

Prestige Brands International, LLC  
Form 10-Q/A  
January 12, 2006

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

**FORM 10-Q/A**  
**(Amendment No. 1)**

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

**For the quarterly period ended June 30, 2005**

**PRESTIGE BRANDS HOLDINGS, INC.**

|                          |                                      |                          |
|--------------------------|--------------------------------------|--------------------------|
| <b>Delaware</b>          | <b>20-1297589</b>                    | <b>001-32433</b>         |
| (State of Incorporation) | (I.R.S. Employer Identification No.) | (Commission File Number) |

**PRESTIGE BRANDS INTERNATIONAL, LLC**

|                          |                                      |                          |
|--------------------------|--------------------------------------|--------------------------|
| <b>Delaware</b>          | <b>20-0941337</b>                    | <b>333-11715218-18</b>   |
| (State of Incorporation) | (I.R.S. Employer Identification No.) | (Commission File Number) |

(Exact name of Registrants as specified in their charters)

**90 North Broadway**

**Irvington, New York 10533**

**(914) 524-6810**

(Address of Principal Executive Offices) (Registrants' telephone number, including area code)

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This Amendment No. 1 to the Quarterly Report on Form 10-Q/A for the quarter ended June 30, 2005 is a combined report being filed separately by Prestige Brands Holdings, Inc. and Prestige Brands International, LLC, both registrants. Prestige Brands International, LLC, an indirect wholly owned subsidiary of Prestige Brands Holdings, Inc. is the indirect parent company of Prestige Brands, Inc., the issuer of our 9¼% senior subordinated notes due 2012, and the parent guarantor of such notes. As the indirect holding company of Prestige Brands International, LLC, Prestige Brands Holdings, Inc. does not conduct ongoing business operations. As a result, the financial information for Prestige Brands Holdings, Inc. and Prestige Brands International, LLC is identical for the purposes of the discussion of operating results in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Unless otherwise indicated, we have presented information throughout this Amendment No. 1 to Form 10-Q/A for Prestige Brands Holdings, Inc. and its consolidated subsidiaries, including Prestige Brands International, LLC. The information contained herein relating to each individual registrant is filed by such registrant on its own behalf. Neither

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registrant makes any representation as to information relating to the other registrant. Prestige Brands International, LLC meets the conditions set forth in general instructions (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Amendment No. 1 to Form 10-Q/A with the reduced disclosure format.

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

Indicate by check mark whether the Registrants are accelerated filers (as defined in Exchange Act Rule 12b-2).  
Yes ☐ No ☒

As of January 4, 2006, Prestige Brands Holdings, Inc. had 5,040,890 shares of common stock outstanding. As of such date, Prestige International Holdings, LLC, a wholly owned subsidiary of Prestige Brands Holdings, Inc., owned 100% of the uncertificated ownership interests of Prestige Brands International, LLC.

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## EXPLANATORY NOTE

On November 15, 2005 and November 30, 2005, Prestige Brands Holdings, Inc. (“Company”) filed Current Reports on Form 8-K with the Securities and Exchange Commission (“SEC”) in which it announced that it was restating previously reported financial statements, as a result of a review of certain accounting practices performed in conjunction with the Company's assessment of internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and the preparation of its financial statements for the quarter ended September 30, 2005. As a result of the Company's organizational structure, the restatement of financial statements by the Company has also resulted in the restatement of the financial statements of Prestige Brands International, LLC (“Prestige Brands International”). As more fully described in Note 2 of the financial statements, the Company has determined it erroneously applied generally accepted accounting principles as they relate to the recognition of revenue, the classification of certain trade promotion allowances, the computation of deferred income taxes and the computation of earnings per share. This Amendment No. 1 to Form 10-Q/A (“Amendment”) amends the Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (“Original Filing”), as filed on August 9, 2005.

Except as required to reflect the effects of the restatement for the items enumerated above, no additional modifications or updates in this Amendment have been made to the Original Filing on Form 10-Q. Information not affected by the restatement remains unchanged and reflects the disclosures made at the time of the Original Filing on Form 10-Q. This Amendment does not describe other events occurring after the Original Filing, including exhibits, or modify or update those disclosure affected by subsequent events. This Amendment should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the Original Filing, as information in such reports and documents may update or supersede certain information contained in this Amendment. Accordingly, this Amendment only amends and restates Items 1, 2 and 4 of Part I of the Original Filing, in each case, solely as a result of, and to reflect, the restatement, and no other information in the Original Filing is amended hereby. Additionally, pursuant to the rules of the SEC, Item 6 of Part II of the Original Filing has been amended to contain currently dated certifications of the Company's Chief Executive Officer and Chief Financial Officer. As required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, the certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Amendment as Exhibits 31.1, 31.2, 32.1 and 32.2 with respect to the Company, and 31.3, 31.4, 32.3 and 32.4 with respect to Prestige Brands International.

Concurrent with the filing of this Amendment, the Company is filing Amendment No. 2 on Form 10-K/A to its Annual Report on Form 10-K for the fiscal year ended March 31, 2005, as filed on June 15, 2005, to reflect the effects of the restatement for the items enumerated above, on the financial statements and related financial data as of and for the periods included in Amendment No. 2 to the Annual Report on Form 10-K/A, as well as Amendment No.1 on Form 10-Q/A to the Quarterly Report on Form 10-Q, as filed on January 26, 2005, of Prestige Brands International for the quarterly period ended December 31, 2004.

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

*(In thousands, except per share data)*

|  | June 30, 2005<br>(Restated) | March 31, 2005<br>(Restated) |
|--|-----------------------------|------------------------------|
| <b>Assets</b>  |                             |                              |
| Current assets   |                             |                              |
| Cash   | \$ 13,945                   | \$ 5,334                     |
| Accounts receivable  | 26,442                      | 35,918                       |
| Inventories  | 30,589                      | 24,833                       |
| Deferred income tax assets   | 6,965                       | 5,699                        |
| Prepaid expenses and other current assets                                  | 4,039                       | 3,152                        |
| Total current assets   | 81,980                      | 74,936                       |
| Property and equipment   | 2,043                       | 2,324                        |
| Goodwill   | 294,731                     | 294,731                      |
| Intangible assets  | 606,465                     | 608,613                      |
| Other long-term assets   | 14,344                      | 15,996                       |
| Total Assets   | \$ 999,563                  | \$ 996,600                   |
| <b>Liabilities and Shareholders' Equity</b>                                |                             |                              |
| Current liabilities  |                             |                              |
| Accounts payable   | \$ 18,626                   | \$ 21,705                    |
| Accrued liabilities  | 9,365                       | 11,589                       |
| Current portion of long-term debt  | 3,730                       | 3,730                        |
| Total current liabilities  | 31,721                      | 37,024                       |
| Long-term debt   | 490,698                     | 491,630                      |
| Deferred income tax liabilities  | 89,916                      | 85,899                       |
| Total liabilities  | 612,335                     | 614,553                      |
| <b>Commitments and Contingencies - Note 8</b>                              |                             |                              |
| <b>Shareholders' Equity</b>  |                             |                              |
| Preferred stock - \$.01 per share par value                                |                             |                              |
| Authorized - 5,000 shares  |                             |                              |
| Issued and outstanding - None  | --                          | --                           |
| Common stock - \$.01 per share par value                                   |                             |                              |
| Authorized - 250,000 shares  |                             |                              |
| Issued and outstanding - 50,000 shares at June 30, 2005 and March 31, 2005 | 500                         | 500                          |
| Additional paid-in capital   | 378,188                     | 378,251                      |
| Treasury stock - 2 shares at cost  | (4)                         | (4)                          |
| Accumulated other comprehensive income (loss)                              | (365)                       | 320                          |
| Retained earnings  | 8,909                       | 2,980                        |
| Total shareholders' equity   | 387,228                     | 382,047                      |
| Total Liabilities and Shareholders' Equity                                 | \$ 999,563                  | \$ 996,600                   |

*See accompanying notes.*

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

*(In thousands, except per share data)*

|  | <b>Three Months Ended June 30</b> |                   |
|--|-----------------------------------|-------------------|
|  | <b>2005</b>                       | <b>2004</b>       |
|  | <i>(Restated)</i>                 | <i>(Restated)</i> |
| <b>Revenues</b>  |                                   |                   |
| Net sales  | \$ 63,428                         | \$ 58,680         |
| Other revenues   | 25                                | 75                |
| Total revenues   | 63,453                            | 58,755            |
| <b>Costs of Sales</b>  |                                   |                   |
| Costs of sales   | 28,949                            | 33,138            |
| Gross profit   | 34,504                            | 25,617            |
| <b>Operating Expenses</b>  |                                   |                   |
| Advertising and promotion  | 8,705                             | 10,785            |
| General and administrative   | 4,911                             | 4,921             |
| Depreciation   | 483                               | 486               |
| Amortization of intangible assets  | 2,148                             | 1,803             |
| Total operating expenses   | 16,247                            | 17,995            |
| Operating income   | 18,257                            | 7,622             |
| <b>Other income (expense)</b>  |                                   |                   |
| Interest income  | 81                                | 28                |
| Interest expense   | (8,591)                           | (11,077)          |
| Loss on extinguishment of debt   | --                                | (7,567)           |
| Total other income (expense)   | (8,510)                           | (18,616)          |
| Income before income taxes   | 9,747                             | (10,994)          |
| Provision (benefit) for income taxes   | 3,818                             | (3,902)           |
| Net income (loss)  | 5,929                             | (7,092)           |
| Cumulative preferred dividends on Senior Preferred and Class B Preferred units | --                                | (3,619)           |
| Net income (loss) available to members and common shareholders                 | \$ 5,929                          | \$ (10,711)       |
| Basic earnings (loss) per share  | \$ 0.12                           | \$ (0.44)         |
| Diluted earnings (loss) per share  | \$ 0.12                           | \$ (0.44)         |
| Weighted average shares outstanding:   |                                   |                   |
| Basic  | 48,722                            | 24,511            |
| Diluted  | 49,998                            | 24,511            |

*See accompanying notes.*





**Prestige Brands Holdings, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**and Comprehensive Income**  
**Three Months Ended June 30, 2005**  
*(Unaudited)*

|  | <u>Common Stock</u> |              | Additional         |        | <u>Treasury Stock</u> |          | Accumulated<br>Other<br>Comprehensive<br>Income | Retained   |  |
|--|---------------------|--------------|--------------------|--------|-----------------------|----------|---|------------|--|
|  | Shares              | Par<br>Value | Paid-in<br>Capital | Shares | Amount                | (Loss)   | Earnings  | Totals     |  |
| <i>(In thousands)</i>  |                     |              |                    |        |                       |          |   |            |  |
| Balances - March 31, 2005<br><i>(Restated)</i>                                 | 50,000              | \$ 500       | \$ 378,251         | 2      | \$ (4)                | \$ 320   | \$ 2,980  | \$ 382,047 |  |
| Additional costs associated<br>with initial public offering                    |                     |              | (63)               |        |                       |          |   | (63)       |  |
| Components of<br>comprehensive income  |                     |              |                    |        |                       |          |   |            |  |
| Net income <i>(Restated)</i>   |                     |              |                    |        |                       |          | 5,929   | 5,929      |  |
| Unrealized loss on interest<br>rate cap, net of income tax<br>benefit of \$440 |                     |              |                    |        |                       | (685)    |   | (685)      |  |
| Total comprehensive<br>income <i>(Restated)</i>                                |                     |              |                    |        |                       |          |   | 5,244      |  |
| Balances - June 30, 2005<br><i>(Restated)</i>                                  | 50,000              | \$ 500       | \$ 378,188         | 2      | \$ (4)                | \$ (365) | \$ 8,909  | \$ 387,228 |  |

