>2006             | August 27,<br>2005 |
| Allocation of net loss |                              |                    |                                |                    |
| Basic and Diluted:     |                              |                    |                                |                    |
| - Common Stock         | (531                         | ) (2,505           | ) (4,075                       | ) (2,800           |
| - Series A Preferred   |                              |                    |                                | (1,834             |
| Net income (loss)      | (531                         | ) (2,505           | ) (4,075                       | ) (4,634           |

The following table illustrates the weighted average number of shares of Common Stock and Series A Preferred Stock outstanding during the period utilized in the calculation of loss per share. The diluted share base excludes incremental shares of 28,267,219 and 28,308,673 for the thirteen and twenty-six weeks ended August 26, 2006, respectively. These shares were excluded due to their anti-dilutive effect:

|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Weighted average number of                  |            |            |            |            |
| Common Stock - basic and diluted            | 13,913,056 | 13,768,930 | 13,910,252 | 13,734,420 |
| Weighted average number of                  |            |            |            |            |
| Series A Preferred shares -                 |            |            |            |            |
| basic and diluted                           | 2,347.8    | 2,554      | 2,347.8    | 2,554      |
| Basic and diluted net loss per common share | \$(0.04    | ) \$(0.18  | ) \$(0.29  | ) \$(0.20  |
| Basic and diluted net loss per share -      |            |            |            |            |
| Series A Preferred                          | \$         | \$(718     | ) \$       | \$(718     |

**NOTE 11 -- SEGMENT AND GEOGRAPHIC INFORMATION**

The results related to the Playtex asset acquisition are reported in HBC Division.

(Amounts in thousands, except for shares and per share amounts)

**THIRTEEN WEEKS ENDED AUGUST 26, 2006**

| <b>DIVISION</b>      | <b>HBC</b> | <b>WAD</b> | <b>TOTAL</b> |
|----------------------|------------|------------|--------------|
| Net Sales            | \$ 24,377  | \$ 27      | \$ 24,404    |
| Loss from operations | (1,043)    | (309)      | (1,352)      |
| Net loss             | \$ (232)   | \$ (299)   | \$ (531)     |
| Total Assets         | \$ 87,305  | \$ 21,236  | \$ 108,541   |

| <b>GEOGRAPHIC</b>                     | <b>NET SALES</b> | <b>LONG-LIVED ASSETS</b> |
|---------------------------------------|------------------|--------------------------|
| Thirteen weeks ended August 26, 2006: |                  |                          |
| United States                         | \$ 18,248        | \$ 71,410                |
| Canada                                | 3,640            | 614                      |
| Other foreign countries               | 2,516            |                          |
| Total                                 | \$ 24,404        | \$ 72,024                |



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THIRTEEN WEEKS ENDED AUGUST 27, 2005

| <b>DIVISION</b>      | <b>HBC</b> | <b>WAD</b> | <b>TOTAL</b> |
|----------------------|------------|------------|--------------|
| Net Sales            | \$ 16,827  | \$ 14      | \$ 16,841    |
| Loss from operations | (1,471)    | (818)      | (2,289)      |
| Net loss             | \$ (1,710) | \$ (795)   | \$ (2,505)   |
| Total Assets         | \$ 25,314  | \$ 45,273  | \$ 70,587    |

| <b>GEOGRAPHIC</b>                     | <b>NET SALES</b> | <b>LONG-LIVED ASSETS</b> |
|---------------------------------------|------------------|--------------------------|
| Thirteen weeks ended August 27, 2005: |                  |                          |
| United States                         | \$ 10,751        | \$ 43,749                |
| Canada                                | 4,049            | 588                      |
| Other foreign countries               | 2,041            |                          |
| Total                                 | \$ 16,841        | \$ 44,337                |

TWENTY-SIX WEEKS ENDED AUGUST 26, 2006

(Amounts in thousands, except for shares and per share amounts)

| <b>DIVISION</b>      | <b>HBC</b> | <b>WAD</b> | <b>TOTAL</b> |
|----------------------|------------|------------|--------------|
| Net Sales            | \$ 49,224  | \$ 102     | \$ 49,326    |
| Loss from operations | 124        | (1,509)    | (1,385)      |
| Net income (loss)    | \$ (2,577) | \$ (1,498) | \$ (4,075)   |

| <b>GEOGRAPHIC</b>                       | <b>NET SALES</b> |
|---|------------------|
| Twenty-six weeks ended August 26, 2006: |                  |
| United States                           | \$ 37,157        |
| Canada                                  | 6,967            |
| Other foreign countries                 | 5,202            |
| Total                                   | \$ 49,326        |

TWENTY-SIX WEEKS ENDED AUGUST 27, 2005

| <b>DIVISION</b>      | <b>HBC</b> | <b>WAD</b> | <b>TOTAL</b> |
|----------------------|------------|------------|--------------|
| Net Sales            | \$ 34,175  | \$ 17      | \$ 34,192    |
| Loss from operations | (3,059)    | (882)      | (3,941)      |
| Net loss             | \$ (3,776) | \$ (858)   | \$ (4,634)   |

| <b>GEOGRAPHIC</b>                       | <b>NET SALES</b> |
|---|------------------|
| Twenty-six weeks ended August 27, 2005: |                  |
| United States                           | \$ 22,260        |
| Canada                                  | 7,779            |
| Other foreign countries                 | 4,153            |
| Total                                   | \$ 34,192        |

**NOTE 12 -- TRANSACTIONS WITH RELATED PARTIES**

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided professional services and (until June 2005) leased office facilities to the Company. THGLLP also paid expenses on behalf of the Company. THGLLP invoiced the Company a total of approximately \$21.3 thousand and \$51.1 thousand respectively, for professional fees, facility usage and reimbursable expenses for the thirteen and twenty-six weeks ended August 26, 2006 and \$125.8 thousand and \$258.8 thousand respectively, for the thirteen and twenty-six weeks ended August 27, 2005. At August 26, 2006, and February 28, 2006, the Company owed THGLLP \$6.9 thousand and \$35.6 thousand, respectively for such amounts. Mark I. Massad is a founding Partner and is currently a non-active partner in THGLLP. Mr. Massad and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in MarNan, LLC ( MarNan ), a New Jersey limited liability company. MarNan owns approximately 39 percent of the Company's Series A Preferred Stock.

Zephyr Ventures LLC (ZVLLC) provided consulting services to the Company. Edward J. Doyle, a member of the Board of Directors of the Company from May 20, 2005, is a Managing Member of ZVLLC. For the thirteen and twenty-six weeks ended August 26, 2006, ZVLLC did not invoice the Company. For the thirteen and twenty-six weeks ended August 27, 2005, ZVLLC invoiced the Company for \$19.1 thousand. Effective May 20, 2005, the date of the Merger, ZVLLC ceased providing consulting services to the Company. No monies were due ZVLLC at August 26, 2006 and February 28, 2006.

Kenneth D. Taylor, a member of the Board of Directors of the Company since May 20, 2005, provided consulting services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006, Mr. Taylor did not invoice the Company. For the thirteen and twenty-six weeks ended August 27, 2005 he invoiced the Company for \$5.0 thousand. Effective May 20, 2005, the date of the Merger, he ceased providing consulting services to the Company. No monies were due Mr. Taylor at August 26, 2006 and February 28, 2006.

The Hermes Group LLC (THGLLC), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006 and August 27, 2005, THGLLC invoiced the Company and its subsidiaries for \$120.0 thousand, \$233.5 thousand, \$118.7 thousand and \$118.7 thousand, respectively, as compensation for the provision of business advisory services. Mark I. Massad is a member of THGLLC and a member of MarNan LLC, which is a 39% shareholder of the Series A Preferred Stock of the Company. As of August 26, 2006 and February 28, 2006, there was a balance due to THGLLC of \$40.0 thousand and \$6.9 thousand, respectively.

M2 Advisory Group LLC (M2AG), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006 M2AG invoiced the Company and its subsidiaries for \$15.1 thousand and \$20.8 thousand, respectively, as compensation for the provision of business advisory services. For the thirteen and twenty-six weeks ended August 27, 2005, M2AG did not provide any services. Mark I. Massad is a member of M2AG and a member of MarNan LLC, which is a 39% shareholder of the Series A Preferred Stock of the Company. As of August 26, 2006 and February 28, 2006, there was a balance due to M2AG of \$7.5 thousand and \$0.0 thousand, respectively.

Joseph A. Falsetti (who is a Director and the Chief Executive Officer of the Company) and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in Dana Holdings, LLC ( Dana Holdings ), a New Jersey limited liability company. Dana Holdings owns 39 percent of the Company's Series A Preferred Stock.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this report. Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties, including but not limited to: quarterly fluctuations in results; customer demand for the Company's products; the development of new technology; domestic and international economic conditions; the achievement of lower costs and expenses; the continued availability of financing in the amounts and on the terms required to support the Company's future business; credit concerns in this industry; and other risks detailed from time to time in the Company's other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations. The risks included here are not exhaustive. Other sections of this report may include additional factors that could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while the Company does communicate with securities analysts from time to time, it is against its policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against issuing or confirming financial forecast or projections issued by others. Therefore, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

## BUSINESS SUMMARY

Ascendia Brands, Inc. (Ascendia, the Company, the Registrant, we or us) manufactures, markets and distributes a portfolio of nationally and internationally recognized branded products in the health and beauty care categories. The brand portfolio includes *Baby Magic*®, *Binaca*®, *Mr. Bubble*®, *Lander*®, *Lander essentials*®, *Ogilvie*®, *Tek*®, *Dentax*®, *Dorothy Gray*® and *Tussy*®. These products compete in the Bath Products, Baby Toiletries, Deodorant/Antiperspirant, Home Permanent Treatment, Mouthwash, Portable Breath Sprays and Drops, Manual Toothbrush, and Skin Care space within the personal care products market. Ascendia sells its brands through a variety of channels, concentrating on mass merchandisers, drug stores, supermarkets (mass, drug, food), and dollar store outlets. This strategy allows us to offer consumers brands in the outlets most often shopped for these product categories. Within the consumer products market, Ascendia's brands hold either the number one or number two market position within the space in which we compete, as shown below:

Ascendia's Major Brands Market Position.

| <i>Major Brand</i>        | <i>Space</i>               | <i>Market Position</i> |
|---------------------------|----------------------------|------------------------|
| Mr. Bubble                | Children's Bath            | #1                     |
| Lander, Lander essentials | Basic Bath                 | #1                     |
| Baby Magic/ Lander        | Baby Toiletries            | #2                     |
| Ogilvie                   | Home Permanents            | #1                     |
| Binaca                    | Portable Breath Freshening | #2                     |

Source: Information Resources, Inc., 4Q 2005.