*See accompanying notes.*

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

| <i>(In thousands)</i>  | <b>Three Months Ended June 30</b> |                   |
|--|-----------------------------------|-------------------|
|  | <b>2005</b>                       | <b>2004</b>       |
|  | <i>(Restated)</i>                 | <i>(Restated)</i> |
| <b>Operating Activities</b>  |                                   |                   |
| Net income (loss)  | \$ 5,929                          | \$ (7,092)        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                   |                   |
| Depreciation and amortization  | 2,635                             | 2,289             |
| Deferred income taxes  | 3,191                             | 2,913             |
| Amortization of deferred financing costs   | 527                               | 781               |
| Loss on extinguishment of debt   | --                                | 7,567             |
| Changes in operating assets and liabilities, net of effects of purchases of businesses   |                                   |                   |
| Accounts receivable  | 9,476                             | 281               |
| Inventories  | (5,756)                           | 2,213             |
| Prepaid expenses and other assets  | (887)                             | (5,573)           |
| Accounts payable   | (3,079)                           | 401               |
| Account payable - related parties  | --                                | 934               |
| Accrued expenses   | (2,224)                           | 3,995             |
| Net cash provided by operating activities  | 9,812                             | 8,709             |
| <b>Investing Activities</b>  |                                   |                   |
| Purchase of equipment  | (206)                             | (109)             |
| Purchase of business, net of cash acquired   | --                                | (373,250)         |
| Net cash used for investing activities   | (206)                             | (373,359)         |
| <b>Financing Activities</b>  |                                   |                   |
| Proceeds from the issuance of notes  | --                                | 668,512           |
| Payment of deferred financing costs  | --                                | (22,651)          |
| Repayment of notes   | (932)                             | (330,786)         |
| Proceeds from the issuance of equity units   | --                                | 58,487            |
| Additional costs associated with initial public offering                                 | (63)                              | --                |
| Net cash provided by (used for) financing activities                                     | (995)                             | 373,562           |
| Increase in cash   | 8,611                             | 8,912             |
| Cash - beginning of period   | 5,334                             | 3,393             |
| Cash - end of period   | \$ 13,945                         | \$ 12,305         |
| <b>Supplemental Cash Flow Information</b>  |                                   |                   |
| Fair value of assets acquired, net of cash acquired                                      | \$ --                             | \$ 596,955        |
| Fair value of liabilities assumed  | --                                | (223,613)         |
| Purchase price funded with non-cash contributions  | --                                | (92)              |
| Cash paid to purchase business   | \$ --                             | \$ 373,250        |
| Interest paid  | \$ 8,051                          | \$ 10,295         |
| Income taxes paid  | \$ 422                            | \$ 280            |

*See accompanying notes.*

**Prestige Brands Holdings, Inc.**  
**Notes to Consolidated Financial Statements**  
**(In thousands, except per share data)**

**1. Business and Basis of Presentation**

***Nature of Business***

Prestige Brands Holdings, Inc. ("the Company") and its subsidiaries are engaged in the marketing, sales and distribution of over-the-counter drug, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States. In February 2005, the Company completed an initial public offering.

***Basis of Presentation***

The unaudited consolidated financial statements presented herein have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include all adjustments, consisting of normal recurring adjustments, that are considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods. Operating results for the three month period ended June 30, 2005 are not necessarily indicative of results that may be expected for the year ending March 31, 2006. This financial information should be read in conjunction with the Company's audited financial statements and notes thereto included in Amendment No. 2 to the Company's Annual Report on Form 10-K/A for the year ended March 31, 2005.

As more fully described in Note 2, the Company determined that the financial statements and the disclosures in the notes thereto for the three month periods ended June 30, 2005 and 2004 contained in the Quarterly Report on Form 10-Q filed on August 9, 2005, required restatement. All amounts disclosed in the footnotes to the financial statements have been appropriately restated.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Company's knowledge of current events and actions that the Company may undertake in the future, actual results could differ from those estimates.

***Cash and Cash Equivalents***

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

***Accounts Receivable***

The Company extends non-interest bearing trade credit to its customers in the ordinary course of business. To minimize credit risk, ongoing evaluations of customers' financial condition are performed; however, collateral is not required. The Company maintains an allowance for doubtful accounts based on its historical collections experience, as well as its evaluation of current and expected conditions and trends affecting its customers.



### ***Sales Returns***

The Company must make estimates of potential future product returns related to current period sales. In order to do this, the Company analyzes historical returns, current economic trends, changes in customer demand and acceptance of the Company's products when evaluating the adequacy of the Company's allowance for returns in any accounting period. If actual returns are greater than those estimated by management, the Company's financial statements in future periods may be adversely affected.

### ***Inventories***

Inventories are stated at the lower of cost or fair value where cost is determined by using the first-in, first-out method. The Company provides an allowance for slow moving and obsolete inventory.

### ***Property and Equipment***

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

|                        | <b>Years</b> |
|------------------------|--------------|
| Machinery              | 5            |
| Computer equipment     | 3            |
| Furniture and fixtures | 7            |

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

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

### ***Goodwill***

The excess of the purchase price over the fair market value of assets acquired and liabilities assumed in acquisition transactions is classified as goodwill. In accordance with Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," the Company does not amortize goodwill, but performs impairment tests of the carrying value at least annually.

### ***Intangible Assets***

Intangible assets are stated at the lesser of cost or fair value less accumulated amortization. For intangible assets with finite lives, amortization is computed on the straight-line method over estimated useful lives ranging from five to 30 years.

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

### ***Deferred Financing Costs***

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

### ***Revenue Recognition***

Revenues are recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) there is a fixed or determinable price; (3) the product has been shipped and the customer takes ownership and assumes risk of loss; and (4) collectibility of the resulting receivable is



reasonably assured. The Company has determined that the risk of loss generally occurs when the product is received by the customer and, accordingly, recognizes revenue at that time. Provision is made for estimated customer discounts and returns at the time of sale based on the Company's historical experience.

The Company frequently participates in the promotional programs of its customers, as is customary in this industry. The ultimate cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These programs may include coupons, scan downs, temporary price reductions or other price guarantee vehicles. The Company estimates the cost of such promotional programs at their inception based on historical experience and current market conditions and reduces sales by such estimates. At the completion of the promotional program, the estimated amounts are adjusted to actual results.

#### ***Costs of Sales***

Costs of sales include product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were \$5.5 million and \$5.3 million for the periods ended June 30, 2005 and 2004, respectively.

#### ***Advertising and Promotion Costs***

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

#### ***Stock-based Compensation***

The Company accounts for employee stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and complies with the disclosure provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123") and FASB Statement No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123." Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the exercise price of the equity instrument.

#### ***Income Taxes***

Income taxes are recorded in accordance with the provisions of FASB Statement No. 109, "Accounting for Income Taxes" ("Statement No. 109"). Pursuant to Statement No. 109, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

#### ***Derivative Instruments***

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

The Company has designated its derivative financial instruments as cash flow hedges because they hedge exposure to variability in expected future cash flows that is attributable to interest rate risk. For these hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same line item associated with the



forecasted transaction in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instruments is recorded in results of operations immediately.

### ***Earnings Per Share***

Basic and diluted earnings per share are calculated based on income (loss) available to common shareholders and the weighted-average number of shares outstanding during the reported period. For the period ended June 30, 2004, the weighted average number of common shares outstanding includes the Company's common units as if the common units had been converted to common stock using the February 2005 initial public offering conversion ratio of one common unit to 0.4589 shares of common stock.

### ***Recently Issued Accounting Standards***

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47") which clarifies guidance provided by Statement No. 143, "Accounting for Asset Retirement Obligations." FIN 47 is effective for the Company no later than March 31, 2006. The adoption of FIN 47 is not expected to have a significant impact on the Company's financial position, results of operations or cash flows.

In April 2005, the Securities and Exchange Commission approved an amendment to Rule 4-01 of Regulations S-X that delays the effective date of Statement No. 123 (Revised 2004), "Shared-Based Payments" ("Statement No. 123R"), which requires companies to expense the value of employee and director stock options and similar awards. The results of operations for the period ended June 30, 2005 would not have been affected had the Company applied the fair value recognition provisions of Statement 123(R) during this period.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("Statement No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB Opinion No. 20) and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements". Statement No. 154 requires that voluntary changes in accounting principle be applied retrospectively to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustments be made to the opening balance of retained earnings. APB Opinion No. 20 had required that most voluntary changes in accounting principle be recognized by including in net income the cumulative effect of changing to the new principle. Statement No. 154 is effective for all accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

## **2. Restatement of Financial Statements**

On November 15, 2005 and November 30, 2005, the Company filed Current Reports on Form 8-K with the Securities and Exchange Commission ("SEC") which announced that previously reported financial statements were being restated as a result of a review of certain accounting practices performed in conjunction with the Company's assessment of internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and the preparation of its financial statements for the quarter ended September 30, 2005. The Company determined it erroneously applied generally accepted accounting principles as they relate to the recognition of revenue, the classification of certain trade promotion allowances, the computation of deferred income taxes and the computation of earnings per share.

With respect to revenue recognition, Staff Accounting Bulletin No. 104 sets forth the criteria for revenue recognition, one of which is that risk of loss has passed to the customer. The Company, consistent with its published pricing and shipping terms, has historically recognized revenue upon shipment of product to the customer. Upon closer examination of its shipping practices and terms, the Company determined that it often was unclear when, from a legal standpoint, risk of loss of its products passed to its customers.



Accordingly, the Company has concluded that revenue should not be recognized until product is received by its customers (referred to as “FOB destination point”), unless the risk of loss transfers to the customer at the point of shipment. These adjustments had no effect on net cash flows provided by or used in operating activities.

With respect to the classification of trade promotions and allowances, Emerging Issues Task Force Issue 01-09 sets forth the criteria for classifying such promotions and allowances as an expense or a reduction of revenue. Upon review, the Company determined that it had incorrectly classified certain promotion and allowance amounts as selling, general and administrative expenses rather than as a reduction of revenues. These adjustments do not affect the balance sheet, net income, operating income or cash flows from operations.

With respect to the provision for income taxes and related deferred taxes, Statement of Financial Accounting Standards No. 109 sets forth the criteria by which such amounts are to be recognized. The Company has determined that the increase in deferred income taxes related to the increase in graduated federal income tax rates from 34% to 35% should have been recognized in the period in which it filed its first consolidated federal income tax return. Consequently, the charge to earnings for the increase in deferred income taxes has been recognized in the fiscal year ended March 31, 2005. This charge was previously recognized in the quarter ended June 30, 2005. This change did not affect cash flows from operations.

With respect to earnings per share, Statement of Financial Accounting Standards No. 128 sets forth the criteria for computing basic and diluted earnings per share. Upon examination of its earnings per share calculations, the Company determined that certain issued and outstanding, but unvested, shares held by management were improperly reflected in the basic earnings per share computations.

The effects of the adjustments enumerated above for each fiscal period are reflected in the schedules that follow.