Strategically, Ascendia limits its distribution to traditional mass, drug, food and dollar store retail venues; we do not currently participate in online, specialty retail, club stores or direct-to-consumer outlets. We continue to seek increased access to retail shelf space and distribution points that can provide enhanced profit margins for Ascendia while also providing good value for consumers. We anticipate that, in the long term, distribution in lower profit margin retail outlets will be scaled down in favor of sales through higher margin retail outlets.

The Company focuses internal resources on product development, manufacturing, distribution, marketing and sales. Ascendia utilizes these core competencies in conjunction with our experienced management team to increase sales and profits. The Company expects to achieve growth through a combination of increased market penetration from existing products in addition to strategic acquisitions.

The Company is also engaged in the development of remote video streaming applications, through its Cenuco Wireless subsidiary.

### Corporate Structure

On May 9, 2006 the Company (previously known as Cenuco, Inc.) changed its name to Ascendia Brands, Inc. The chart below depicts the current structure of Ascendia and its direct and indirect, wholly-owned subsidiaries, and the discussion that follows summarizes the functions and role of each company in this group.

*Ascendia Brands, Inc.* ( *Ascendia* , *the Company*, *the Registrant*, *we* or *us* ). The Company is a holding company, organized under Delaware law, with its executive offices in Hamilton, New Jersey. It owns directly the stock of Hermes Acquisition Company I LLC and Cenuco, Inc.

*Hermes Acquisition Company I LLC* ( *HACI* ). Hermes is a Delaware limited liability company that acts as the holding company for the Company's health and beauty care division.

*Ascendia Brands Co., Inc.* ( *Ascendia Brands* ). Ascendia Brands is a New Jersey corporation with its executive offices in Hamilton, New Jersey. As of May 1, 2006, Ascendia Brands assumed the manufacturing and distribution operations formerly conducted through Lander Co., Inc. (*see, infra*). As the successor to Lander Co., Inc., Ascendia Brands manufactures and sells branded health and beauty care products in the value and premium value categories, through mass market retailers (such as Wal-Mart and K-Mart), dollar stores, supermarkets and pharmacies. Ascendia's brands include *Baby Magic*, *Binaca*, *Mr. Bubble*, *Lander*, *Lander essentials*, *Ogilvie*, *Tek*, *Dentax*, *Dorothy Gray* and *Tussy*. Ascendia Brands operates a manufacturing plant in Binghamton, New York, which is leased from a related party, Ascendia Real Estate LLC.

*Lander Co., Inc.* ( *Lander* ). Lander is a Delaware corporation with its executive offices in Wilmington, Delaware. During the period ended February 28, 2006, Lander was the principal operating company in Ascendia's health and beauty care division. Following the transition of manufacturing and distribution activities to Ascendia Brands, Lander acts as an intellectual property holding company for trademarks and other intellectual property associated with the *Lander* brands.

*Lander Co. Canada Ltd* ( *Lander Canada* ). Lander Canada, a Canadian limited company, is the Canadian manufacturing and distribution arm of Ascendia's health and beauty care division. Lander Canada operates a manufacturing facility in Toronto, Ontario, which it leases from a third party.

*Ascendia Real Estate LLC (f/k/a Hermes Real Estate I LLC)* ( *Ascendia Real Estate* ). Ascendia Real Estate, a New York limited liability company, is a real estate holding company. Its sole asset is the Binghamton plant, which it leases to Ascendia Brands.

*Lander Intangibles Corporation* ( *Lander Intangibles* ). Lander Intangibles is a Delaware corporation with its executive offices in Wilmington, Delaware. Lander Intangibles is an intellectual property holding company that was formed to acquire and hold certain of the intellectual property that the Company purchased from Playtex Products Inc. and its affiliates ( *Playtex* ) on November 16, 2005.

*Cenuco, Inc.* ( *Cenuco Wireless* ). Cenuco Wireless is a Florida corporation with executive offices in Boca Raton. Cenuco Wireless develops and markets wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform.

## **Health and Beauty Care Division**

### ***Introduction***

Ascendia Brands and its Canadian affiliate, Lander Canada manufacture, market and distribute value and premium value branded health and beauty care products in the United States and Canada, and in 90 countries throughout the Americas, Africa, Asia and the Middle East. Ascendia's growing range of product offerings includes branded bath care, baby care, oral care and skin & hair care products. Additionally, through its Canadian facility, Lander Canada produces a line of private label brands for a limited number of large Canadian retail chains.

Ascendia Brands traces its history to the formation of Lander in 1920. Lander was the first value brand cosmetics company in the U.S. In the 1930s and 1940s, Lander introduced perfumes such as *Romantic Days* (in 1943), and *Samezi-Soir* (in 1950). By the 1950s, Lander owned and controlled over thirty brand names and four subsidiaries, including *Lundborg Perfumers Inc.* and *Mac Gregor Men's Toiletries Inc.* Lander began sales in Canada in 1947. A family-owned company for over 40 years, Lander was acquired in 1964 by what is now Bristol Myers Squibb. In 1968, ownership passed to Scott Chemical Co., Inc., and in 1994 Claneil Enterprises, Inc. purchased Lander. In 2003 the Hermes Group LLC, a Princeton, NJ-based private equity company, purchased Lander from Claneil. In May 2005, Hermes/Lander merged with Cenuco, Inc.

Ascendia has inherited Lander's position as America's leading manufacturer of quality value-brand health and beauty care products. Ascendia has sought to expand its offerings of premium products both through organic growth (including the launch in 2005 of its successful Lander essentials; 3in1 range of products), as well as through the acquisition of brands that offer a strategic fit with Ascendia's business model and core competencies.

### ***Acquisition of Brands from Playtex***

On November 16, 2005, Ascendia completed the acquisition of the *Baby Magic, Mr. Bubble, Ogilvie, Binaca, Dorothy Gray, Tussy* and *Tek* brands from Playtex. The acquisition of these additional brands created commercial, operational and distribution synergies with the Company's existing manufacturing and distribution infrastructure. The acquired brands are positioned in product categories in which Ascendia Brands already has an established and significant extreme value leadership position. Management believes that combining marketing, sales, manufacturing and distribution of the former Playtex brands and the *Lander* brands will enable us to realize manufacturing and distribution efficiencies. More specifically, it gives us access to retailers with which the Ascendia Brands had not previously done business (e. g., Target Stores and Toys R Us), enabling us to offer more of our products to each customer.

The brands acquired from Playtex in November 2005 include the following:

*Baby Magic* In 1950, Mennen Company first introduced the *Baby Magic* trade name to the market. The brand was later sold to Colgate, which in 1999 sold the United States, Puerto Rican, and Canadian rights to the trade name to Playtex. Playtex initially viewed *Baby Magic* as a core brand and provided sustained marketing and advertising support. Prior to our acquisition of the brand, however, the entry of additional competitors such as Huggies and Gerber had reduced *Baby Magic*'s market share and it was no longer viewed as a core brand. Nonetheless, *Baby Magic* had remained the number two brand in a highly competitive infant toiletries segment with more than 80 percent brand awareness. (Source: Proprietary Market Research, July 2005).

*Mr. Bubble* First introduced in 1961, *Mr. Bubble* is the market leader in the children's bath additives category, with a market share of almost 30 percent and brand awareness in excess of 97 percent. The product is primarily used by children ages 3-8. Due to its longevity and category defining position, *Mr. Bubble* is viewed as an icon of popular culture. (Sources: Information Resources, Inc., 3Q 2005 and Proprietary Market Research, July 1998).

*Binaca* First introduced circa 1970, Playtex acquired the *Binaca* brand in 1998. *Binaca* has been associated with instantly fresh breath since its early beginnings. Today, *Binaca* is enjoying renewed brand growth as a result of renewed consumer interest in portable breath freshening.

*Ogilvie* First introduced in 1920, *Ogilvie* has been the market leader in the at-home hair permanents category for over 40 years. In 1998, when Playtex acquired the brand, *Ogilvie* had approximately a 50 percent market share. Today, *Ogilvie* has more than an 80 percent market share within the reported food, drug and mass outlets.

*Tussy* First introduced in 1925, *Tussy* is a brand deodorant and deodorant/antiperspirant. The deodorant product is offered in a cream form, while the deodorant/antiperspirant is available in the more common roll-on and stick forms. This brand meets a consumer need for an open-price point offering, available in food, drug, mass and Dollar outlets.

*Tek Tek* is a brand of toothbrush and includes the *Tek Excel* and *Tek Pro* Lines. The *Tek* toothbrushes carry the American Dental Seal of Acceptance. The *Tek* trademark was registered as a trademark in 1929 by Johnson & Johnson and assigned to Playtex in 1966.

*Dorothy Gray Satura* First introduced in 1916, *Dorothy Gray* is an upscale line of face cream products specifically designed to address the needs of dry or mature skin. The brand enjoys limited domestic distribution, with revenues generated primarily by sales to Korea and other international markets.

Prior to the acquisition of the former Playtex brands, Ascendia's health and beauty care division distributed more than 82 million units annually (primarily liquid fill bath care, baby care and skin care products) in North America, and another nine million units internationally. Subsequent to the acquisition, the Company estimates it will distribute an additional 40 million units annually. This increases total Company annual units to an estimated 131 million on a global basis.

#### **Customers and Distribution Channels**

Ascendia Brands' senior sales management team, along with our seasoned network of sales brokers, maintains long-standing relationships with our top fifty customers, which account for approximately eighty-five percent of our total gross sales. Ascendia Brands' dedicated sales management group consists of eight people, who primarily focus on developing our profitable premium brands within our current base of core customers, as well as acquiring new customers in our targeted demographic groups. These focused efforts generated growth in sales volume of approximately forty-eight percent in fiscal 2006 within the portfolio of premium *Lander / Lander essentials* bath and body products. In the future, we will continue to emphasize growth in the higher margin, branded segments of our business, versus the extreme value and private label segments. Indeed this focus will be intensified in fiscal 2007 in conjunction with our new product offerings in our *Lander essentials* line, along with upgraded and new items in the recently acquired *Baby Magic*, *Mr. Bubble*, *Binaca*, and *Ogilvie* brands.

Ascendia Brands enjoys a broad distribution base comprised of a variety of markets and distribution channels internationally. During the fiscal year ended February 28, 2006, approximately 69 percent of Ascendia Brands' gross revenues were derived in the United States, 20 percent were derived in Canada and the remaining 11 percent in roughly 90 other countries throughout the Americas, Europe, Asia, the Middle East and Africa. In the U.S. and Canada, Ascendia Brands' products are widely distributed throughout the food, drug, mass and dollar/specialty channels. The brands are now sold in over 60,000 retail outlets in the United States and Canada. Ascendia Brands' largest customer is Wal-Mart, which accounted for approximately 36 percent of U.S. revenues and over 34 percent of Canadian revenues in the year ended February 28, 2006. Other major customers include Walgreen's, K-Mart, Shopper's Drug, Dollar General, Dollar Tree and Centennial, our Mexican distributor. As a result of the acquisition of the former Playtex brands, Ascendia Brands has gained access to several additional customers, including Target, Toys 'R Us, Safeway and Kroger.

Beyond acquisitions, Ascendia Brands' strategy for acquiring new customers and increasing sales penetration with existing customers is to provide a full range of products within our product categories of competency, while at the same time providing consumers with a perceptibly better price/quality/value relationship than our competitors. Ascendia Brands employs a "sell from shelf" business approach, which provides higher than average margins for the retailer, a better value for the consumer, and improved sales and margins for Ascendia Brands. We refer to this as our "win/win/win" business model.

### **Facilities**

Our health and beauty care division is headquartered in Hamilton, New Jersey. In addition, we operate two combined manufacturing/distribution facilities. These facilities are located in Binghamton, New York (owned) and Toronto, Ontario (leased). The primary core competencies of both manufacturing facilities are health and beauty care liquid fill and talc powder filling. Additionally, Ascendia Brands utilizes three public warehouse facilities, located in Buena Park, CA, Scranton, PA and Charlotte, NC. The three distribution facilities act as remote warehouses and FOB pick-up locations.

Ascendia Brands' Binghamton plant is a 163,000 square foot facility with 160 employees split into three 8 working hour shifts, five days a week. The hourly employees are represented by the International Chemical Workers' Union, Local 293, with a contract that expires May 1, 2009. To the Company's knowledge, labor relations are good. The Binghamton plant primarily produces health and beauty care products for sale in the United States and internationally under the *Lander* brand name. In addition, the plant is currently producing *Mr. Bubble*, and will in the near term commence manufacturing *Baby Magic*, *Dorothy Gray* and *Tussy*. Products produced in this plant include bubble bath, lotions and creams, and baby products such as shampoo, baby oil, and baby powder. Additionally, this facility is approved by the United States Food & Drug Administration and the New York Board of Pharmacy to manufacture over-the-counter (OTC) drugs such as topical analgesics and vapor rubs.

Lander Canada's Ontario plant is a 98,000 square foot facility with 105 employees split into two 8 working hour shifts, five days a week. The hourly employees are represented by the Laundry and Linen Drivers and Industrial Workers, Local 847, with a contract that expires on January 13, 2007. To the Company's knowledge, labor relations are good. This plant produces private label health and beauty care products for Canada's largest retail and drug stores as well as *Lander* brand products sold in the U.S. Lander Canada also produces and sells products domestically under the *Lander* brand. The plant will begin production of *Baby Magic* in July 2006. Products produced in this plant include lotions and creams, baby products such as shampoo, baby oil, baby powder, mouthwash, and nail polish remover. Lander Canada's facility is approved by Health Canada to manufacture OTC drugs, including antiseptic mouthwash, topical analgesics and vapor rubs.

Both manufacturing facilities have the capacity, with a modest capital investment, to absorb the incremental production required to meet projected organic sales growth, as well as additional sales from future acquisitions. The Company believes it can realize operating efficiencies in the areas of freight and distribution, raw material procurement, as well as, labor and overhead absorption, which would make sales derived from acquisitions significantly accretive.

Ascendia Brands will continue to out-source production of certain products to third-party contract manufacturers.

## Wireless Applications Development Division

### *Introduction*

The Company's wireless applications development division, conducted through Cenuco Wireless (located in Boca Raton, Florida), focuses on the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. This is also known as remote video monitoring via cellular device. In this segment, Cenuco Wireless offers cellular carriers, Internet and security service providers, resellers and distributors a host of wireless video streaming products that generate an increase in subscriber adoption of wireless data services, as well as broadband Internet services. The business model provides additional recurring monthly service revenue models for carriers, ISPs, resellers and distributors.

We are currently in deployment negotiations and/or testing relationships with a number of international and national cellular carriers, major distribution providers, resellers and potential technology licensees.

Our wireless remote video monitoring technologies via cellular device (cellular phone, Pocket PC mobile Edition, Smart Phone, remote wire line computer, and remote cellular connected computer) have been customized to service a variety of market segments. We have a General Services Administration (GSA) contract number GS-03F-0025N awarded by the United States government, allowing Cenuco Wireless to sell its products, technologies and services to every branch of the United States government, including all military agencies and the Department of Homeland Security. The entire line of CenVid products, launched this year, has also been accepted into the contract with GSA. The market size for remote video monitoring is estimated to be in excess of \$100 million domestically, and as high as \$500 million globally.

The Company's partnerships and affiliates include: Intel Corporation, Microsoft Corporation, Qualcomm, Tyco, and other leading technology organizations.

We have the ability to license our proprietary core technology. We initiated discussions with a number of leading technology companies regarding the direct embedding of our technologies onto DSL or cable modems, routers, IP cameras, and other appliance oriented hardware. Our wireless video monitoring solutions allow users to view real-time streaming video of security cameras at their home or place of business from anywhere they receive a cellular connection, regardless of the carrier or user's location. Our systems are also delivered with a password-protected PC desktop client that allows for single click access to any remote camera, and gives users the ability to communicate with us (via Internet link), manage user accounts and review archival video. This package of services and technology is currently unique in the marketplace.

Revenues from sales are recognized in the period in which sales are made. Revenues relating to subscription services are recognized for the period of time of rendered service during the reporting period. Our gross profit margin will be determined in part by our ability to estimate and control direct costs of production and shipping and our ability to incorporate such costs in the price charged to our distributors.

During 2005 Cenuco Wireless completed the development and has deployed its new commercial security product line, *CenVid*. The product is currently sold through ten dealers nationally, and is promoted by 10 Manufacturers Representative Firms covering all 50 states in the U.S. Numerous companies and customers are evaluating the product, for purchase in fiscal 2007.

**Products**

We have developed a number of proprietary applications providing mobile video transmission connectivity on wireless handheld devices and cellular phones within specific market verticals and have filed two patents (software and process) relating to this technology. Products include:

*CenVid.* *CenVid* is 4-16 camera port encoder and transmitter, taking any existing digital video recorder's video feeds and making them viewable via wireless handheld or cellular phones. Installation can take less than an hour, and entails simply connecting the DVR system's video outputs to the complementary port on the Cenuco Wireless device. Launched in 2005, there is a strong interest in this product, as it takes any existing CCTV installation and makes it mobile, without any re-engineering, re-wiring or system rebuilding. Cenuco Wireless also received Federal GSA approval for *CenVid* in 2005. *CenVid* is certified by both Microsoft and Cingular.

**Partnerships and Strategic Relationships**

During fiscal 2006, our business strategy included the development of strategic technical and distribution partnerships. Management believes that these partnerships will enable Cenuco Wireless to maintain a market leadership position, as well as develop significant sales revenue. These partnerships include:

*Microsoft.* Microsoft has certified our wireless client applications for Windows SP powered Smart Phones and mobile edition Pocket PCs. Microsoft awarded Cenuco Wireless Gold Certified Partner status due to our expertise in wireless software development on the Microsoft platform.

*Intel.* Since 2003 Cenuco Wireless has been part of the Intel Early Access Program for Mobility. Through this program Intel has assigned us account representatives across numerous internal divisions. Intel has continued to provide marketing and co-op dollar support for trade shows, point of sale displays, etc. Intel has also been using our applications to demonstrate the utility of their chip-sets and mobile platforms (Smart Phone).

*Qualcomm.* As the owner of the BREW wireless application protocol, Cenuco Wireless has been successful in receiving BREW certification on selected handsets, and continues to work directly with Qualcomm on certification efforts, as well as co-operative marketing initiatives to BREW cellular carriers globally.

*Tyco.* Our corporate products have undergone over a year of testing in Tyco's Rapid R&D Development Program. In the fall of 2005, we entered the next phase of that program, which consists of talking with each of Tyco's operating divisions regarding potential licensing or custom development arrangements. These divisions include: ADT, Sensormatic, American Dynamics, and others.

*Cingular.* Our wireless client software for all products has been tested and certified by Cingular, the largest carrier currently in the United States. Cingular certification is a significant step forward to a more comprehensive deployment program with Cingular. As an expansion, effective in February 2006, Cingular and Cenuco Wireless are now officially co-marketing and co-selling Cenuco Wireless solutions on a regional basis. Management expects that this will expand nationally through fiscal 2007.

**The Lander-Cenuco, Inc. Merger (the Merger )**

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly-owned subsidiary of Cenuco, Inc., (the parent company of Cenuco Wireless, and a public company traded on the American Stock Exchange under the symbol "ICU") merged with HACI. The Merger was completed through the issuance of 2,553.7 shares of Cenuco, Inc.'s Series A Junior Participating Preferred Stock (representing 65 percent of the aggregate outstanding voting power of Cenuco, Inc.'s capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly-owned subsidiaries Lander Canada, Ascendia Real Estate (then called Hermes Real Estate I LLC) and Lander, became wholly-owned subsidiaries of Cenuco, Inc.

For financial reporting purposes, the Merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco, Inc. by HACI for a purchase price equivalent to the total market value of Cenuco, Inc. stock outstanding prior to the Merger, plus the fair value of the options that automatically vested on the date of the Merger (approximately \$45.7 million in the aggregate). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of Cenuco, Inc. prior to the date of the Merger reflect the financial position and results of operations of HACI and its subsidiaries, with the results of operations of Cenuco, Inc. being consolidated with HACI commencing on May 20, 2005. Effective with the completion of the Merger, Cenuco, Inc. changed its fiscal year end to the last day of February, consistent with HACI's fiscal year.

Following the Merger, the Company's principal business activity has been the manufacture and distribution of health, beauty and oral-care products, as described above. In addition, through its Cenuco Wireless subsidiary, the Company is engaged in a wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies. During the quarter ended February 28, 2006, in accordance with SFAS No. 142, the Company tested the carrying value of goodwill for impairment. This led to a Goodwill impairment of \$16.4 million being recorded.

**Acquisition of Assets During Fiscal Year Ended February 28, 2006**

On November 16, 2005, Lander and Lander Intangibles acquired certain brands and brand-related assets from Playtex. The acquired brands included *Baby Magic*, *Binaca*, *Mr. Bubble*, *Ogilvie*, *Tek*, *Dentax*, *Dorothy Gray*, *Better Off* and *Tussy*. At the closing, Lander and Lander Intangibles paid a total cash purchase price of \$59.1 million, inclusive of \$2.1 million in acquisition costs. The \$57.0 million purchase price was subject to certain post-closing adjustments based upon the amount of product inventory delivered to Lander at closing. In December 2005, this adjustment resulted in a purchase price reduction of approximately \$1.3 million, bringing the total purchase price to \$57.8 million, inclusive of acquisition costs. In accordance with SFAS 141, the Company allocated the purchase price to the assets acquired based on relative fair value, as follows:

(000 \$)

|                                  |           |               |
|----------------------------------|-----------|---------------|
| Inventory                        | \$        | 9,600         |
| Property, plant and equipment    |           | 900           |
| Brand names and product formulae |           | 16,924        |
| Customer relationships           |           | 30,394        |
| <b>Total Purchase Price</b>      | <b>\$</b> | <b>57,818</b> |



## CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies include:

- revenue recognition;
- cooperative advertising;
- trade accounts receivable;
- sales returns reserve;
- accounting for inventory and of costs of goods sold;
- accounting for goodwill and intangible assets;
- accounting for plant, property and equipment
- accounting for derivative instruments and
- income taxes

### Revenue recognition

For the Health & Beauty Care division, revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to the customer is recognized at the time the products are shipped and included in cost of sales.