**Consolidated Statements of Operations**

| <i>(In thousands, except<br/>per share data)</i> | Three Months Ended June 30, 2005 |                            |                 |             |           |  |
|--|----------------------------------|----------------------------|-----------------|-------------|-----------|--|
| Previously<br>Reported                           | Revenue<br>Recognition           | Cooperative<br>Advertising | Income<br>Taxes | As Restated |           |  |
| <b>Revenues</b>                                  |                                  |                            |                 |             |           |  |
| Net sales  | \$ 63,530                        | \$ 1,928                   | \$ (2,030)      | \$ --       | \$ 63,428 |  |
| Other revenues                                   | 25                               |                            |                 |             | 25        |  |
| Total revenues                                   | 63,555                           | 1,928                      | (2,030)         | --          | 63,453    |  |
| <b>Cost of Sales</b>                             |                                  |                            |                 |             |           |  |
| Costs of sales                                   | 28,339                           | 610                        |                 |             | 28,949    |  |
| Gross profit                                     | 35,216                           | 1,318                      | (2,030)         | --          | 34,504    |  |
| <b>Operating Expenses</b>                        |                                  |                            |                 |             |           |  |
| Advertising and promotion                        | 10,714                           | 21                         | (2,030)         |             | 8,705     |  |
| General and administrative                       | 4,911                            |                            |                 |             | 4,911     |  |
| Depreciation                                     | 483                              |                            |                 |             | 483       |  |
| Amortization of intangible assets                | 2,148                            |                            |                 |             | 2,148     |  |
| Total operating expenses                         | 18,256                           | 21                         | (2,030)         | --          | 16,247    |  |
| Operating income                                 | 16,960                           | 1,297                      | --              | --          | 18,257    |  |
| <b>Other income (expense)</b>                    |                                  |                            |                 |             |           |  |
| Interest income                                  | 81                               |                            |                 |             | 81        |  |
| Interest expense                                 | (8,591)                          |                            |                 |             | (8,591)   |  |
| Total other income (expense)                     | (8,510)                          | --                         | --              | --          | (8,510)   |  |
| Income before provision for income taxes         | 8,450                            | 1,297                      | --              | --          | 9,747     |  |
| Provision for income taxes                       | 4,443                            | 522                        |                 | (1,147)     | 3,818     |  |
| Net income                                       | \$ 4,007                         | \$ 775                     | \$ --           | \$ 1,147    | \$ 5,929  |  |
| Basic earnings per share                         | \$ 0.08                          |                            |                 |             | \$ 0.12   |  |
| Diluted earnings per share                       | \$ 0.08                          |                            |                 |             | \$ 0.12   |  |
| Average shares outstanding:                      |                                  |                            |                 |             |           |  |
| Basic  | 49,998                           |                            |                 |             | 48,722    |  |
| Diluted  | 49,998                           |                            |                 |             | 49,998    |  |

**Consolidated Statements of Operations**

| <i>(In thousands, except<br/>per share data)</i>                                    | <b>Three Months Ended June 30, 2004</b> |                                |                                    |                    |
|---|---|--------------------------------|------------------------------------|--------------------|
|   | <b>Previously<br/>Reported</b>          | <b>Revenue<br/>Recognition</b> | <b>Cooperative<br/>Advertising</b> | <b>As Restated</b> |
| <b>Revenues</b>   |   |                                |                                    |                    |
| Net sales   | \$ 67,682                               | \$ (6,142)                     | \$ (2,860)                         | \$ 58,680          |
| Other revenues  | 75                                      |                                |                                    | 75                 |
| Total revenues  | 67,757                                  | (6,142)                        | (2,860)                            | 58,755             |
| <b>Cost of Sales</b>  |   |                                |                                    |                    |
| Costs of sales  | 36,123                                  | (2,985)                        |                                    | 33,138             |
| Gross profit  | 31,634                                  | (3,157)                        | (2,860)                            | 25,617             |
| <b>Operating Expenses</b>   |   |                                |                                    |                    |
| Advertising and promotion   | 13,771                                  | (126)                          | (2,860)                            | 10,785             |
| General and administrative  | 4,921                                   |                                |                                    | 4,921              |
| Depreciation  | 486                                     |                                |                                    | 486                |
| Amortization of intangible assets   | 1,803                                   |                                |                                    | 1,803              |
| Total operating expenses  | 20,981                                  | (126)                          | (2,860)                            | 17,995             |
| Operating income  | 10,653                                  | (3,031)                        | -                                  | 7,622              |
| <b>Other income (expense)</b>   |   |                                |                                    |                    |
| Interest income   | 28                                      |                                |                                    | 28                 |
| Interest expense  | (11,077)                                |                                |                                    | (11,077)           |
| Loss on extinguishment of debt  | (7,567)                                 |                                |                                    | (7,567)            |
| Total other income (expense)  | (18,616)                                | --                             | --                                 | (18,616)           |
| Loss before benefit for<br>income taxes   | (7,963)                                 | (3,031)                        |                                    | (10,994)           |
| Benefit for income taxes  | 2,826                                   | 1,076                          |                                    | 3,902              |
| Net loss  | (5,137)                                 | (1,955)                        | --                                 | (7,092)            |
| Cumulative preferred dividend on<br>Senior Preferred and Class B Preferred<br>Units | (3,619)                                 |                                |                                    | (3,619)            |
| Net loss available to common<br>shareholders  | \$ (8,756)                              | \$ (1,955)                     | \$ --                              | \$ (10,711)        |
| Basic earnings per share  | \$ (0.33)                               |                                |                                    | \$ (0.44)          |
| Diluted earnings per share  | \$ (0.33)                               |                                |                                    | \$ (0.44)          |
| Average shares outstanding:   |   |                                |                                    |                    |
| Basic   | 26,516                                  |                                |                                    | 24,511             |
| Diluted   | 26,516                                  |                                |                                    | 24,511             |





**Consolidated Balance Sheet***(In thousands, except per share data)*

|  | <b>June 30, 2005</b>              |                    |
|--|-----------------------------------|--------------------|
|  | <b>As Previously<br/>Reported</b> | <b>As Restated</b> |
| <b>Assets</b>                                |                                   |                    |
| Current assets                               |                                   |                    |
| Cash   | \$ 13,945                         | \$ 13,945          |
| Accounts receivable                          | 32,489                            | 26,442             |
| Inventories                                  | 27,946                            | 30,589             |
| Deferred income tax assets                   | 6,965                             | 6,965              |
| Prepaid expenses and other current assets    | 4,039                             | 4,039              |
| Total current assets                         | 85,384                            | 81,980             |
| Property and equipment                       | 2,043                             | 2,043              |
| Goodwill                                     | 294,544                           | 294,731            |
| Intangible assets                            | 606,465                           | 606,465            |
| Other long-term assets                       | 14,344                            | 14,344             |
| Total Assets                                 | \$ 1,002,780                      | \$ 999,563         |
| <b>Liabilities and Shareholders' Equity</b>  |                                   |                    |
| Current liabilities                          |                                   |                    |
| Accounts payable                             | \$ 18,626                         | \$ 18,626          |
| Accrued liabilities                          | 10,705                            | 9,365              |
| Current portion of long-term debt            | 3,730                             | 3,730              |
| Total current liabilities                    | 33,061                            | 31,721             |
| Long-term debt                               | 490,698                           | 490,698            |
| Deferred income tax liabilities              | 89,916                            | 89,916             |
| Total liabilities                            | 613,675                           | 612,335            |
| <b>Shareholders' Equity</b>                  |                                   |                    |
| Preferred stock - \$0.01 per share par value |                                   |                    |
| Authorized - 5,000 shares                    |                                   |                    |
| Issued and outstanding - None                | --                                | --                 |
| Common stock - \$.01 per share par value     |                                   |                    |
| Authorized - 250,000 shares                  |                                   |                    |
| Issued and outstanding - 50,000 shares       | 500                               | 500                |
| Additional paid-in capital                   | 378,188                           | 378,188            |
| Treasury stock - 2 shares at cost            | (4)                               | (4)                |
| Accumulated other comprehensive loss         | (365)                             | (365)              |
| Retained earnings                            | 10,786                            | 8,909              |
| Total shareholders' equity                   | 389,105                           | 387,228            |
| Total Liabilities and Shareholders' Equity   | \$ 1,002,780                      | \$ 999,563         |



**Consolidated Balance Sheet***(In thousands, except per share data)*

|  | <b>March 31, 2005</b>                 |                        |
|--|---------------------------------------|------------------------|
|  | <b>As<br/>Previously<br/>Reported</b> | <b>As<br/>Restated</b> |
| <b>Assets</b>                                |                                       |                        |
| Current assets                               |                                       |                        |
| Cash   | \$ 5,334                              | \$ 5,334               |
| Accounts receivable                          | 43,893                                | 35,918                 |
| Inventories                                  | 21,580                                | 24,833                 |
| Deferred income tax assets                   | 5,699                                 | 5,699                  |
| Prepaid expenses and other current assets    | 3,152                                 | 3,152                  |
| Total current assets                         | 79,658                                | 74,936                 |
| Property and equipment                       | 2,324                                 | 2,324                  |
| Goodwill                                     | 294,544                               | 294,731                |
| Intangible assets                            | 608,613                               | 608,613                |
| Other long-term assets                       | 15,996                                | 15,996                 |
| Total Assets                                 | \$ 1,001,135                          | \$ 996,600             |
| <b>Liabilities and Shareholders' Equity</b>  |                                       |                        |
| Current liabilities                          |                                       |                        |
| Accounts payable                             | \$ 21,705                             | \$ 21,705              |
| Accrued liabilities                          | 13,472                                | 11,589                 |
| Current portion of long-term debt            | 3,730                                 | 3,730                  |
| Total current liabilities                    | 38,907                                | 37,024                 |
| Long-term debt                               | 491,630                               | 491,630                |
| Deferred income tax liabilities              | 84,752                                | 85,899                 |
| Total liabilities                            | 615,289                               | 614,553                |
| <b>Shareholders' Equity</b>                  |                                       |                        |
| Preferred stock - \$0.01 per share par value |                                       |                        |
| Authorized - 5,000 shares                    |                                       |                        |
| Issued and outstanding - None                | --                                    | --                     |
| Common stock - \$.01 per share par value     |                                       |                        |
| Authorized - 250,000 shares                  |                                       |                        |
| Issued and outstanding - 50,000 shares       | 500                                   | 500                    |
| Additional paid-in capital                   | 378,251                               | 378,251                |
| Treasury stock - 2 shares at cost            | (4)                                   | (4)                    |
| Accumulated other comprehensive income       | 320                                   | 320                    |
| Retained earnings                            | 6,779                                 | 2,980                  |
| Total shareholders' equity                   | 385,846                               | 382,047                |
| Total Liabilities and Shareholders' Equity   | \$ 1,001,135                          | \$ 996,600             |

The restatements did not affect previously reported net cash flows from operating, investing or financing activities.



**3. Accounts Receivable**

The components of accounts receivable consist of the following:

|   | <b>June 30, 2005</b><br><i>(Restated)</i> | <b>March 31, 2005</b><br><i>(Restated)</i> |
|---|---|--|
| Accounts receivable   | \$ 26,332                                 | \$ 36,985                                  |
| Other receivables   | 1,251                                     | 835  |
|   | 27,583                                    | 37,820                                     |
| Less allowances for discounts, returns and uncollectible accounts | (1,141)                                   | (1,902)                                    |
|   | \$ 26,442                                 | \$ 35,918                                  |

**4. Inventories**

Inventories consist of the following:

|                             | <b>June 30, 2005</b><br><i>(Restated)</i> | <b>March 31, 2005</b><br><i>(Restated)</i> |
|-----------------------------|---|--|
| Packaging and raw materials | \$ 5,192                                  | \$ 3,587                                   |
| Finished goods              | 25,397                                    | 21,246                                     |
|                             | \$ 30,589                                 | \$ 24,833                                  |

Inventories are shown net of allowances for obsolete and slow moving inventory of \$1.4 million at June 30, 2005 and March 31, 2005, respectively.