In connection with the development and sale of wireless solutions and web services, which include the development of business-to-business and business-to-consumer wireless applications, and state of the art wireless technology and services, the Wireless Application Development (WAD) division recognizes revenue as services are performed on a pro-rata basis over the contract term or when products are delivered. WAD periodically enters into agreements whereby the customer or distributor may purchase wireless products on a consignment type basis. Revenues are recognized under these arrangements only when the customer or distributor has resold the product and the Company has an enforcement right to its sales price.

### Cooperative Advertising Accruals

Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Task Force 01-09, Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor's Products in the period in which the related sales are recognized. If additional cooperative advertising programs, promotions and other volume-based incentives are required to promote the Company's products, then additional reserves may be required. Conversely reserves are decreased to reflect the lesser need for cooperative advertising programs.

### Trade Accounts Receivable

The Company extends credit based upon evaluations of a customer's financial condition and provides for any anticipated credit losses in our financial statements based upon management's estimates and ongoing reviews of recording allowances. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional reserves may be required. Conversely, reserves are reduced to reflect credit and collection improvements.

### **Sales Returns Reserve**

The Company's management must make estimates of potential future product returns related to current period product revenue. Management analyzes historical returns, current economic trends and changes in customer demand for our products when evaluating the adequacy of the reserve for sales returns. Management judgments and estimates must be made and used in connection with establishing the sales returns reserves in any accounting period. If actual sales returns increase above the historical return rate, then additional reserves may be required. Conversely, the sales return reserve could be decreased if the actual return rates are less than the historical return rates, which were used to establish such sales returns reserve.

### **Inventory**

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company's health, beauty and oral care products, as well as, finished goods that consist of the Company's product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

### **Goodwill and Indefinite Lived Intangibles**

As a result of the Merger on May 20, 2005 (see Note 1), the Company recorded goodwill of \$31.0 million. Goodwill represents the excess of cost over the fair value of identifiable net assets acquired. As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in \$16.9 million being allocated to intangible assets (brand names and product formulas), initially estimated to have indefinite lives. SFAS No. 142, *Goodwill and Other Intangible Assets*, requires goodwill and other intangibles that have indefinite lives to not be amortized but to be reviewed annually for impairment or more frequently if impairment indicators arise. In the fourth quarter of the fiscal year ended February 28, 2006, in accordance with SFAS No. 142, the Company completed the test for impairment in the carrying value of goodwill and determined that an impairment charge of \$16.4 million was required.

### **Amortizable Intangible Assets**

SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and reviewed for impairment. As a result of the merger on May 20, 2005, and as revised in the quarter ended February 28, 2006, the Company recorded intangible assets of \$8.0 million, related to acquired core software technology, with an estimated useful life of five years. Amortization expense for the acquired software technology was \$0.4 million and \$0.8 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense for the acquired software technology was \$0.4 million and \$0.4 million respectively, for the thirteen and twenty-six weeks ended August 27, 2005.

As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the assets acquired, in proportion to their respective estimated fair values, which resulted in \$30.4 million being allocated to customer relationships. Management has adopted the straight-line method of amortizing these assets over their estimated useful lives of 10 years. Amortization expense for the customer relationships was \$0.7 million and \$1.5 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense for the customer relationships was \$0.0 million for the thirteen and twenty-six weeks ended August 27, 2005.

**Other Assets, Net:** Other assets, net of approximately \$7.7 million consist primarily of deferred financing costs related to the Long-Term Convertible Note Financing and the CIT revolving line of credit (see Note 6). The deferred financing costs are being amortized on a straight-line basis over the respective terms of the related financing arrangements. Amortization expense related to deferred financing costs was \$0.2 million and \$1.4 million respectively, for the thirteen and twenty-six weeks ended August 26, 2006. Amortization expense related to deferred financing costs was \$0.1 million and \$0.1 million respectively, for the thirteen and twenty-six weeks ended August 27, 2005.

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets ranging from three to twenty-five years. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. If the Company determines that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly.

**Accounting for Derivative Instruments:** We have issued and have outstanding convertible debt and warrants related to the convertible debt with embedded derivative features which we have analyzed in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in A Company's Own Stock, to determine if these instruments have embedded derivatives that must be bifurcated. Under EITF No. 00-19, the estimated value of such embedded derivatives is recorded as a liability utilizing an appropriate valuation model (with an offsetting debt discount that is amortized over the term of the convertible notes). Such liability is marked-to-market and adjusted to fair value at each reporting date with the change in fair value being recorded to other income (expense) in the period of the change. The warrants are not required to be accounted for as a liability. They are accounted for under EITF 98-5 as further described in Note 6.

## Income Taxes

The Company records a valuation allowance to reduce the amount of our deferred tax assets to the amount that management estimates is more likely than not to be realized. While we have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event that we determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, if it was determined that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

## RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-An interpretation of FASB Statement No. 109 ( FIN 48 ) , which clarifies the accounting for uncertainty in tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

As of March 1, 2006, the Company adopted the Statement of Financial Accounting Standards (SFAS No. 123 (R), Share Based Payment . Prior to the adoption of SFAS No. 123 (R), the Company recognized and measured the share-based compensation in accordance with Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees , and related interpretations. The adoption of SFAS No. 123 (R) did not have a material impact on the results of operations for the thirteen weeks ended May 27, 2006. See Note 9, Stock Options and Warrants , for more information regarding the Company s adoption of SFAS No. 123 (R).

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THIRTEEN WEEKS ENDED AUGUST 26, 2006 COMPARED TO THE THIRTEEN WEEKS ENDED AUGUST 27, 2005

### GENERAL

The brand portfolio has grown through acquisition of well-recognized brands from a larger consumer products company, which at the time of acquisition were considered non-core by their previous owner and did not benefit from the focus of senior level management or strong marketing and sales support. After acquiring a brand, the focus is to increase its sales, market share and distribution in both existing and new channels. This growth will be driven by new marketing and sales strategies, improved packaging and formulations, innovative new products and line extensions.

### REVENUES

Consolidated net revenues for the thirteen weeks ended August 26, 2006 increased \$7.6 million (44.9%) when compared to net revenues for the thirteen weeks ended August 27, 2005. This quarter's volume was favorably impacted by the Company's acquisition of the former Playtex Brands, which resulted in an additional \$9.5 million in revenue this quarter, compared to prior year.

U.S. revenues from the core Lander branded products decreased during the quarter by \$1.5 million, primarily related to the strategic shift to premium value higher margin products and the planned decline of extreme value products. Sales of Lander Premium Value products, which include Lander Kids 1.5 liter bubble bath and Lander Essential Bath Products, increased by \$1.4 million. In addition, net revenues of extreme value products (i.e. those retailing for \$1.00) and private label products decreased by \$2.9 million versus prior year, reflecting the Company's strategic shift to enhanced value, higher margin products.

Net sales derived from Lander Canada decreased by \$0.4 million (10.1%) this quarter versus the same period last year. There was a decrease in extreme value products of \$0.7 million, consistent with the trends previously discussed for the U.S. market. This decrease was partially offset by a positive impact from exchange rate gains of \$0.3 million.

Net sales for the WAD division are not material for the thirteen weeks ended August 26, 2006 and August 27, 2005.

### GROSS PROFIT

Consolidated gross profit increased to \$4.5 million for the thirteen weeks ended August 26, 2006 compared to \$1.2 million for the thirteen weeks ended August 27, 2005. The current quarter was favorably impacted by the Company's acquisition of the former Playtex brands which contributed \$3.1 million to gross profit. The current quarter was impacted by an additional \$.7 million inventory obsolescence reserve established against acquired Playtex products. The previously described mix shift to higher margin products more than offset higher material costs compared to prior year.

Gross profit for the Company's WAD division was not material for the thirteen weeks ended August 26, 2006 and August 27, 2005.

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$5.8 million for the thirteen weeks ended August 26, 2006 compared to \$3.5 million for the thirteen weeks ended August 27, 2005. The increase of \$2.3 million is mainly attributable to factors associated with company's acquisition of the Playtex brands in November 2005 and the May 2005 merger with Cenuco. The Playtex asset acquisition accounts for \$1.5 million of the increase specifically, \$0.7 million relating to the amortization of intangibles assets, \$0.6 million in increased sales and marketing expenses and \$0.2 million for additional patent and registration costs. The balance of the increase of \$0.8 million primarily relates to incremental salary, benefits and professional fees associated with being a public entity. Operating expenses in the Company's WAD division remained unchanged as compared to prior year.

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### OTHER INCOME (EXPENSE)

Interest expense on funded debt was \$3.0 million for the thirteen weeks ended August 26, 2006 compared to \$0.3 million for the thirteen weeks ended August 27, 2005. The increase of \$2.7 million over the thirteen weeks ended August 27, 2005 is primarily due to both the \$80 million Bridge Loan used to fund the Playtex asset acquisition and the convertible notes totaling \$91.0 million issued on August 2, 2006. \$84.1 million of gross proceeds from the convertible notes were used to pay down the Bridge Loan plus accrued interest.

The issuance of the Convertible Notes on August 2, 2006, triggered the establishment of warrant derivatives, a convertible option liability, debt discount and deferred finance fees. This produced an overall result of interest income of \$0.8 million. No similar amounts relate to the thirteen weeks ended August 27, 2005.

Interest (income) expense consists of the following:

|  | (\$000_s)                                       |
|--|---|
|  | <b>Thirteen weeks ended<br/>August 26, 2006</b> |
| Interest on debt                                     | 3,118   |
| Loss on issuance of debt                             | 6,872   |
| Amortization of debt discount and finance fees       | 390   |
| Gain on revaluation of compound derivative liability | (11,202)  |
| Total interest income                                | \$ (822)  |

### TWENTY-SIX WEEKS ENDED AUGUST 26, 2006 COMPARED TO THE TWENTY-SIX WEEKS ENDED AUGUST 27, 2005

#### GENERAL

The brand portfolio has grown through acquisition of well-recognized brands from a larger consumer products company, which at the time of acquisition were considered non-core by their previous owner and did not benefit from the focus of senior level management or strong marketing and sales support. After acquiring a brand, the focus is to increase its sales, market share and distribution in both existing and new channels. This growth will be driven by new marketing and sales strategies, improved packaging and formulations, innovative new products and line extensions.

#### REVENUES

Consolidated net revenues for the twenty-six weeks ended August 26, 2006 increased \$15.1 million (44.3%) when compared to net revenues for the twenty-six weeks ended August 27, 2005. This half's volume was favorably impacted by the Company's acquisition of the former Playtex Brands, which resulted in an additional \$18.9 million in revenue this half, compared to prior year.

U.S. revenues from the core Lander branded products decreased during the half by \$3.0 million, primarily related to the strategic shift to premium value higher margin products and the planned decline of extreme value products. Sales of Lander Premium Value products, which include Lander Kids 1.5 liter bubble bath and Lander Essential Bath Products, increased by \$1.8 million, partially offset by a decrease of \$1.0 million in Lander 64 ounce Adult Bubble Bath attributable to a prior year promotion at a major retailer. In addition, net revenues of extreme value products (i.e. those retailing for \$1.00) and private label products decreased by \$4.8 million versus prior year, reflecting the Company's strategic shift to enhanced value, higher margin products.

Net sales derived from Lander Canada decreased by \$0.8 million (10.4%) this half versus the same period last year. There was a decrease in extreme value products of \$1.4 million, consistent with the trends previously discussed for the U.S. market. This decrease was partially offset by a positive impact from exchange rate gains of \$0.6 million.

Net sales for WAD division are not material for the twenty-six weeks ended August 26, 2006 and August 27, 2005.



GROSS PROFIT

Consolidated gross profit increased to \$9.2 million for the twenty-six weeks ended August 26, 2006 compared to \$2.3 million for the twenty-six weeks ended August 27, 2005. The current year was favorably impacted by the Company's acquisition of the former Playtex brands which contributed \$7.2 million to gross profit. The current year was impacted by the additional \$.7 million inventory obsolescence reserve established against acquired Playtex products. The strategic shift to higher margin products partially offset increased material costs and decreased factory utilization compared to prior year.

Gross profit for the Company's WAD division was not material for the twenty-six weeks ended August 26, 2006 and August 27, 2005.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$10.6 million for the twenty-six weeks ended August 26, 2006 compared to \$6.2 million for the twenty-six weeks ended August 27, 2005. The increase of \$4.4 is mainly attributable to factors associated with company's acquisition of the Playtex brands in November 2005 and the May 2005 merger with Cenuco. The Playtex asset acquisition accounts for \$2.7 million of the increase specifically, \$1.5 million relating to the amortization of intangibles assets, \$1.0 million in increased sales and marketing expenses and \$0.2 million for additional patent and registration costs. An increase of \$0.9 million primarily for incremental salary, benefits and professional fees associated with being a public entity. The balance of the increase of \$0.8 million relates to the Company's WAD division in which \$0.3 million is attributed to the amortization of intangibles assets and remaining \$0.5 million for general operating expenses as compared to prior year.

OTHER INCOME (EXPENSE)

Interest expense on funded debt was \$5.5 million for the twenty-six weeks ended August 26, 2006 compared to \$0.7 million for the twenty-six weeks ended August 27, 2005. The increase of \$0.7 million over the thirteen weeks ended August 27, 2005 is primarily due to both the \$80 million Bridge Loan used to fund the Playtex asset acquisition and the convertible notes totaling \$91.0 million issued on August 2, 2006. \$84.1 million of gross proceeds from the convertible notes were used to pay down the Bridge Loan plus accrued interest.

The issuance of the Convertible Notes on August 2, 2006, triggered the establishment of warrant derivatives, a convertible option liability, debt discount and deferred finance fees. This produced an overall result of interest expenses of \$2.8 million. No similar amounts relate to the twenty-six weeks ended August 27, 2005.

Interest expense consists of the following:

|  | (\$000_s)   |
|--|---|
|  | <b>Twenty-six weeks<br/>ended<br/>August 26, 2006</b> |
| Interest on debt                                     | 5,603   |
| Loss on issuance of debt                             | 6,872   |
| Amortization of debt discount and finance fees       | 1,561   |
| Gain on revaluation of compound derivative liability | (11,202)  |
| Total interest expense                               | \$ 2,834  |



## OTHER FINANCIAL ITEMS

## LIQUIDITY AND CAPITAL RESOURCES

Long-term debt consists of the following:

(\$000\_s)

|                               | AUGUST 26,<br>2006 | FEBRUARY 28,<br>2006 |
|-------------------------------|--------------------|----------------------|
| Bridge loan                   | \$                 | \$ 80,000            |
| Convertible secured notes     | 91,099             |                      |
| Debt discount                 | (90,809)           |                      |
| Compound derivative liability | 75,221             |                      |
| Revolving line of credit      | 8,080              |                      |
| Capital leases                | 9                  | 32                   |
|                               | 83,600             | 80,032               |
| Less current portion          | 9                  | 32                   |
| Total                         | \$ 83,591          | \$ 80,000            |

*Prior Financing Arrangements*

On October 1, 2005, Ascendia (the parent of HACI following the merger (see Note 1), entered into a commitment with Prencen and Highgate (both of which are also lenders under the Bridge Loan noted above and further described in Note 3) for the provision of long-term debt and equity financing (the Debt/Equity Financing ) to repay the \$80.0 million Bridge Loan. The terms of this commitment were amended on November 15, 2005, concurrently with the closing of the Bridge Loan. Prior to its maturity, the parties agreed to an extension of the Bridge Loan pending the completion of discussions on further modifications to the Debt/Equity Financing. The parties also agreed to defer the payment of certain interest under the Bridge Loan pending its maturity.

*Convertible Secured Notes*

On June 30, 2006, Ascendia (i) agreed with Prencen and Highgate to amend the Debt/Equity Financing commitment and (ii) in connection with such amendment, entered into a Second and Restated Securities Purchase Agreement (the Securities Purchase Agreement ) with Prencen and Prencen Lending, LLC ( Prencen Lending ), which closed on August 2, 2006, as described below, the obligations to Highgate having been acquired by Prencen Lending. Under the Securities Purchase Agreement, the Company sold Prencen Lending convertible secured notes (the Notes ) in the principal amount of \$91.0 million (and Series A and B Warrants described below) in exchange for the settlement of obligations under the Bridge Loan (\$80.0 million) and \$11.0 million in funding which was used to pay (a) accrued interest on the Bridge Loan (\$4.1 million), (b) cash fees associated with the refinancing to an affiliate of Prencen Lending (\$3.7 million) and (c) third party cash fees associated with the refinancing (\$0.5 million), producing net cash proceeds to the Company of approximately \$2.7 million. In addition, Ascendia paid related fees and expenses of approximately \$5.6 million to Stanford Group Company ( Stanford ) and issued to Stanford warrants for the purchase of 137,615 shares of its common stock at an exercise price of \$3.76 per share, and 552,632 warrants for the purchase of its common stock at an exercise price of \$4.37 per share (collectively the Stanford warrants). The estimated fair value of the Stanford warrants (\$0.7 million) has been recorded as an increase to additional paid-in capital and deferred financing costs.

The Notes have a term of 10 years (subject to the put and call rights described below) and bear interest at the rate of 9.0 % per annum. During the first six months of the term, Ascendia has the option to defer payment of interest. As a result, the Company elected to defer \$0.6 million of interest as of August 26, 2006 on the Notes. In the event of Ascendia making an acquisition in the consumer products area that shall in form and substance be satisfactory to a majority of the holders of the Notes (an Approved Acquisition ), it may elect to defer and add to principal on the Notes interest payments otherwise due over the balance of the term of the Notes. Upon the consummation of such an Approved Acquisition, Ascendia also has the right to redeem up to \$40.0 million of the balance outstanding under the Notes at a premium of 15%. In addition, at any time after the fifth anniversary of the issuance of the Notes (August 2, 2011), Ascendia has the right to redeem, or any holder may require the Company to redeem, all or any portion of the balance outstanding under the Notes at a premium of 5% (the 5 Year Put Option ).

In connection with the amendment and restatement of the Debt/Equity Financing agreements and the sale of the Notes, Ascendia also issued certain warrants (the Series A Warrants ) entitling the lender to purchase 3,053,358 shares of its common stock at an exercise price of \$2.10. In addition, Ascendia committed to the issuance of certain warrants (the Series B Warrants ) entitling the lender to purchase shares of its common stock under terms that are contingent upon the balance outstanding on the Notes at the earlier to occur of an Approved Acquisition or October 31, 2006. If the balance outstanding under the Notes on such date is greater or less than \$61.0 million, Ascendia is required to issue to Prencen up to 3,000,000 Series B Warrants, at exercise prices ranging from \$1.15 to \$1.95. In the event the balance outstanding under the Notes is \$61.0 million, no Series B Warrants are required to be issued.

Any portion of the balance due under the Notes is convertible at any time, at the option of the holders(s), into the common stock of Ascendia at a price of \$1.75 per share (subject to certain ant-dilution adjustments for the subsequent issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect), provided that the holders may not convert any amounts due under the Notes if and to the extent that, following such a conversion, the holder and any affiliate would collectively own more than 9.99% of the aggregate number of shares of common stock of Ascendia outstanding following such conversion (the Conversion Option ). The Notes describe various events of default which include, but are not limited to (a) the failure to make effective by January 30, 2007, and keep effective thereafter a registration statement to register the shares underlying the conversion of the Notes and the exercise of the Series A and B Warrants and other shares (the Registration Statement ), (b) the suspension in trading of the Company s stock for a defined period, (c) the failure to timely issue shares in response to a conversion notice received from a Note holder, and (d) the failure to have available sufficient authorized shares to enable the conversion of the Notes. In the event of a default, the holders of the Notes may require the Company to redeem the Notes at the greater of a 25% premium, or the value of the shares underlying the conversion of such Notes at the time of the event of default (determined by reference to a definition of a maximum share price). In the event of a Change in Control of the Company (as defined), the holders of the Notes will have the right (the Change in Control Put ), for a period of 20 days subsequent to the receipt of notice of the Change in Control, to require the Company to redeem the Notes at the greater of a 20% premium, or the value of the shares underlying the conversion of such Notes at the time of the change in control (determined by reference to a definition of a maximum share price). The above described Conversion Option and specifically noted events of default (the Default Derivatives ), along with the Change in Control Put (collectively the Compound Derivative ) have been bifurcated as derivatives required to be accounted for separately under FASB Statement No. 133 *Accounting for Derivative Financial Instruments and Hedging Activities* and EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company s Own Stock* , and are considered in the determination of the estimated fair market value of the Compound Derivative liability noted below.

In the event the Registration Statement is not timely filed (by October 2, 2006, later extended to October 10, 2006 and subsequently extended to November 10, 2006), or make effective or maintained effective (as described above) the holders of the Notes are also entitled to a cash penalty in the amount of 2% of the face amount of the Notes for each 30-day period until such time as the default has been cured, subject to a maximum of 10%. In addition, in the event that the Company fails to timely issue shares in response to a conversion notice received from a Note holder or an exercise notice received from the holder of a Series A or B Warrant, the holders of such Notes or warrants will be entitled to damages in the amount of 1.5% per day of the then current value of the shares not timely delivered for each day that such delivery is not provided.