**5. Property and Equipment**

Property and equipment consist of the following:

|                          | <b>June 30, 2005</b> | <b>March 31, 2005</b> |
|--------------------------|----------------------|-----------------------|
| Machinery                | \$ 2,828             | \$ 2,828              |
| Computer equipment       | 784                  | 771                   |
| Furniture and fixtures   | 542                  | 515                   |
| Leasehold improvements   | 339                  | 173                   |
|                          | 4,493                | 4,287                 |
| Accumulated depreciation | (2,450)              | (1,963)               |
|                          | \$ 2,043             | \$ 2,324              |

**6. Intangible Assets**

Intangible assets consist of the following:

|                               | <b>Gross<br/>Amount</b> | <b>June 30, 2005<br/>Accumulated<br/>Amortization</b> | <b>Net<br/>Amount</b> |
|-------------------------------|-------------------------|---|-----------------------|
| Indefinite lived trademarks   | \$ 522,346              | \$ --   | \$ 522,346            |
| Amortizable intangible assets |                         |   |                       |
| Trademarks                    | 94,900                  | (10,915)  | 83,985                |
| Non-compete agreement         | 158                     | (24)  | 134                   |
|                               | 95,058                  | (10,939)  | 84,119                |
|                               | \$ 617,404              | \$ (10,939)   | \$ 606,465            |

|                               | <b>Gross<br/>Amount</b> | <b>March 31, 2005<br/>Accumulated<br/>Amortization</b> | <b>Net<br/>Amount</b> |
|-------------------------------|-------------------------|--|-----------------------|
| Indefinite lived trademarks   | \$ 522,346              | \$ --  | \$ 522,346            |
| Amortizable intangible assets |                         |  |                       |
| Trademarks                    | 94,900                  | (8,775)  | 86,125                |
| Non-compete agreement         | 158                     | (16)   | 142                   |
|                               | 95,058                  | (8,791)  | 86,267                |
|                               | \$ 617,404              | \$ (8,791)   | \$ 608,613            |

At June 30, 2005, intangible assets are expected to be amortized over a period of five to 30 years as follows:

**Twelve Months Ending June 30**

|            |           |
|------------|-----------|
| 2006       | \$ 8,592  |
| 2007       | 8,592     |
| 2008       | 8,592     |
| 2009       | 8,592     |
| 2010       | 8,592     |
| Thereafter | 41,159    |
|            | \$ 84,119 |

**7. Long-Term Debt**

Long-term debt consists of the following:

|  | <b>June 30, 2005</b> | <b>March 31, 2005</b> |
|--|----------------------|-----------------------|
| Senior revolving credit facility ("Revolving Credit Facility"), which expires on April 6, 2009, is available for maximum borrowings of up to \$60.0 million. The Revolving Credit Facility bears interest at the Company's option at either the prime rate plus a variable margin or LIBOR plus a variable margin. The variable margin ranges from 0.75% to 2.50% and at June 30, 2005, the interest rate on the Revolving Credit Facility was 7.0% per annum. The Company is also required to pay a variable commitment fee on the unused portion of the Revolving Credit Facility. At June 30, 2005, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets.  | \$ --                | \$ --                 |
| Senior secured term loan facility, ("Tranche B Term Loan Facility") bears interest at the Company's option at either the prime rate or LIBOR plus a variable margin of 2.25%. At June 30, 2005, the applicable interest rate on the Tranche B Term Loan Facility was 5.38%. Principal payments of \$933 and interest are payable quarterly. In February 2005, the Tranche B Term Loan Facility was amended to increase the amount available thereunder by \$200.0 million, all of which is available at June 30, 2005. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while amounts borrowed pursuant to the amendment will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets.   | 368,428              | 369,360               |
| Senior Subordinated Notes ("Senior Notes") that bear interest at 9.25% which is payable on April 15 <sup>th</sup> and October 15 <sup>th</sup> of each year. The Senior Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior Notes on or prior to April 15, 2008 at a redemption price equal to 100% plus a make-whole premium, and on or after April 15, 2008 at redemption prices set forth in the indenture governing the Senior Notes. The Senior Notes are unconditionally guaranteed by Prestige Brands International, LLC ("Prestige International"), a wholly owned subsidiary, and Prestige International's wholly owned subsidiaries (other than the issuer). Each of the guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries. | 126,000              | 126,000               |
| Current portion of long-term debt  | 494,428<br>(3,730)   | 495,360<br>(3,730)    |
|  | \$ 490,698           | \$ 491,630            |





The Revolving Credit Facility and the Tranche B Term Loan Facility (together the “Senior Credit Facility”) contain various financial covenants, including provisions that require the Company to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios. Additionally, the Senior Credit Facility contains provisions that restrict the Company from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, changes of control, incurrence of indebtedness, creation of liens and transactions with affiliates. The Company was in compliance with its financial and restrictive covenants under the Senior Credit Facility at June 30, 2005.

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

**Twelve Months Ending June 30**

|            |    |         |
|------------|----|---------|
| 2006       | \$ | 3,730   |
| 2007       |    | 3,730   |
| 2008       |    | 3,730   |
| 2009       |    | 3,730   |
| 2010       |    | 3,730   |
| Thereafter |    | 475,778 |
|            | \$ | 494,428 |

The Company entered into a 5% interest rate cap agreement with a financial institution to mitigate the impact of changing interest rates. The agreement provides for a notional amount of \$20.0 million and terminates in June 2006. The Company also entered into interest rate cap agreements with another financial institution that become effective August 30, 2005, with a total notional amount of \$180.0 million and cap rates ranging from 3.25% to 3.75%. The agreements terminate on May 30, 2006, 2007 and 2008 as to \$50.0 million, \$80.0 million and \$50.0 million, respectively. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair value of the interest rate cap agreements was \$1.7 million at June 30, 2005.

## 8. Commitments and Contingencies

In July 2002, the Company entered into a ten year manufacturing and supply agreement with an unrelated company. Pursuant to this agreement, the Company agreed to purchase certain minimum quantities of product over the initial three years of the agreement or to pay liquidated damages of up to \$0.4 million. The Company had recorded a liability of \$0.3 million at June 30, 2005, which represents its estimate of the probable liquidated damages. Such estimate is based on historical and expected purchases during the initial three years of the agreement.

In June 2003, Dr. Jason Theodosakis filed a lawsuit, Theodosakis v. Walgreens, et al., in Federal District Court in Arizona, alleging that two of the Company’s subsidiaries, Medtech Products and Pecos Pharmaceutical, as well as other unrelated parties, infringed the trade dress of two of his published books. Specifically, Dr. Theodosakis published “The Arthritis Cure” and “Maximizing the Arthritis Cure” regarding the use of dietary supplements to treat arthritis patients. Dr. Theodosakis alleged that his books have a distinctive trade dress, or cover layout, design, color and typeface, and those products that the defendants sold under the ARTHx trademarks infringed the books’ trade dress and constituted unfair competition and false designation of origin. Additionally, Dr. Theodosakis alleged that the defendants made false endorsements of the products by referencing his books on the product packaging and that the use of his name, books and trade dress invaded his right to publicity. The Company sold the ARTHx trademarks, goodwill and inventory to a third party, Contract Pharmacal Corporation, in March 2003. On January 12, 2005, the court granted the Company’s motion for summary judgment and dismissed all claims against Pecos and Medtech. The

plaintiff has filed an appeal in the U.S. Court of Appeals which is pending.

On January 3, 2005, the Company was served with process by its former lead counsel in the Theodosakis litigation seeking \$0.7 million plus interest. The case was filed in the Supreme Court of New York and is styled as Dickstein Shapiro et al v. Medtech Products, Inc. In February 2005, the plaintiffs filed an amended complaint naming the Pecos Pharmaceutical Company as defendant. The Company has answered and filed a counterclaim against Dickstein and also filed a third party complaint against the Lexington Insurance Company, the Company's product liability carrier. The Company believes that if there is any obligation to the Dickstein firm relating to this matter, it is an obligation of Lexington and not the Company.

On May 9, 2005, the Company was served with a complaint in a class action lawsuit filed in Essex County, Massachusetts, styled as Dawn Thompson v. Wyeth, Inc. relating to the Company's Little Remedies pediatric cough products. The Company is one of several corporate defendants, all of whom market over-the-counter cough syrup products for pediatric use. The complaint alleges that the ingredient dextromethorphan is no more effective than a placebo. There is no allegation of physical injury caused by the product or the ingredient. In June 2005, the Company was served in a second class action complaint involving dextromethorphan. The second case, styled Tina Yescavage v. Wyeth was filed in Lee County Florida and similarly involves multiple corporate defendants. The Company believes that both of the dextromethorphan cases are without merit and is actively pursuing appropriate defenses. The use of dextromethorphan in pediatric products is fully consistent with and supported by FDA regulations.

On August 3, 2005, the Company was served with a complaint in a class action lawsuit filed in United States District Court for the Southern District of New York, Charter Township of Clinton Township Police and Fire Retirement System v. Prestige Brands Holdings, Inc. et al, on behalf of all persons who purchased the Company's securities pursuant to and/or traceable to the Company's initial public offering (the "IPO") on or about February 9, 2005 through July 28, 2005. The complaint also names as defendants Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co and J.P. Morgan Securities Inc., the lead or co-lead underwriters of the IPO. The complaint charges the Company, certain of its officers and directors, and other insiders with violations of the Securities Act of 1933. The Company plans to defend this matter vigorously.

The Company is also involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges are recorded against earnings. The Company believes the resolution of such routine matters and other incidental claims, taking into account reserves and insurance, will not have a material adverse effect on its financial condition or results of operation.

## **9. Equity Incentive Plan**

In connection with the Company's initial public offering, the Board of Directors adopted the 2005 Long-Term Equity Incentive Plan ("the Plan"). The Plan provides for grants of stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing services for the Company, are eligible for grants under the Plan. At June 30, 2005, there were 5.0 million shares available for issuance under the Plan; however, no grants have been made under the Plan.



**10. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share:

|  | <b>Three Months Ended June 30</b> |                   |
|--|-----------------------------------|-------------------|
|  | <b>2005</b>                       | <b>2004</b>       |
|  | <b>(Restated)</b>                 | <b>(Restated)</b> |
| <b>Numerator</b>   |                                   |                   |
| Net income (loss) available to common shareholders                                   | \$ 5,929                          | \$ (10,711)       |
| <b>Denominator</b>   |                                   |                   |
| Denominator for basic earnings per share - weighted average shares                   | 48,722                            | 24,511            |
| Dilutive effect of unvested restricted common stock issued to employee and directors | 1,276                             | --                |
| Denominator for diluted earnings per share   | 49,998                            | 24,511            |
| <b>Earnings per Common Share:</b>  |                                   |                   |
| Basic  | \$ 0.12                           | \$ (0.44)         |
| Diluted  | \$ 0.12                           | \$ (0.44)         |

**11. Related Party Transactions**

The Company had entered in an agreement with an affiliate of GTCR Golder Rauner II, LLC ("GTCR"), a private equity firm and an investor in the Company, whereby the GTCR affiliate was to provide management and advisory services to the Company for an aggregate annual compensation of \$4.0 million. The agreement was terminated in February 2005. During the period ended June 30, 2004, the Company paid the affiliate of GTCR a management fee of \$0.9 million.

**12. Income Taxes**

Income taxes are recorded in the Company's quarterly financial statements based on the Company's estimated annual effective income tax rate. The effective rates used in the calculation of income taxes were 39.2% and 35.5% for the periods ended June 30, 2005 and 2004, respectively. The difference in the effective tax rates results primarily from the computation of taxes on a separate company basis during the three month period ended June 30, 2004 and an increase in the Company's graduated federal income tax rates from 34% to 35% due to the formation of the Company in February 2005 and the election to file a consolidated federal income tax return.

**13. Concentrations of Risk**

The Company's sales are concentrated in the areas of over-the-counter pharmaceutical products, personal care products and household cleaning products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During the period ended June 30, 2005, approximately 60.8% of the Company's total sales were derived from its four major brands while during the period ended June 30, 2004, approximately 64.4% of the Company's total sales were derived from



these four brands. During the periods ended June 30, 2005 and 2004, approximately 22.8% and 23.3%, respectively, of the Company's net sales were made to one customer. At June 30, 2005, approximately 20% of accounts receivable were owed by one customer.

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

#### 14. Business Segments

Segment information has been prepared in accordance with FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's operating segments are based on its product lines and consist of (i) Over-the-Counter Drugs, (ii) Personal Care and (iii) Household Cleaning. Accordingly, within each reportable segment are operations that have similar economic characteristics, including the nature of their products, production process, type of customer and method of distribution.