The Notes rank as senior secured debt of Ascendia, provided however that the Notes are subordinated to the new revolving credit facility of up to \$13.0 million secured by inventory and accounts receivable (described below). The Notes are also subordinated to indebtedness incurred in connection with an Approved Acquisition, in an amount up to \$250.0 million.

*Accounting for Issuance of Convertible Secured Notes*

Consideration received from the issuance of the Notes (\$87.3 million net of a \$ 3.7 million origination fee paid to Prentice Capital Management, LP, an affiliate of Prencen Lending, was allocated to the Series A and B Warrants and the Notes based on the relative fair value of each. The resulting \$7.7 million value attributed to the Series A and B Warrants has been reflected as a credit to paid-in capital with an offsetting debt issuance discount recorded on the Notes. The resulting allocation to the Notes (\$79.6 million) was then further offset, as an additional debt issuance discount, by the estimated fair value of the liability for the Compound Derivative discussed above (amounting to \$86.4 million as of August 2, 2006). The \$6.8 million excess of the estimated fair value of the liability of \$86.4 million over the allocation to the discount on the Notes of \$79.6 million was recorded as a loss on the issuance of the Notes. The debt issuance discount (totaling \$91.0 million) and the cash and other deferred finance costs associated with the issuance of the Notes (totaling \$6.2 million), are being amortized to interest expense under the interest method over the 5-year period to the date that the 5 Year Put Option becomes exercisable (August 2, 2011). The 5% premium associated with the 5 Year Put Option (\$4.6 million) is being accreted over the same 5-year period, also under the interest method, as an increase to interest expense and recorded value of the Notes. Such amortization and accretion amounted to \$0.3 million in the current period. Given the significant initial issuance discount recorded on the Notes this treatment will result in substantially lower amortization and accretion being charged to interest expense in the earlier of the 5 years than the latter.

The liability recorded for the Compound Derivative will be adjusted to fair market value at each future reporting date with the difference in the fair value of such liability between such reporting dates being recorded as an increase or decrease in interest and other expense for that period. The value of the Compound Derivative liability was adjusted to \$75.2 million as of August 26, 2006, resulting in a decrease to interest and other expense for the period between August 2 and August 26, 2006 of \$11.2 million.

*Revolver*

On August 3, 2006, the Company closed on a revolving line of credit with a major financial institution for a \$13.0 million three year facility. This facility was used to fund approximately \$5.6 million of the above noted cash costs associated with the Long-Term Financing and approximately \$0.1 million in expenses associated with this facility. In addition, another \$0.9 million was drawn from the facility, which along with the \$2.7 million in net proceeds from the issuance of the Notes was used to redeem certain shares of the Company's Series A Preferred Stock from MarNan LLC and Dana Holdings LLC (see Note 12). The remainder of availability under the facility is to be used in the future for working capital and general corporate purposes. The facility is secured with the Company's United States accounts receivable and inventory

The Revolver contains the following key provisions:

**Line of credit** A revolving line of credit providing for revolving advances up to the lesser of (a) \$13.0 million or (b) the sum of (herein the Borrowing Base): (i) eighty-five percent of eligible domestic (US) accounts receivable, subject to dilution of 5%, plus (ii) eighty-five percent (85%) of the net orderly liquidation value as a percentage of cost of eligible US finished goods and raw materials inventory. The total inventory sublimit will not exceed \$8.0 million. The Agreement requires excess availability of \$2.0 million at closing and a permanent availability block against the Borrowing Base of \$0.75 million.

**Interest rate** Interest will be computed and payable monthly on all outstanding revolving loans at a rate equivalent to the Chase Bank Rate per annum or, at the Company's option, Libor plus two and one quarter percent (2¼%).

**Fees** A loan facility fee of \$100,000 earned at closing and payable: \$25,000 upon signing of commitment letter, \$25,000 payable at closing and \$50,000 payable six (6) months from closing. A collateral management fee of \$30,000 per year, earned at closing and on each Anniversary Date, payable monthly.

**Termination fee** A termination fee is charged of 1% of total facility if terminated prior to first Anniversary Date, three quarters percent (¾%) if terminated prior to second Anniversary Date, and one half percent (½%) if terminated anytime thereafter prior to an Anniversary Date.

**Cash Flow Twenty-six Weeks Ended August 26, 2006 and August 27, 2005**

Net cash used in operating activities was (\$1.6) million and (\$3.4) million, respectively for the twenty-six weeks ended August 26, 2006 and August 27, 2005. For the twenty-six weeks ended August 26, 2006, the factors contributing to negative operating cash flow were a net loss of (\$4.1) million, less the net effect of non-cash income and expense items of \$4.3 million. Other assets and liabilities provided a negative change of (\$1.8) million. For the twenty-six weeks ended August 27, 2005, the major contributors to a negative operating cash flow of (\$3.4) million were a net loss of (\$4.6) million, less the net positive change in operating assets and liabilities of \$0.1 million, less the net effect of non-cash items of \$1.1 million.

Net cash provided by (used in) investing activities was (\$1.2) million for the twenty-six weeks ended August 26, 2006 compared to \$5.8 million for the twenty-six weeks ended August 27, 2005. For the thirteen weeks ended August 26, 2006, the major activities consisted acquisition costs of (\$0.7) million and (\$0.5) million for capital equipment purchases. For the twenty-six weeks ended August 27, 2005, cash of \$6.0 million was received as a result of the Merger on May 20, 2005, less the net amount expended of (\$0.2) million for deferred acquisition costs and capital equipment.

Net cash provided by financing activities for the twenty-six weeks ended August 26, 2006 was \$1.2 million compared to net cash used in financing activities for the twenty-six weeks ended August 27, 2005 of (\$2.0) million. The majority of the activity related to the twenty-six weeks ended August 26, 2006 was related to the issue of convertible debt and the related financing costs, borrowings under the revolving line of credit, the liquidation of the Bridge Loan and the redemption of preferred stock. The major activity for the twenty-six weeks ended August 27, 2005 relates to net repayments under the Company's line of credit.

### Transactions with Related and Certain Other Parties

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided professional services and (until June 2005) leased office facilities to the Company. THGLLP also paid expenses on behalf of the Company. THGLLP invoiced the Company a total of approximately \$21.3 thousand and \$51.1 thousand respectively, for professional fees, facility usage and reimbursable expenses for the thirteen and twenty-six weeks ended August 26, 2006 and \$125.8 thousand and \$258.8 thousand respectively, for the thirteen and twenty-six weeks ended August 27, 2005. At August 26, 2006, and February 28, 2006, the Company owed THGLLP \$6.9 thousand and \$35.6 thousand, respectively. Mark I. Massad is a founding Partner and is currently a non-active partner in THGLLP. Mr. Massad and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in MarNan, LLC ( MarNan ), a New Jersey limited liability company. MarNan owns approximately 39 percent of the Company's Series A Preferred Stock.

Zephyr Ventures LLC (ZVLLC) provided consulting services to the Company. Edward J. Doyle, a member of the Board of Directors of the Company from May 20, 2005, is a Managing Member of ZVLLC. For the thirteen and twenty-six weeks ended August 26, 2006, ZVLLC did not invoice the Company. For the thirteen and twenty-six weeks ended August 27, 2005, ZVLLC invoiced the Company for \$19.1 thousand. Effective May 20, 2005, the date of the Merger, ZVLLC ceased providing consulting services to the Company. No monies were due ZVLLC at August 26, 2006 and February 28, 2006.

Kenneth D. Taylor, a member of the Board of Directors of the Company since May 20, 2005, provided consulting services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006, Mr. Taylor did not invoice the Company. For the thirteen and twenty-six weeks ended August 27, 2005 he invoiced the Company for \$5.0 thousand. Effective May 20, 2005, the date of the Merger, he ceased providing consulting services to the Company. No monies were due Mr. Taylor at August 26, 2006 and February 28, 2006.

The Hermes Group LLC (THGLLC), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006 and August 27, 2005, THGLLC invoiced the Company and its subsidiaries for \$120.0 thousand, \$233.5 thousand, \$118.7 thousand and \$118.7 thousand, respectively, as compensation for the provision of business advisory services. Mark I. Massad is a member of THGLLC and a member of MarNan LLC, which is a 39% shareholder of the Series A Preferred Stock of the Company. As of August 26, 2006 and February 28, 2006, there was a balance due to THGLLC of \$40.0 thousand and \$6.9 thousand, respectively.

M2 Advisory Group LLC (M2AG), a limited liability company, provides investment banking, acquisition and corporate advisory services to the Company. For the thirteen and twenty-six weeks ended August 26, 2006 M2AG invoiced the Company and its subsidiaries for \$15.1 thousand and \$20.8 thousand, respectively, as compensation for the provision of business advisory services. For the thirteen and twenty-six weeks ended August 27, 2005, M2AG did not provide any services. Mark I. Massad is a member of M2AG and a member of MarNan LLC, which is a 39% shareholder of the Series A Preferred Stock of the Company. As of August 26, 2006 and February 28, 2006, there was a balance due to M2AG of \$7.5 thousand and \$0.0 thousand, respectively.

Joseph A. Falsetti (who is a Director and the Chief Executive Officer of the Company) and/or members of his immediate family own beneficially 96.875 percent of the ownership interests in Dana Holdings, LLC ( Dana Holdings ), a New Jersey limited liability company. Dana Holdings owns 39 percent of the Company's Series A Preferred Stock.

### Hedging and Trading Activities

The Company does not engage in any hedging activities, including currency-hedging activities, in connection with its foreign operations and sales. To date, except for Canada, all of the Company's international sales have been denominated in U.S. dollars.

**Off Balance Sheet Arrangements and Contractual Obligations**

The Company's off balance sheet arrangements consist principally of leasing various assets under operating leases. The future estimated payments under these arrangements are summarized below along with the Company's other contractual obligations:

Contractual Obligations

| CONTRACTUAL OBLIGATIONS<br>(\$) | PAYMENTS DUE BY PERIOD<br>(US\$000 s) |                     |           |           |                      |
|---------------------------------|---------------------------------------|---------------------|-----------|-----------|----------------------|
|                                 | TOTAL                                 | LESS THAN<br>1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN<br>5 YEARS |
| Long-term debt obligations (1)  | \$ 83,591                             | \$                  |           |           | 83,591               |
| Capital lease obligations       | 9                                     | 9                   |           |           |                      |
| Operating lease obligations     | 5,277                                 | 726                 | 3,549     | 1,002     |                      |
| Purchase Obligations            | 3,289                                 | 3,289               |           |           |                      |
| Total                           | \$ 92,166                             | \$ 4,024            | \$ 3,549  | \$ 84,593 | \$                   |

(1) (see Note 6 to the consolidated financial statements).