There were no inter-segment sales or transfers during the periods ended June 30, 2005 and 2004. The Company evaluates the performance of its product lines and allocates resources to them based primarily on contribution margin. The table below summarizes information about reportable segments.

|                            | Period Ended June 30, 2005<br>(Restated) |                  |                       |              |
|----------------------------|--|------------------|-----------------------|--------------|
|                            | Over-the-Counter<br>Drug                 | Personal<br>Care | Household<br>Cleaning | Consolidated |
| Net sales                  | \$ 33,387                                | \$ 7,256         | \$ 22,785             | \$ 63,428    |
| Other revenues             | --                                       | --               | 25                    | 25           |
| Total revenues             | 33,387                                   | 7,256            | 22,810                | 63,453       |
| Cost of sales              | 11,665                                   | 3,898            | 13,386                | 28,949       |
| Gross profit               | 21,722                                   | 3,358            | 9,424                 | 34,504       |
| Advertising and promotion  | 6,138                                    | 796              | 1,771                 | 8,705        |
| Contribution margin        | \$ 15,584                                | \$ 2,562         | \$ 7,653              | 25,799       |
| Other operating expenses   |  |                  |                       | 7,542        |
| Operating income           |  |                  |                       | 18,257       |
| Other income (expense)     |  |                  |                       | (8,510)      |
| Provision for income taxes |  |                  |                       | (3,818)      |
| Net income                 |  |                  |                       | \$ 5,929     |





**Period Ended June 30, 2004**  
*(Restated)*

|                           | <b>Over-the-Counter<br/>Drug</b> | <b>Personal<br/>Care</b> | <b>Household<br/>Cleaning</b> | <b>Consolidated</b> |
|---------------------------|----------------------------------|--------------------------|-------------------------------|---------------------|
| Net sales                 | \$ 29,396                        | \$ 7,303                 | \$ 21,981                     | \$ 58,680           |
| Other revenues            |                                  |                          | 75                            | 75                  |
| Total revenues            | 29,396                           | 7,303                    | 22,056                        | 58,755              |
| Cost of sales             | 13,165                           | 4,231                    | 15,742                        | 33,138              |
| Gross profit              | 16,231                           | 3,072                    | 6,314                         | 25,617              |
| Advertising and promotion | 6,554                            | 1,916                    | 2,315                         | 10,785              |
| Contribution margin       | \$ 9,677                         | \$ 1,156                 | \$ 3,999                      | 14,832              |
| Other operating expenses  |                                  |                          |                               | 7,210               |
| Operating income          |                                  |                          |                               | 7,622               |
| Other income (expense)    |                                  |                          |                               | (18,616)            |
| Benefit for income taxes  |                                  |                          |                               | 3,902               |
| Net loss                  |                                  |                          |                               | \$ (7,092)          |

During the periods ended June 30, 2005 and 2004, 97.9% and 97.4%, respectively, of sales were made to customers in the United States and Canada. No individual geographical area accounted for more than 10% of net sales in any of the periods presented. At June 30, 2005 and 2004, all of the Company's long-term assets were located in the United States of America and have not been allocated between segments.

## 15. Subsequent Events

On July 22, 2005, the Company entered into a material definitive asset sale and purchase agreement with Reckitt Benckiser Inc. for the acquisition of the Chore Boy line of household cleaning products for an aggregate consideration of \$22.3 million.

**Prestige Brands International, LLC**  
**Consolidated Balance Sheets**  
*(Unaudited)*

*(In thousands)*

|   | <b>June 30, 2005</b> | <b>March 31, 2005</b> |
|---|----------------------|-----------------------|
|   | <i>(Restated)</i>    | <i>(Restated)</i>     |
| <b>Assets</b>                                 |                      |                       |
| Current assets                                |                      |                       |
| Cash  | \$ 13,945            | \$ 5,334              |
| Accounts receivable                           | 26,442               | 35,918                |
| Inventories                                   | 30,589               | 24,833                |
| Deferred income tax assets                    | 6,965                | 5,699                 |
| Prepaid expenses and other current assets     | 4,039                | 3,152                 |
| Total current assets                          | 81,980               | 74,936                |
| Property and equipment                        | 2,043                | 2,324                 |
| Goodwill                                      | 294,731              | 294,731               |
| Intangible assets                             | 606,465              | 608,613               |
| Other long-term assets                        | 14,344               | 15,996                |
| Total Assets                                  | \$ 999,563           | \$ 996,600            |
| <b>Liabilities and Member's Equity</b>        |                      |                       |
| Current liabilities                           |                      |                       |
| Accounts payable                              | \$ 18,626            | \$ 21,705             |
| Accrued liabilities                           | 9,365                | 11,589                |
| Current portion of long-term debt             | 3,730                | 3,730                 |
| Total current liabilities                     | 31,721               | 37,024                |
| Long-term debt                                | 490,698              | 491,630               |
| Deferred income tax liabilities               | 89,916               | 85,899                |
| Total liabilities                             | 612,335              | 614,553               |
| <b>Commitments and Contingencies - Note 8</b> |                      |                       |
| <b>Member's Equity</b>                        |                      |                       |
| Contributed capital - Prestige Holdings       | 370,214              | 370,277               |
| Accumulated other comprehensive income (loss) | (365)                | 320                   |
| Retained earnings                             | 17,379               | 11,450                |
| Total member's equity                         | 387,228              | 382,047               |
| Total liabilities and member's equity         | \$ 999,563           | \$ 996,600            |

*See accompanying notes.*



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

| <i>(In thousands)</i>                | <b>Three Months Ended June 30</b> |                                  |
|--------------------------------------|-----------------------------------|----------------------------------|
|                                      | <b>2005</b><br><i>(Restated)</i>  | <b>2004</b><br><i>(Restated)</i> |
| <b>Revenues</b>                      |                                   |                                  |
| Net sales                            | \$ 63,428                         | \$ 58,680                        |
| Other revenues                       | 25                                | 75                               |
| Total revenues                       | 63,453                            | 58,755                           |
| <b>Costs of Sales</b>                |                                   |                                  |
| Costs of sales                       | 28,949                            | 33,138                           |
| Gross profit                         | 34,504                            | 25,617                           |
| <b>Operating Expenses</b>            |                                   |                                  |
| Advertising and promotion            | 8,705                             | 10,785                           |
| General and administrative           | 4,911                             | 4,921                            |
| Depreciation                         | 483                               | 486                              |
| Amortization of intangible assets    | 2,148                             | 1,803                            |
| Total operating expenses             | 16,247                            | 17,995                           |
| Operating income                     | 18,257                            | 7,622                            |
| <b>Other income (expense)</b>        |                                   |                                  |
| Interest income                      | 81                                | 28                               |
| Interest expense                     | (8,591)                           | (11,077)                         |
| Loss on extinguishment of debt       | --                                | (7,567)                          |
| Total other income (expense)         | (8,510)                           | (18,616)                         |
| Income before income taxes           | 9,747                             | (10,994)                         |
| Provision (benefit) for income taxes | 3,818                             | (3,902)                          |
| Net income (loss)                    | \$ 5,929                          | \$ (7,092)                       |

*See accompanying notes.*

**Prestige Brands International, LLC**  
**Consolidated Statement of Changes in Member's Equity**  
**and Comprehensive Income**  
**Three Months Ended June 30, 2005**  
*(Unaudited)*

|  | <b>Contributed<br/>Capital<br/>Prestige<br/>Holdings</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Retained<br/>Earnings</b> | <b>Totals</b> |
|--|--|---|------------------------------|---------------|
| <i>(In thousands)</i>  |  |   |                              |               |
| Balances - March 31, 2005 <i>(Restated)</i>  | \$ 370,277   | \$ 320  | \$ 11,450                    | \$ 382,047    |
| Additional costs associated with capital contributions from Prestige Brands Holdings | (63)   |   |                              | (63)          |
| Components of comprehensive income   |  |   |                              |               |
| Net income for the period <i>(Restated)</i>  |  |   | 5,929                        | 5,929         |
| Unrealized loss on interest rate cap, net of income tax benefit of \$440             |  | (685)   |                              | (685)         |
| Comprehensive income <i>(Restated)</i>   |  |   |                              | 5,244         |
| Balances - June 30, 2005 <i>(Restated)</i>   | \$ 370,214   | \$ (365)  | \$ 17,379                    | \$ 387,228    |

*See accompanying notes.*

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

| <i>(In thousands)</i>  | <b>Three Months Ended June 30</b> |                   |
|--|-----------------------------------|-------------------|
|  | <b>2005</b>                       | <b>2004</b>       |
|  | <i>(Restated)</i>                 | <i>(Restated)</i> |
| <b>Operating Activities</b>  |                                   |                   |
| Net income (loss)  | \$ 5,929                          | \$ (7,092)        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                                   |                   |
| Depreciation and amortization  | 2,635                             | 2,289             |
| Deferred income taxes  | 3,191                             | 2,913             |
| Amortization of deferred financing costs   | 527                               | 781               |
| Loss on extinguishment of debt   | --                                | 7,567             |
| Changes in operating assets and liabilities, net of effects of purchases of businesses   |                                   |                   |
| Accounts receivable  | 9,476                             | 281               |
| Inventories  | (5,756)                           | 2,213             |
| Prepaid expenses and other assets  | (887)                             | (5,573)           |
| Accounts payable   | (3,079)                           | 401               |
| Account payable - related parties  | --                                | 934               |
| Accrued expenses   | (2,224)                           | 3,995             |
| Net cash provided by operating activities  | 9,812                             | 8,709             |
| <b>Investing Activities</b>  |                                   |                   |
| Purchase of equipment  | (206)                             | (109)             |
| Purchase of business, net of cash acquired   | --                                | (373,250)         |
| Net cash used for investing activities   | (206)                             | (373,359)         |
| <b>Financing Activities</b>  |                                   |                   |
| Net proceeds from the issuance of notes  | --                                | 668,512           |
| Payment of deferred financing costs  | --                                | (22,651)          |
| Repayment of notes   | (932)                             | (330,786)         |
| Proceeds from capital contributions  | --                                | 58,487            |
| Additional costs associated with initial public offering                                 | (63)                              | --                |
| Net cash provided by (used for) financing activities                                     | (995)                             | 373,562           |
| Increase in cash   | 8,611                             | 8,912             |
| Cash - beginning of period   | 5,334                             | 3,393             |
| Cash - end of period   | \$ 13,945                         | \$ 12,305         |
| <b>Supplemental Cash Flow Information</b>  |                                   |                   |
| Fair value of assets acquired, net of cash acquired                                      | \$ --                             | \$ 596,955        |
| Fair value of liabilities assumed  | --                                | (223,613)         |
| Purchase price funded with non-cash contributions  | --                                | (92)              |
| Cash paid to purchase business   | \$ --                             | \$ 373,250        |

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|                   |    |       |    |        |
|-------------------|----|-------|----|--------|
| Interest paid     | \$ | 8,051 | \$ | 10,295 |
| Income taxes paid | \$ | 422   | \$ | 280    |

*See accompanying notes.*

**Prestige Brands International, LLC**  
**Notes to Consolidated Financial Statements**  
**(In thousands)**

**1. Business and Basis of Presentation**

***Nature of Business***

Prestige Brands International, LLC, (“Prestige International” or the “Company”) is an indirect wholly owned subsidiary of Prestige Brands Holdings, Inc. (“Prestige Holdings”) and the indirect parent company of Prestige Brands, Inc., the issuer of the 9.25% senior subordinated notes due 2012 (“Senior Notes”) and the borrower under the senior credit facility consisting of a Revolving Credit Facility, Tranche B Term Loan Facility and a Tranche C Term Loan Facility (together the “Senior Credit Facility”). Prestige International is also the parent guarantor of the obligations. The Company and its subsidiaries are engaged in the marketing, sales and distribution of over-the-counter drug, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States.

***Basis of Presentation***

The unaudited consolidated financial statements presented herein have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include all adjustments, consisting of normal recurring adjustments, that are considered necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the interim periods. Operating results for the three month period ended June 30, 2005 are not necessarily indicative of results that may be expected for the year ending March 31, 2006. This financial information should be read in conjunction with the Company’s audited financial statements and notes thereto included in Amendment No. 2 to the Company’s Annual Report on Form 10-K/A for the year ended March 31, 2005.

As more fully described in Note 2, the Company determined that the financial statements and the disclosures in the notes thereto for the three month periods ended June 30, 2005 and 2004 contained in the Quarterly Report on Form 10-Q filed on August 9, 2005, required restatement. All amounts disclosed in the footnotes to the financial statements have been appropriately restated.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Company’s knowledge of current events and actions that the Company may undertake in the future, actual results could differ from those estimates.

***Cash and Cash Equivalents***

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

***Accounts Receivable***



The Company extends non-interest bearing trade credit to its customers in the ordinary course of business. To minimize credit risk, ongoing evaluations of customers' financial condition are performed; however, collateral is not required. The Company maintains an allowance for doubtful accounts based on its

historical collections experience, as well as its evaluation of current and expected conditions and trends affecting its customers.

### ***Sales Returns***

The Company must make estimates of potential future product returns related to current period sales. In order to do this, the Company analyzes historical returns, current economic trends, changes in customer demand and acceptance of the Company's products when evaluating the adequacy of the Company's allowance for returns in any accounting period. If actual returns are greater than those estimated by management, the Company's financial statements in future periods may be adversely affected.

### ***Inventories***

Inventories are stated at the lower of cost or fair value where cost is determined by using the first-in, first-out method. The Company provides an allowance for slow moving and obsolete inventory.

### ***Property and Equipment***

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

|                        | <b>Years</b> |
|------------------------|--------------|
| Machinery              | 5            |
| Computer equipment     | 3            |
| Furniture and fixtures | 7            |

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

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

### ***Goodwill***

The excess of the purchase price over the fair market value of assets acquired and liabilities assumed in acquisition transactions is classified as goodwill. In accordance with Statement No. 142, "Goodwill and Other Intangible Assets," the Company does not amortize goodwill, but performs impairment tests of the carrying value at least annually.

### ***Intangible Assets***

Intangible assets are stated at the lesser of cost or fair value less accumulated amortization. For intangible assets with finite lives, amortization is computed on the straight-line method over estimated useful lives ranging from five to 30 years.

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

### ***Deferred Financing Costs***

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

***Revenue Recognition***

Revenues are recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) there is a fixed or determinable price; (3) the product has been shipped and the customer takes ownership and assumes risk of loss; and (4) collectibility of the resulting receivable is reasonably assured. The Company has determined that the risk of loss generally occurs when product is received by the customer and, accordingly, recognizes revenues at that time. Provision is made for estimated customer discounts and returns at the time of sale based on the Company's historical experience.

The Company frequently participates in the promotional programs of its customers, as is customary in this industry. The ultimate cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These programs may include coupons, scan downs, temporary price reductions or other price guarantee vehicles. The Company estimates the cost of such promotional programs at their inception based on historical experience and current market conditions and reduces sales by such estimates. At the completion of the promotional program, the estimated amounts are adjusted to actual results.

#### ***Costs of Sales***

Costs of sales include product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were \$5.5 million and \$5.4 million for the periods ended June 30, 2005 and 2004, respectively.

#### ***Advertising and Promotion Costs***

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

#### ***Stock-based Compensation***

The Company accounts for employee stock-based compensation in accordance with the provisions of APB 25 and complies with the disclosure provisions of Statement No. 123 and Statement No. 148. Under APB 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's common stock and the exercise price of the equity instrument.

#### ***Income Taxes***

Income taxes are recorded in accordance with the provisions of Statement No. 109. Pursuant to Statement No. 109, deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

#### ***Derivative Instruments***

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

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

### ***Recently Issued Accounting Standards***

In March 2005, the FASB issued FIN 47 which clarifies guidance provided by Statement No. 143, "Accounting for Asset Retirement Obligations." FIN 47 is effective for the Company no later than March 31, 2006. The adoption of FIN 47 is not expected to have a significant impact on the Company's financial position, results of operations or cash flows.

In April 2005, the Securities and Exchange Commission approved an amendment to Rule 4-01 of Regulations S-X that delays the effective date of Statement No. 123 which requires companies to expense the value of employee and director stock options and similar awards. The results of operations for the period ended June 30, 2005 would not have been affected had the Company applied the fair value recognition provisions of Statement 123(R) during this period.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("Statement No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB Opinion No. 20") and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements". Statement No. 154 requires that voluntary changes in accounting principle be applied retrospectively to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustments be made to the opening balance of retained earnings. APB Opinion No. 20 had required that most voluntary changes in accounting principle be recognized by including in net income the cumulative effect of changing to the new principle. Statement No. 154 is effective for all accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

## **2. Restatement of Financial Statements**

On November 15, 2005 and November 30, 2005, Prestige Brands Holdings, Inc. ("Prestige Holdings") filed Current Reports on Form 8-K with the Securities and Exchange Commission ("SEC") which announced that previously reported financial statements were being restated as a result of a review of certain accounting practices performed in conjunction with Prestige Holdings' assessment of internal controls over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and the preparation of its financial statements for the quarter ended September 30, 2005. Prestige Holdings determined it erroneously applied generally accepted accounting principles as they relate to the recognition of revenue, the classification of certain trade promotion allowances and the computation of deferred income taxes. As a result of Prestige Holdings' organizational structure, the restatement of financial statements by Prestige Holdings has also resulted in the restatement of the Company's financial statements for the corresponding periods.

With respect to revenue recognition, Staff Accounting Bulletin No. 104 sets forth the criteria for revenue recognition, one of which is that risk of loss has passed to the customer. The Company, consistent with its published pricing and shipping terms, has historically recognized revenue upon shipment of product to the customer. Upon closer examination of its shipping practices and terms, the Company determined that it often was unclear when, from a legal standpoint, risk of loss of its products passed to its customers. Accordingly, the Company has concluded that revenue should not be recognized until product is received by its customers (referred to as "FOB destination point"), unless the risk of loss transfers to the customer at the point of shipment. These adjustments had no effect on net cash flows provided by or used in operating activities.

With respect to the classification of trade promotions and allowances, Emerging Issues Task Force Issue 01-09 sets forth the criteria for classifying such promotions and allowances as an expense or a reduction of revenue. Upon review, the Company determined that it had incorrectly classified certain promotion and allowance amounts as selling, general and administrative expenses rather than as a reduction of revenues. These adjustments did not affect the balance sheet, net income, operating income or cash flows from operations.



With respect to the provision for income taxes and related deferred taxes, Statement of Financial Accounting Standards No. 109 sets forth the criteria by which such amounts are to be recognized. The Company has determined that the increase in deferred income taxes related to the increase in graduated federal income tax rates from 34% to 35% should have been recognized in the period in which it filed its first consolidated federal income tax return. Consequently, the charge to earnings for the increase in deferred income taxes has been recognized in the fiscal year ended March 31, 2005. This charge was previously recognized in the quarter ended June 30, 2005. This change did not affect cash flows from operations.

The effects of the adjustments enumerated above for each fiscal period are reflected in the schedules that follow.

### Consolidated Statements of Operations

|  | Three Months Ended June 30, 2005 |                        |                            |                 |             |  |
|--|----------------------------------|------------------------|----------------------------|-----------------|-------------|--|
| (In thousands)                           | Previously<br>Reported           | Revenue<br>Recognition | Cooperative<br>Advertising | Income<br>Taxes | As Restated |  |
| <b>Revenues</b>                          |                                  |                        |                            |                 |             |  |
| Net sales                                | \$ 63,530                        | \$ 1,928               | \$ (2,030)                 | \$ --           | \$ 63,428   |  |
| Other revenues                           | 25                               |                        |                            |                 | 25          |  |
| Total revenues                           | 63,555                           | 1,928                  | (2,030)                    | --              | 63,453      |  |
| <b>Cost of Sales</b>                     |                                  |                        |                            |                 |             |  |
| Costs of sales                           | 28,339                           | 610                    |                            |                 | 28,949      |  |
| Gross profit                             | 35,216                           | 1,318                  | (2,030)                    | --              | 34,504      |  |
| <b>Operating Expenses</b>                |                                  |                        |                            |                 |             |  |
| Advertising and promotion                | 10,714                           | 21                     | (2,030)                    |                 | 8,705       |  |
| General and administrative               | 4,911                            |                        |                            |                 | 4,911       |  |
| Depreciation                             | 483                              |                        |                            |                 | 483         |  |
| Amortization of intangible assets        | 2,148                            |                        |                            |                 | 2,148       |  |
| Total operating expenses                 | 18,256                           | 21                     | (2,030)                    | --              | 16,247      |  |
| Operating income                         | 16,960                           | 1,297                  | --                         | --              | 18,257      |  |
| <b>Other income (expense)</b>            |                                  |                        |                            |                 |             |  |
| Interest income                          | 81                               |                        |                            |                 | 81          |  |
| Interest expense                         | (8,591)                          |                        |                            |                 | (8,591)     |  |
| Total other income (expense)             | (8,510)                          | --                     | --                         | --              | (8,510)     |  |
| Income before provision for income taxes | 8,450                            | 1,297                  | --                         | --              | 9,747       |  |
| Provision for income taxes               | 4,443                            | 522                    |                            | (1,147)         | 3,818       |  |
| Net income                               | \$ 4,007                         | \$ 775                 | \$ --                      | \$ 1,147        | \$ 5,929    |  |





**Consolidated Statements of Operations**

| <i>(In thousands)</i>                       | <b>Three Months Ended June 30, 2004</b> |                                |                                    |                        |
|---|---|--------------------------------|------------------------------------|------------------------|
|   | <b>Previously<br/>Reported</b>          | <b>Revenue<br/>Recognition</b> | <b>Cooperative<br/>Advertising</b> | <b>As<br/>Restated</b> |
| <b>Revenues</b>                             |   |                                |                                    |                        |
| Net sales                                   | \$ 67,682                               | \$ (6,142)                     | \$ (2,860)                         | \$ 58,680              |
| Other revenues                              | 75                                      |                                |                                    | 75                     |
| Total revenues                              | 67,757                                  | (6,142)                        | (2,860)                            | 58,755                 |
| <b>Cost of Sales</b>                        |   |                                |                                    |                        |
| Costs of sales                              | 36,123                                  | (2,985)                        |                                    | 33,138                 |
| Gross profit                                | 31,634                                  | (3,157)                        | (2,860)                            | 25,617                 |
| <b>Operating Expenses</b>                   |   |                                |                                    |                        |
| Advertising and promotion                   | 13,771                                  | (126)                          | (2,860)                            | 10,785                 |
| General and administrative                  | 4,921                                   |                                |                                    | 4,921                  |
| Depreciation                                | 486                                     |                                |                                    | 486                    |
| Amortization of intangible assets           | 1,803                                   |                                |                                    | 1,803                  |
| Total operating expenses                    | 20,981                                  | (126)                          | (2,860)                            | 17,995                 |
| Operating income                            | 10,653                                  | (3,031)                        | -                                  | 7,622                  |
| <b>Other income (expense)</b>               |   |                                |                                    |                        |
| Interest income                             | 28                                      |                                |                                    | 28                     |
| Interest expense                            | (11,077)                                |                                |                                    | (11,077)               |
| Loss on extinguishment of debt              | (7,567)                                 |                                |                                    | (7,567)                |
| Total other income (expense)                | (18,616)                                | --                             | --                                 | (18,616)               |
| Income before provision for<br>income taxes | (7,963)                                 | (3,031)                        |                                    | (10,994)               |
| Income tax benefit                          | 2,826                                   | 1,076                          |                                    | 3,902                  |
| Net loss                                    | \$ (5,137)                              | \$ (1,955)                     | \$ --                              | \$ (7,092)             |

**Consolidated Balance Sheet**  
*(In thousands)*

|   | <b>June 30, 2005</b>                  |                        |
|---|---------------------------------------|------------------------|
|   | <b>As<br/>Previously<br/>Reported</b> | <b>As<br/>Restated</b> |
| <b>Assets</b>                             |                                       |                        |
| Current assets                            |                                       |                        |
| Cash                                      | \$ 13,945                             | \$ 13,945              |
| Accounts receivable                       | 32,489                                | 26,442                 |
| Inventories                               | 27,946                                | 30,589                 |
| Deferred income tax assets                | 6,965                                 | 6,965                  |
| Prepaid expenses and other current assets | 4,039                                 | 4,039                  |
| Total current assets                      | 85,384                                | 81,980                 |
| Property and equipment                    | 2,043                                 | 2,043                  |
| Goodwill                                  | 294,544                               | 294,731                |
| Intangible assets                         | 606,465                               | 606,465                |
| Other long-term assets                    | 14,344                                | 14,344                 |
| Total Assets                              | \$ 1,002,780                          | \$ 999,563             |
| <b>Liabilities and Member's Equity</b>    |                                       |                        |
| Current liabilities                       |                                       |                        |
| Accounts payable                          | \$ 18,626                             | \$ 18,626              |
| Accrued liabilities                       | 10,705                                | 9,365                  |
| Current portion of long-term debt         | 3,730                                 | 3,730                  |
| Total current liabilities                 | 33,061                                | 31,721                 |
| Long-term debt                            | 490,698                               | 490,698                |
| Deferred income tax liabilities           | 89,916                                | 89,916                 |
| Total liabilities                         | 613,675                               | 612,335                |
| <b>Member's Equity</b>                    |                                       |                        |
| Contributed capital - Prestige Holdings   | 370,214                               | 370,214                |
| Accumulated other comprehensive loss      | (365)                                 | (365)                  |
| Retained earnings                         | 19,256                                | 17,379                 |
| Total member's equity                     | 389,105                               | 387,228                |
| Total liabilities and member's equity     | \$ 1,002,780                          | \$ 999,563             |