**Inflation**

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net revenues or profitability. The Company did experience higher than normal prices on certain raw materials during the period coupled with higher freight costs as freight companies passed on a portion of higher gas and oil costs.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company markets its products throughout the United States and the world. As a result, the Company could be adversely affected by such factors as rising commodity costs and weak global economic conditions. Forecasted purchases during the next thirteen weeks are approximately \$22.0 million. An average 2% unfavorable price increase related to the price of oil and other related inflationary raw materials could cost the Company approximately \$440.0 thousand.

The Company has also evaluated its exposure to fluctuations in interest rates. Approximately \$91.0 million of debt is currently outstanding under the Convertible Notes and the rate is fixed at 9% for the next 10 years. If the Company were to fully utilize the \$13.0 million available under the Revolver, an increase of two percent in interest rates would increase interest expense by approximately \$65.0 thousand per quarter. The interest rate risks related to the Company's other interest-related accounts such as its post-retirement obligations are deemed to be insignificant.

The Company has not historically and is not currently using derivative instruments to manage the above risks.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

During the thirteen week period ended August 26, 2006, our management, including the principal executive officer and principal financial officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in our reports that we file with the Securities Exchange Commission ( SEC ). These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC 's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based upon their evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of August 26, 2006 since we have not yet completed the remediation of the material weaknesses discussed in Item 9A, Controls and Procedures , of our Annual Report on Form 10-K ( 2006 Form 10-K ) for the year ended February 28, 2006 filed with the SEC on August 11, 2006.

A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management 's internal control assessment as of February 28, 2006 and as detailed in our fiscal year 2006 Form 10-K identified certain deficiencies in the application of purchase accounting for acquisitions completed during the year and the subsequent evaluation of goodwill for the impairment which occurred in the fourth quarter. As a result, management reported material weaknesses related to the lack of sufficient and appropriate internal expertise to evaluate the input provided to us from outside valuation experts used in our purchase accounting and in our goodwill impairment testing.

Our management is treating these material weaknesses identified above very seriously. We have completed an evaluation of the material weaknesses related to purchase accounting and goodwill impairment.

The Company believes it has taken steps to remediate the material weaknesses identified above during its second quarter. Specifically, it has committed to retain technical advice when faced with complex valuation and accounting issues, requiring the prior approval of the audit committee of the Board. The Company is further committed to hiring a sufficient number of technically-qualified staff to ensure that all complex activity issues are properly addressed. The Company has taken steps to implement this remediation plan; however, it has not been fully implemented as of the end of the second quarter. Therefore, the Company is unable to conclude that the material weakness has been fully remediated.

Management is committed to the execution of this remediation plan and the implementation of the necessary enhancements to ensure strict compliance. We will continue to monitor the improvements in the internal control over purchase accounting and impairment testing to ensure the remediation of these material weaknesses. We anticipate completing these remediation activities by the end of the third quarter of fiscal 2007.

Changes in Internal Controls

Except as discussed above, there were no changes made in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act, during the period covered by this report that have materially affected, or are reasonably likely to materially affect, these controls subsequent to the date of their last evaluation.



PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Cenuco, Inc. ( Cenuco Wireless ), the Company's wireless applications development subsidiary, is the defendant in a patent infringement case commenced on February 1, 2005 in Federal District Court for the Southern District of New York ( *Joao v. Cenuco, Inc.*, 05 Civ. 1037 (CM) (MDF)). The plaintiff, Raymond Anthony Joao, asserts in his complaint that Cenuco Wireless is infringing certain patents held by Joao, specifically United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130, which cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. Cenuco Wireless has timely answered the complaint denying infringement, and intends to defend this case vigorously on the merits. Management believes that the patents relied on by Joao are invalid and that the chances of Joao prevailing are remote. Nonetheless, there can be no assurance as to the outcome of the case, and a judicial determination that Cenuco Wireless is infringing Joao's patents, while unlikely, could have a material adverse effect on the ability of Cenuco Wireless to market and sell its current product line. Similarly, there is no assurance that Cenuco Wireless would be able to develop, at a reasonable cost, within a reasonable length of time or at all, a workaround to eliminate any patent infringement found to exist.

On September 16, 2006, Lander Co., Inc. ( Lander ) received correspondence from counsel to TMV Corporation ( TMV ), styled as a Demand for Arbitration, asserting claims in an aggregate amount in excess of \$26 million against Lander and Lander Co. Canada Limited ( Lander Canada ). TMV, the parent corporation of USA Labs, Inc. ( USA Labs ), asserts in its claim that Lander and Lander Canada breached a marketing agreement with U.S.A. Labs (to which TMV was a party for consent purposes only) by failing to account for in excess of \$1 million or more owed under that agreement; TMV further asserts that alleged breaches by Lander and Lander Canada of the marketing agreement were responsible for the bankruptcy of USA Labs, and TMV seeks indemnification from Lander and Lander Canada for the loss of its investment in USA Labs, alleged to be \$25 million. Management believes that the claims asserted by TMV lack merit, and that TMV lacks standing to bring actions arising out of the marketing agreement. Furthermore, although styled as a Demand for Arbitration, management believes that the correspondence from TMV's counsel does not constitute a valid demand for arbitration because TMV failed to serve or notify the American Arbitration Association, whose Commercial Arbitration Rules expressly govern the resolution of disputes arising under the marketing agreement. Should a demand for arbitration be properly served, management will contest the claims vigorously and believes that the chances of TMV prevailing are remote.

We are also involved, from time to time, in routine legal proceedings and claims incidental to our business. Should it appear probable in management's judgment that we will incur monetary damages or costs in relation to any such proceedings or claims, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges recorded against earnings. We believe that the resolution of such claims, taking into account reserves and insurance, will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations.

ITEM 1A. RISK FACTORS

RISK FACTORS

**Health and Beauty Care Business**

*The high level of competition in Ascendia Brands' industry - the health and beauty care business - could adversely affect our sales, operating results and profitability.*

The business of selling health and beauty products is highly competitive. Numerous manufacturers, distributors, marketers and retailers actively compete for consumers' business, both in the United States and abroad.

Ascendia Brands' principal competitors include Health Tech, Johnson & Johnson, Kimberly Clark, Pfizer, Procter & Gamble, The Village Company, and Unilever. Nearly all of these competitors are larger and have substantially greater resources than Ascendia Brands, and may therefore have the ability to spend more aggressively on advertising and marketing and to respond more effectively to changing business and economic conditions than we do. This could adversely affect our sales, operating results and profitability. Ascendia Brands competes on the basis of numerous factors, including brand recognition, product quality, performance, price and product availability at retail stores.

Merchandising and packaging, the timing of new product introductions and line extensions also have a significant impact on customers' buying decisions and, as a result, on our sales. The structure and quality of our sales force and broker network, as well as consumption of Ascendia Brands' products, affect in-store position, shelf display space and inventory levels in retail outlets. If Ascendia Brands is not able to maintain or improve the inventory levels and/or shelf placement of its products in retail stores, our sales and operating results will be adversely affected. Ascendia Brands' markets also are highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. An increase in the amount of product introductions by our competitors could have a material adverse effect on our sales, operating results and profitability.

In addition, competitors may attempt to gain market share by offering products at or below the prices typically offered by Ascendia Brands. Competitive pricing may require Ascendia Brands to reduce prices and may result in lost sales and/or reductions in our margins.

***Ascendia Brands depends on a limited number of customers for a large portion of its gross sales and the loss of one or more of these customers could materially reduce our gross sales and therefore could have a material adverse effect on our business, financial condition and results of operations.***

For the thirteen and twenty-six weeks ended August 26, 2006, Ascendia Brands' top five customers accounted for approximately 51 percent and 51 percent respectively, of net sales, with one customer (Wal-Mart) accounting for 38 percent and 37 percent respectively. We expect that for the year ending February 28, 2007 and future periods, Ascendia Brands' top five customers, including Wal-Mart and Dollar Tree, will, in the aggregate, continue to account for a significant portion of our gross sales. The loss of one or more of Ascendia Brands' top customers, any significant decrease in sales to these customers or any significant decrease in retail display space in any of these customers' stores, could reduce Ascendia Brands' gross sales and therefore could have a material adverse effect on our sales, operating results and profitability.

In addition, Ascendia Brands' business is based primarily upon individual sales orders, and we typically do not enter into long-term contracts. Our customers could cease buying our products at any time and for any reason. The fact that we typically do not have long-term contracts means that we generally have no recourse in the event a customer ceases purchasing our products or reduce the level of purchases. If a significant number of our customers cease purchasing our products, or materially reduce the volume or value of those purchases, this could have a material adverse effect on our sales, operating results and profitability.

***Ascendia Brands and Lander Canada manufacture a significant quantity of the products they sell at their own manufacturing facilities. Any disruption in production could result in lost sales, and could have a material adverse effect on our customer relationships, financial condition and results of operations.***

We manufacture most of our *Lander* brand health and beauty care products, plus a portion of the brands acquired from Playtex, at our 163,000 square foot manufacturing facility in Binghamton, New York and our 98,000 square foot plant in Scarborough, Ontario, Canada. Although we have the capability to manufacture most products (including shampoos, bubble bath, powders and topical analgesics) at either facility, alcohol-based products (such as mouthwash) and acetone-based products (such as nail polish remover) can be manufactured only at the Ontario location. A permanent or temporary unplanned shutdown of either of our plants, resulting from equipment malfunction, accident, fire, sabotage, strike or lockout, act of God or other factors, could substantially reduce our output of finished products. If output from one facility were to be curtailed, there is no assurance that we could absorb any lost production in our other manufacturing facility or that we could arrange to outsource production of the affected products in sufficient time to maintain scheduled deliveries. In the event of a protracted disruption in our own manufacturing operations, we would become more dependent on contract manufacturers and there is no assurance that we could obtain finished products from such contract manufacturers in sufficient quantities or at prices comparable to our own manufacturing costs. Our inability to do so could result in decreased sales and loss of market share, and could have a material adverse effect on our customer relationships, operating results and profitability.

***Ascendia Brands and Lander Canada depend on third parties to provide raw materials for the products they manufacture. Disruption in the supply of raw materials, or increases in raw material costs, could adversely affect sales and our profitability.***

Our ability to maintain production of our health and beauty care products at our own facilities depends upon access to raw materials, all of which we purchase from unrelated vendors. These raw materials include oil-based derivatives (such as mineral oil, petrolatum, surfactants and other specialty chemicals), plastic resin products (such as bottles and caps) and paper products (such as boxes, labels and packaging). If our current vendors become unable or unwilling to supply us with raw materials in a timely manner or at acceptable prices, there is no assurance that we could identify and qualify substitute vendors in sufficient time to prevent a disruption in production of some or all of the products we manufacture, or that substitute vendors would be able or willing to supply raw materials in the quantities and at the prices required to maintain normal operations. In addition, many of the raw materials we use, such as petroleum derivatives and paper products, are commodities that may be subject to significant price fluctuation, both in the short- and long-term. There is no assurance that we could pass through to our customers, in the form of higher prices, any resulting increase in our manufacturing costs. As a volume producer of value and extreme value products, we may be more susceptible than other producers to margin erosion resulting from increases in manufacturing costs. Our inability to secure sufficient quantities of raw materials at prices consistent with our current costs and sales price structure could therefore negatively impact inventory levels, customer relationships, sales and market share, and could have a material adverse effect on our operating results and profitability.

In addition, if our raw material suppliers fail to maintain adequate controls over specifications and quality, we may be unable to maintain the quality of our finished products. Reliance on raw materials of inferior quality could diminish the value of our brand names and the level of customer satisfaction. This could similarly lead to reduced sales and loss of market share and could thereby negatively affect our operating results and profitability.

***Ascendia Brands and Lander Canada rely on unrelated carriers for the shipment of raw materials and finished products. Any disruption in, or unavailability of, transportation, could adversely affect production and distribution of our products.***

Ascendia Brands and Lander Canada receive raw materials at their manufacturing facilities by truck, and distribute finished products to warehouses and customer distribution facilities by truck and/or rail. We rely on unrelated transportation companies for these services, which we typically contract on a short-term or *ad hoc* basis. The availability and cost of transportation services may be affected by many factors, including, without limitation, (i) market conditions of supply and demand, (ii) inclement weather, flood, hurricanes and the like, (iii) fuel shortages and/or increases in fuel costs, and (iv) strikes, lockouts or other industrial action. Although we seek to manage our raw materials and finished goods inventories prudently, any disruption in transportation services may interfere with normal plant operations, and/or could impede or prevent the delivery of finished products to our warehouses and to our customers' facilities. Any sustained increase in transportation rates would increase our manufacturing and/or distribution costs, and there is no assurance that we would be able to pass these cost increases through to our customers in the form of higher prices. These factors could result in lost sales and market share and could adversely affect our operating results and profitability.

***Disruption in our distribution centers may prevent us from meeting customer demand.***

We manage our product distribution in the continental United States and Canada through distribution centers in California, New York, North Carolina, Pennsylvania and Toronto, Canada. A serious disruption in the operation of any of these distribution centers, caused by a flood, fire or other factors, could damage or destroy inventory and could materially impair our ability to distribute products to our customers in a timely manner or at a reasonable cost. We could incur significantly higher costs and experience longer delivery lead times during the time it would take to reopen or replace a distribution center. This in turn could have a material adverse effect on our sales, operating results and profitability.

***Ascendia Brands makes use of contract manufacturers to manufacture significant quantities of the finished products we sell.***

We rely on contract manufacturers to manufacture certain of the finished products sold by our health and beauty care division, and the use of contract manufacturers has increased significantly as a result of Ascendia Brands' acquisition of the former Playtex brands in November, 2005. Any delay in delivery by one or more of these contract manufacturers, or the breach or termination of a manufacturing contract, could adversely affect our inventory levels, our ability to meet scheduled deliveries and to accept new orders. Any or all of these factors could also negatively affect our market share, customer relationships, operating results and profitability.

***Efforts to acquire other companies, brands or product lines may divert our managerial resources from our day-to-day operations, and if we complete an acquisition we may incur or assume additional liabilities or experience integration problems.***

Our growth strategy is bifurcated, driven both by acquiring other companies, brands or product lines that management believes complement our existing health and beauty care business, and through organic growth of our existing brands. At any given time, we may be engaged in discussions with respect to possible acquisitions or other business combinations that are intended to enhance our product portfolio, enable us to realize cost savings and further diversify our category, customer and channel focus. Our ability successfully to grow through acquisition depends on our ability to identify, acquire and integrate suitable acquisition targets and to obtain any necessary financing. These efforts could divert the attention of our management and key personnel from our day-to-day business operations. If we complete acquisitions, we may also experience:

- difficulties or delays in integrating any acquired companies, personnel and/or products into our existing business;
- delays in realizing the benefits of the acquired company or products;
- diversion of our management's time and attention from other business concerns;
- higher than anticipated integration costs;
- difficulties in retaining key employees of the acquired business who may be necessary to manage those businesses most efficiently;
- difficulties in maintaining uniform standards, controls, procedures and policies throughout all acquired companies; and/or
- adverse customer reaction to the business combination.

In addition, an acquisition could materially impair our operating results by causing us to incur debt, amortize acquisition expenses and/or depreciate acquired assets.

***Regulatory matters governing our industry could have a significant negative effect on our sales and operating costs.***

In both our U.S. and foreign markets, we are subject to extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints affecting our health and beauty care business. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States and at analogous levels of government in foreign jurisdictions.

In particular, the formulation, manufacturing, packaging, labeling, distribution, importation, sale and storage of the products sold by our health and beauty care division are subject to regulation by various federal agencies, including the FDA, the Federal Trade Commission (FTC), the Consumer Product Safety Commission, the Environmental Protection Agency, and by various agencies of the states, localities and foreign countries in which our products are manufactured, distributed and sold. In addition, the adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or require discontinuation of product.

If we fail to comply with federal, state or foreign regulations, we could be required to:

- pay fines and/or penalties;
- suspend manufacturing operations;
- change product formulations;
- suspend the sale of products with non-complying specifications;
- initiate product recalls; or
- change product labeling, packaging, or take other corrective action.

Any of these actions could materially and adversely affect our financial results.

In addition, any failure to comply with FTC or state regulations, or with regulations in foreign markets that cover our product claims and advertising, including direct claims and advertising by us, may result in enforcement actions and imposition of penalties or otherwise materially and adversely affect the distribution and sale of our products.

***Our business depends upon the protection of our intellectual property rights.***

The market for our health and beauty care products depends to a significant extent upon the goodwill associated with our trademarks and tradenames. The trademarks and tradenames on our products are how we convey that the products Ascendia Brands sells are value brand name products, and we believe consumers ascribe value to our brands. Ascendia Brands and its affiliates own the material trademark and tradename rights used in connection with the packaging, marketing and sale of our products. This ownership is what prevents competitors or new entrants to the market from using our valuable brand names.

Therefore, trademark and tradename protection is critical to our business. Although most of our material trademarks are registered in the United States and in applicable foreign countries, we may not be successful in asserting trademark or tradename protection. If we were to lose the exclusive right to use any of our brand names in the United States or any other market in which we sell our products, our sales and operating results could be materially and adversely affected. We could also incur substantial costs to defend legal actions relating to the use of our intellectual property, which could have a material adverse effect on our business, results of operations or financial condition.

Other parties may infringe on our intellectual property rights and may thereby dilute the value of brands in the marketplace. If the value of our brands becomes diluted, or if our competitors are able to introduce brands that cause confusion with our brands in the marketplace, it could adversely affect the value that our customers associate with our brands, and thereby negatively impact our sales. Any such infringement of our intellectual property rights would also likely result in a commitment of our time and resources to protect these rights through litigation or otherwise. In addition, third parties may assert claims against our intellectual property rights and we may not be able successfully to resolve these claims.

**Wireless Applications Development Business**

***The Cenuco Wireless business faces extensive competition.***

Our wireless applications development business, conducted under the *Cenuco* name has only recently introduced its full line of wireless video monitoring servers. There can be no assurance that the market will accept the wireless products currently offered. The industries in which the Cenuco Wireless division operates are characterized by intense competition. We face competition in all aspects of our business and we compete directly with numerous other firms, a significant number of which may offer their customers a broader range of products and services, have substantially greater financial, personnel, marketing, research and other resources, have greater operating efficiencies and have established reputations relating to product offerings and customer service. There can be no assurance that we will be able to compete in this business successfully.

*If we are unable to protect our intellectual property rights our ability to compete effectively in the market for our products could be negatively impacted.*

We regard our patents, copyrights, service marks, trademarks, trade secrets and similar intellectual property as important to our success in wireless applications development. We rely on patent, trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, consultants and advisors to protect our proprietary rights; however, the steps we take to protect our proprietary rights may be inadequate and legal means may afford only limited protection. In addition, traditional legal protections may not be applicable in the Internet or wireless context, and the ownership of proprietary rights in our Cenuco Wireless technology may be subject to uncertainty. Our failure or inability to protect our proprietary rights could materially harm our business and competitive position.

We have filed for one Utility patent, Wireless Security Audio-Video Monitoring, which was accepted by the United States Patent Office in June, 2004, as Patent Pending #10/846426. We have also filed for one Provisional Patent, which the Company expects to convert to a full Utility Patent filing later this year. From time to time, we may decide to file additional patent applications relating to aspects of our proprietary Cenuco Wireless technology. Other parties may independently develop similar or competing technology or design around any patents that may be issued to us. There is no assurance that any of the patent applications we file will be approved, or that any issued patents will adequately protect our intellectual property. In addition, there is no assurance that third parties will not challenge the validity of our patents, or assert that technology developed and sold by Cenuco Wireless infringes other patents. Any such claims, even if lacking in merit, could require us to expend considerable resources in defending them and adversely affect the results of our operations.

#### **Our Business Generally**

*Both operating divisions depend on our key personnel and the loss of the services of executive officers or other key employees could harm our business and results of operations.*

Our success in the health and beauty care and wireless applications development business sectors depends to a significant degree upon the continued contributions of our senior management and (in the case of Cenuco Wireless) of the programmers and technicians responsible for technology development. These employees may voluntarily terminate their employment with us at any time. We may not be able to retain existing key personnel or identify, hire and integrate new personnel.

*The Company must comply with the listing provisions of the American Stock Exchange.*

The Company must maintain sufficient stockholders' equity to continue its listing on The American Stock Exchange. As a result of experiencing continuing losses, additional equity capital will be required to maintain sufficient net worth. As of August 26, 2006, stockholders' equity is approximately \$9.5 million, which is above the minimum required of \$6.0 million for companies with sustained losses from continuing operations and/or net losses in its five most recent fiscal years. The Company is currently evaluating alternatives, including the possibility of additional equity contributions and expects to be able to maintain the listing on the American Stock Exchange. Sustained or recurring failure to meet the equity requirements of The American Stock Exchange could ultimately lead to the Company being delisted from trading and therefore potentially impact the Company's ability to raise debt or equity capital in the future.

*Future Impairments to Goodwill and other non amortizable intangible assets.*

The Company has approximately \$31.5 million of goodwill and other non amortizable intangible assets. The testing for impairment in the future may result in additional write-offs.

#### **ITEM 6. EXHIBITS**

Exhibit 31.1 - Certification of Joseph A. Falsetti filed herein

Exhibit 31.2 - Certification of John D. Wille filed herein

Exhibit 32 - Certifications Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934 filed herein



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ASCENDIA BRANDS, INC.

By: /s/ Joseph A. Falsetti  
Joseph A. Falsetti, President & CEO

By: /s/ John D. Wille  
John D. Wille, Chief Financial Officer

Date: October 27, 2006