**Consolidated Balance Sheet**  
*(In thousands)*

|   | <b>March 31, 2005</b>                 |                        |
|---|---------------------------------------|------------------------|
|   | <b>As<br/>Previously<br/>Reported</b> | <b>As<br/>Restated</b> |
| <b>Assets</b>                             |                                       |                        |
| Current assets                            |                                       |                        |
| Cash                                      | \$ 5,334                              | \$ 5,334               |
| Accounts receivable                       | 43,893                                | 35,918                 |
| Inventories                               | 21,580                                | 24,833                 |
| Deferred income tax assets                | 5,699                                 | 5,699                  |
| Prepaid expenses and other current assets | 3,152                                 | 3,152                  |
| Total current assets                      | 79,658                                | 74,936                 |
| Property and equipment                    | 2,324                                 | 2,324                  |
| Goodwill                                  | 294,544                               | 294,731                |
| Intangible assets                         | 608,613                               | 608,613                |
| Other long-term assets                    | 15,996                                | 15,996                 |
| Total Assets                              | \$ 1,001,135                          | \$ 996,600             |
| <b>Liabilities and Member's Equity</b>    |                                       |                        |
| Current liabilities                       |                                       |                        |
| Accounts payable                          | \$ 21,705                             | \$ 21,705              |
| Accrued liabilities                       | 13,472                                | 11,589                 |
| Current portion of long-term debt         | 3,730                                 | 3,730                  |
| Total current liabilities                 | 38,907                                | 37,024                 |
| Long-term debt                            | 491,630                               | 491,630                |
| Deferred income tax liabilities           | 84,752                                | 85,899                 |
| Total liabilities                         | 615,289                               | 614,553                |
| <b>Member's Equity</b>                    |                                       |                        |
| Contributed capital - Prestige Holdings   | 370,277                               | 370,277                |
| Accumulated other comprehensive income    | 320                                   | 320                    |
| Retained earnings                         | 15,249                                | 11,450                 |
| Total member's equity                     | 385,846                               | 382,047                |
| Total liabilities and member's equity     | \$ 1,001,135                          | \$ 996,600             |

The restatements did not affect previously reported net cash flows from operating, investing or financing activities.

**3. Accounts Receivable**

The components of accounts receivable consist of the following:

|   | <b>June 30, 2005</b><br><i>(Restated)</i> | <b>March 31, 2005</b><br><i>(Restated)</i> |
|---|---|--|
| Accounts receivable   | \$ 26,332                                 | \$ 36,985                                  |
| Other receivables   | 1,251                                     | 835  |
|   | 27,583                                    | 37,820                                     |
| Less allowances for discounts, returns and uncollectible accounts | (1,141)                                   | (1,902)                                    |
|   | \$ 26,442                                 | \$ 35,918                                  |

**4. Inventories**

Inventories consist of the following:

|                             | <b>June 30, 2005</b><br><i>(Restated)</i> | <b>March 31, 2005</b><br><i>(Restated)</i> |
|-----------------------------|---|--|
| Packaging and raw materials | \$ 5,192                                  | \$ 3,587                                   |
| Finished goods              | 25,397                                    | 21,246                                     |
|                             | \$ 30,589                                 | \$ 24,883                                  |

Inventories are shown net of allowances for obsolete and slow moving inventory of \$1.4 million at June 30, 2005 and March 31, 2005, respectively.

**5. Property and Equipment**

Property and equipment consist of the following:

|                          | <b>June 30, 2005</b> | <b>March 31, 2005</b> |
|--------------------------|----------------------|-----------------------|
| Machinery                | \$ 2,828             | \$ 2,828              |
| Computer equipment       | 784                  | 771                   |
| Furniture and fixtures   | 542                  | 515                   |
| Leasehold improvements   | 339                  | 173                   |
|                          | 4,493                | 4,287                 |
| Accumulated depreciation | (2,450)              | (1,963)               |
|                          | \$ 2,043             | \$ 2,324              |



**6. Intangible Assets**

Intangible assets consist of the following:

|                               | <b>Gross<br/>Amount</b> | <b>June 30, 2005<br/>Accumulated<br/>Amortization</b> | <b>Net<br/>Amount</b> |
|-------------------------------|-------------------------|---|-----------------------|
| Indefinite lived trademarks   | \$ 522,346              | \$ --   | \$ 522,346            |
| Amortizable intangible assets |                         |   |                       |
| Trademarks                    | 94,900                  | (10,915)  | 83,985                |
| Non-compete agreement         | 158                     | (24)  | 134                   |
|                               | 95,058                  | (10,939)  | 84,119                |
|                               | \$ 617,404              | \$ (10,939)   | \$ 606,465            |

|                               | <b>Gross<br/>Amount</b> | <b>March 31, 2005<br/>Accumulated<br/>Amortization</b> | <b>Net<br/>Amount</b> |
|-------------------------------|-------------------------|--|-----------------------|
| Indefinite lived trademarks   | \$ 522,346              | \$ --  | \$ 522,346            |
| Amortizable intangible assets |                         |  |                       |
| Trademarks                    | 94,900                  | (8,775)  | 86,125                |
| Non-compete agreement         | 158                     | (16)   | 142                   |
|                               | 95,058                  | (8,791)  | 86,267                |
|                               | \$ 617,404              | \$ (8,791)   | \$ 608,613            |

At June 30, 2005, intangible assets are expected to be amortized over a period of five to 30 years as follows:

**Twelve Months Ending June 30**

|            |           |
|------------|-----------|
| 2006       | \$ 8,592  |
| 2007       | 8,592     |
| 2008       | 8,592     |
| 2009       | 8,592     |
| 2010       | 8,592     |
| Thereafter | 41,159    |
|            | \$ 84,119 |

**7. Long-Term Debt**

Long-term debt consists of the following:

|   | <b>June 30, 2005</b> | <b>March 31, 2005</b> |
|---|----------------------|-----------------------|
| Senior revolving credit facility ("Revolving Credit Facility"), which expires on April 6, 2009, is available for maximum borrowings of up to \$60.0 million. The Revolving Credit Facility bears interest at the Company's option at either the prime rate plus a variable margin or LIBOR plus a variable margin. The variable margin ranges from 0.75% to 2.50% and at June 30, 2005, the interest rate on the Revolving Credit Facility was 7.0% per annum. The Company is also required to pay a variable commitment fee on the unused portion of the Revolving Credit Facility. At June 30, 2005, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets.   | \$ --                | \$ --                 |
| Senior secured term loan facility, ("Tranche B Term Loan Facility") bears interest at the Company's option at either the prime rate or LIBOR plus a variable margin of 2.25%. At June 30, 2005, the applicable interest rate on the Tranche B Term Loan Facility was 5.38%. Principal payments of \$933 and interest are payable quarterly. In February 2005, the Tranche B Term Loan Facility was amended to increase the amount available thereunder by \$200.0 million, all of which is available at June 30, 2005. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while amounts borrowed pursuant to the amendment will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets.          | 368,428              | 369,360               |
| Senior Subordinated Notes (Senior Notes) that bear interest at 9.25% which is payable on April 15 <sup>th</sup> and October 15 <sup>th</sup> of each year. The Senior Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior Notes on or prior to April 15, 2008 at a redemption price equal to 100% plus a make-whole premium, and on or after April 15, 2008 at redemption prices set forth in the indenture governing the Senior Notes. The Senior Notes are unconditionally guaranteed by Prestige International and Prestige International's wholly owned subsidiaries (other than the issuer). Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries. | 126,000              | 126,000               |
|   | 494,428              | 495,360               |
| Current portion of long-term debt   | (3,730)              | (3,730)               |
|   | \$ 490,698           | \$ 491,630            |





The Revolving Credit Facility and the Tranche B Term Loan Facility (together the “Senior Credit Facility”) contain various financial covenants, including provisions that require the Company to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios. Additionally, the Senior Credit Facility contains provisions that restrict the Company from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, changes of control, incurrence of indebtedness, creation of liens and transactions with affiliates. The Company was in compliance with its financial and restrictive covenants under the Senior Credit Facility at June 30, 2005.

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

**Twelve Months Ending June 30**

|            |    |         |
|------------|----|---------|
| 2006       | \$ | 3,730   |
| 2007       |    | 3,730   |
| 2008       |    | 3,730   |
| 2009       |    | 3,730   |
| 2010       |    | 3,730   |
| Thereafter |    | 475,778 |
|            | \$ | 494,428 |

The Company entered into a 5% interest rate cap agreement with a financial institution to mitigate the impact of changing interest rates. The agreement provides a notional amount of \$20.0 million and terminates in June 2006. The Company also entered into interest rate cap agreements with another financial institution that become effective August 30, 2005, with a total notional amount of \$180.0 million and cap rates ranging from 3.25% to 3.75%. The agreements terminate on May 30, 2006, 2007 and 2008 as to \$50.0 million, \$80.0 million and \$50.0 million, respectively. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair value of the interest rate cap agreements was \$1.678 million at June 30, 2005.

## 8. Commitments and Contingencies

In July 2002, the Company entered into a ten year manufacturing and supply agreement with an unrelated company. Pursuant to this agreement, the Company agreed to purchase certain minimum quantities of product over the initial three years of the agreement or to pay liquidated damages of up to \$0.4 million. The Company had recorded a liability of \$0.3 million at June 30, 2005, which represents its estimate of the probable liquidated damages. Such estimate is based on historical and expected purchases during the initial three years of the agreement.

In June 2003, Dr. Jason Theodosakis filed a lawsuit, Theodosakis v. Walgreens, et al., in Federal District Court in Arizona, alleging that two of the Company’s subsidiaries, Medtech Products and Pecos Pharmaceutical, as well as other unrelated parties, infringed the trade dress of two of his published books. Specifically, Dr. Theodosakis published “The Arthritis Cure” and “Maximizing the Arthritis Cure” regarding the use of dietary supplements to treat arthritis patients. Dr. Theodosakis alleged that his books have a distinctive trade dress, or cover layout, design, color and typeface, and those products that the defendants sold under the ARTHx trademarks infringed the books’ trade dress and constituted unfair competition and false designation of origin. Additionally, Dr. Theodosakis alleged that the defendants made false endorsements of the products by referencing his books on the product packaging and that the use of his name, books and trade dress invaded his right to publicity. The Company sold the ARTHx trademarks, goodwill and inventory to a third party, Contract Pharmacal Corporation, in March 2003. On January 12, 2005, the court granted the Company’s motion for summary judgment and dismissed all claims against Pecos and Medtech. The

plaintiff has filed an appeal in the U.S. Court of Appeals which is pending.

On January 3, 2005, the Company was served with process by its former lead counsel in the Theodosakis litigation seeking \$0.7 million plus interest. The case was filed in the Supreme Court of New York and is styled as Dickstein Shapiro et al v. Medtech Products, Inc. In February 2005, the plaintiffs filed an amended complaint naming the Pecos Pharmaceutical Company as defendant. The Company has answered and filed a counterclaim against Dickstein and also filed a third party complaint against the Lexington Insurance Company, the Company's product liability carrier. The Company believes that if there is any obligation to the Dickstein firm relating to this matter, it is an obligation of Lexington and not the Company.

On May 9, 2005, the Company was served with a complaint in a class action lawsuit filed in Essex County, Massachusetts, styled as Dawn Thompson v. Wyeth, Inc. relating to the Company's Little Remedies pediatric cough products. The Company is one of several corporate defendants, all of whom market over-the-counter cough syrup products for pediatric use. The complaint alleges that the ingredient dextromethorphan is no more effective than a placebo. There is no allegation of physical injury caused by the product or the ingredient. In June 2005, the Company was served in a second class action complaint involving dextromethorphan. The second case, styled Tina Yescavage v. Wyeth was filed in Lee County Florida and similarly involves multiple corporate defendants. The Company believes that both of the dextromethorphan cases are without merit and is actively pursuing appropriate defenses. The use of dextromethorphan in pediatric products is fully consistent with and supported by FDA regulations.

On August 3, 2005, the Company was served with a complaint in a class action lawsuit filed in United States District Court for the Southern District of New York, Charter Township of Clinton Township Police and Fire Retirement System v. Prestige Brands Holdings, Inc. et al, on behalf of all persons who purchased the Company's securities pursuant to and/or traceable to the Company's initial public offering (the "IPO") on or about February 9, 2005 through July 28, 2005. The complaint also names as defendants Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co and J.P. Morgan Securities Inc., the lead or co-lead underwriters of the IPO. The complaint charges the Company, certain of its officers and directors, and other insiders with violations of the Securities Act of 1933. The Company plans to defend this matter vigorously.

The Company is also involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges are recorded against earnings. The Company believes the resolution of such routine matters and other incidental claims, taking into account reserves and insurance, will not have a material adverse effect on its financial condition or results of operation.

## **9. Equity Incentive Plan**

In connection with the Prestige Brands Holdings' IPO, the Board of Directors adopted the 2005 Long-Term Equity Incentive Plan ("the Plan"). The Plan provides for grants of stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing services for the Company, are eligible for grants under the Plan. At June 30, 2005, there were 5.0 million shares available for issuance under the Plan; however, no grants have been made under the Plan.

## **10. Related Party Transactions**

The Company had entered in an agreement with an affiliate of GTCR Golder Rauner II, LLC ("GTCR"), a private equity firm and an investor in the Company, whereby the GTCR affiliate was to provide management and advisory

services to the Company for an aggregate annual compensation of \$4.0 million.

The agreement was terminated in February 2005. During the period ended June 30, 2004, the Company paid the affiliate of GTCR a management fee of \$0.9 million.

## **11. Income Taxes**

Income taxes are recorded in the Company's quarterly financial statements based on the Company's estimated annual effective income tax rate. The effective rates used in the calculation of income taxes were 39.2% and 35.5% for the periods ended June 30, 2005 and 2004, respectively. The increase in the effective tax rate for 2005 resulted primarily from the computation of taxes on a separate company basis during the three month period ended June 30, 2004 and an increase in the Company's graduated federal income tax rates from 34% to 35% due to the formation of Prestige Holdings in February 2005 and the election to file a consolidated federal income tax return.

## **12. Concentrations of Risk**

The Company's sales are concentrated in the areas of over-the-counter pharmaceutical products, personal care products and household cleaning products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During the period ended June 30, 2005, approximately 60.8% of the Company's total sales were derived from its four major brands while during the period ended June 30, 2004, approximately 64.4% of the Company's total sales were derived from these four brands. During the periods ended June 30, 2005 and 2004, approximately 22.8% and 23.3%, respectively, of the Company's net sales were made to one customer. At June 30, 2005, approximately 20% of accounts receivable were owed by one customer.

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

## **13. Business Segments**

Segment information has been prepared in accordance with FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's operating segments are based on its product lines and consist of (i) Over-the-Counter Drugs, (ii) Personal Care and (iii) Household Cleaning. Accordingly, within each reportable segment are operations that have similar economic characteristics, including the nature of their products, production process, type of customer and method of distribution.

There were no inter-segment sales or transfers during the periods ended June 30, 2005 and 2004. The Company evaluates the performance of its product lines and allocates resources to them based primarily on contribution margin. The table below summarizes information about reportable segments.

**Period Ended June 30, 2005**  
*(Restated)*

|                            | <b>Over-the-Counter<br/>Drug</b> | <b>Personal<br/>Care</b> | <b>Household<br/>Cleaning</b> | <b>Consolidated</b> |
|----------------------------|----------------------------------|--------------------------|-------------------------------|---------------------|
| Net sales                  | \$ 33,387                        | \$ 7,256                 | \$ 22,785                     | \$ 63,428           |
| Other revenues             | --                               | --                       | 25                            | 25                  |
| Total revenues             | 33,387                           | 7,256                    | 22,810                        | 63,453              |
| Cost of sales              | 11,665                           | 3,898                    | 13,386                        | 28,949              |
| Gross profit               | 21,722                           | 3,358                    | 9,424                         | 34,504              |
| Advertising and promotion  | 6,138                            | 796                      | 1,771                         | 8,705               |
| Contribution margin        | \$ 15,584                        | \$ 2,562                 | \$ 7,653                      | 25,799              |
| Other operating expenses   |                                  |                          |                               | 7,542               |
| Operating income           |                                  |                          |                               | 18,257              |
| Other income (expense)     |                                  |                          |                               | (8,510)             |
| Provision for income taxes |                                  |                          |                               | (3,818)             |
| Net income                 |                                  |                          |                               | \$ 5,929            |

**Period Ended June 30, 2004**  
*(Restated)*

|                           | <b>Over-the-Counter<br/>Drug</b> | <b>Personal<br/>Care</b> | <b>Household<br/>Cleaning</b> | <b>Consolidated</b> |
|---------------------------|----------------------------------|--------------------------|-------------------------------|---------------------|
| Net sales                 | \$ 29,396                        | \$ 7,303                 | \$ 21,981                     | \$ 58,680           |
| Other revenues            |                                  |                          | 75                            | 75                  |
| Total revenues            | 29,396                           | 7,303                    | 22,056                        | 58,755              |
| Cost of sales             | 13,165                           | 4,231                    | 15,742                        | 33,138              |
| Gross profit              | 16,231                           | 3,072                    | 6,314                         | 25,617              |
| Advertising and promotion | 6,554                            | 1,916                    | 2,315                         | 10,785              |
| Contribution margin       | \$ 9,677                         | \$ 1,156                 | \$ 3,999                      | 14,832              |
| Other operating expenses  |                                  |                          |                               | 7,210               |
| Operating income          |                                  |                          |                               | 7,622               |
| Other income (expense)    |                                  |                          |                               | (18,616)            |
| Benefit for income taxes  |                                  |                          |                               | 3,902               |
| Net loss                  |                                  |                          |                               | \$ (7,092)          |

During the periods ended June 30, 2005 and 2004, 97.9% and 97.4%, respectively, of sales were made to customers in the United States and Canada. No individual geographical area accounted for more than 10% of net sales in any of the periods presented. At June 30, 2005 and 2004, all of the Company's long-term assets were located in the United States of America and have not been allocated between segments.

#### **14. Subsequent Events**

On July 22, 2005, the Company entered into a material definitive asset sale and purchase agreement with Reckitt Benckiser Inc. for the acquisition of the Chore Boy line of household cleaning products for an aggregate consideration of \$22.3 million.



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

The Company, as the indirect holding company of Prestige International, LLC ("Prestige International") does not conduct ongoing business operations. As a result, the financial information for Prestige Brands Holdings, Inc. and Prestige International is identical for the purposes of the discussion of operating results in Management's Discussion and Analysis of Financial Condition and Results of Operations. Prestige International is an indirect wholly owned subsidiary of Prestige Brands Holdings, Inc. and the parent company of Prestige Brands, Inc., the issuer of our 9.25% senior subordinated notes due 2012 ("Senior Notes") and the borrower under the senior credit facility, consisting of a Revolving Credit Facility, Tranche B Term Loan Facility and a Tranche C Term Loan Facility (together the "Senior Credit Facility"). Prestige International is also the parent guarantor of the obligations.

### **Restatement**

As discussed in Note 2 to the financial statements, the financial statements and related notes thereto contained in the Company's Quarterly Report on Form 10-Q for the three month period ended June 30, 2005 and the Company's Annual Report on Form 10-K and Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the fiscal year ended March 31, 2005 have been restated. This document should be read in conjunction with the Management's Discussion and Analysis section of Amendment No. 2 to our Annual Report on Form 10-K/A for the fiscal year ended March 31, 2005. All amounts in Management's Discussion and Analysis of Financial Condition and Results of Operations have been adjusted, as appropriate, for the effects of this restatement.

### **General**

We sell well-recognized, brand name over-the-counter drug, household cleaning and personal care products. We operate in niche segments of these categories where we can use the strength of our brands, our established retail distribution network, a low-cost operating model and our experienced management team as a competitive advantage to grow our presence in these categories and, as a result, grow our sales and profits.

We have grown our brand portfolio by acquiring strong and well-recognized brands from larger consumer products and pharmaceutical companies, as well as other brands from smaller private companies. While the brands we have purchased from larger consumer products and pharmaceutical companies have long histories of support and brand development, we believe that at the time we acquired them they were considered "non-core" by their previous owners and did not benefit from the focus of senior level management or strong marketing support. We believe that the brands we have purchased from smaller private companies have been constrained by the limited resources of their prior owners. After acquiring a brand, we seek to increase its sales, market share and distribution in both existing and new channels. We pursue this growth through increased spending on advertising and promotion, new marketing strategies, improved packaging and formulations and innovative new products.

In February 2005, we raised \$448.0 million through an initial public offering of 28 million shares of common stock. The net proceeds of the offering were \$416.8 million after deducting \$28.0 million of underwriters' discounts and commissions and \$3.2 million of offering expenses. The net proceeds of \$416.8 million plus \$3.0 million from our revolving credit facility and \$8.8 million of cash on hand went to repay \$100.0 million of our existing senior indebtedness (plus a repayment premium of \$3.0 million and accrued interest of \$0.5 million as of February 15, 2005), to redeem \$84.0 million in aggregate principal amount of our existing 9.25% senior subordinated notes (plus a redemption premium of \$7.8 million and accrued interest of \$3.3 million as of March 18, 2005), to repurchase an aggregate of 4.4 million shares of our common stock held by the GTCR funds and the TCW/Crescent funds for \$30.2 million, and to contribute \$199.8 million to Prestige International Holdings, LLC, which was used to redeem all of its outstanding senior preferred units and class B preferred units. We did not receive any of the proceeds from the sale of 4.2 million shares by the selling stockholders as a result of the underwriters exercising their over-allotment options.



## **Quarterly Period Ended June 30, 2005 compared to the Quarterly Period Ended June 30, 2004**

### **Net Sales**

Net sales for the period ended June 30, 2005 were \$63.5 million compared to \$58.8 million for the comparable period of the prior year. This represented an increase of \$4.7 million or 8.0% over the prior period. The Over-the-Counter Drug segment had net sales of \$33.4 million for the period ended June 30, 2005, an increase of \$4.0 million or 13.6% over net sales of \$29.4 million for the period ended June 30, 2004. The Household Cleaning segment had net sales of \$22.8 million for the period ended June 30, 2005, an increase of \$0.7 million, or 3.4% over net sales of \$22.1 million for the period ended June 30, 2004. The Personal Care segment had net sales of \$7.3 million for each of the periods ended June 30, 2005 and 2004.

### ***Over-the-Counter Drug Segment***

Net sales in the Over-the-Counter Drug segment were \$33.4 million for the period ended June 30, 2005 versus \$29.4 million for the comparable period of the prior year. This represented an increase of \$4.0 million or 13.6% over the prior period. The sales increase was attributable to strong year on year gains for Chloraseptic, Clear Eyes and Dermoplast combined with the addition of the Little Remedies brand during the third quarter of Fiscal Year 2005. The Little Remedies brand was acquired in the Vetco acquisition in October 2004. Partially offsetting the sales gains mentioned above were year on year sales declines on the Compound W and New Skin brands, which both experienced declines driven by category contractions in the quarter ended June 30, 2005.

### ***Personal Care Segment***

Net sales of the Personal Care segment were \$7.3 million for the period ended June 30, 2005 versus \$7.3 million for the comparable period of the prior year. Cutex sales were up slightly in the quarter while Denorex sales were down by the same amount.

### ***Household Cleaning Segment***

Net sales of the Household Cleaning segment were \$22.8 million for the period ended June 30, 2005 versus \$22.1 million for the comparable period of the prior year. This represented an increase of \$0.7 million or 3.4% over the prior period. The sales increase was driven by Comet, partially offset by a sales decline on the Spic and Span Brand.

### **Gross Profit**

Gross profit for the period ended June 30, 2005 was \$34.5 million compared to \$25.6 million for the comparable period of the prior year. This represented an increase of \$8.9 million or 34.7% from the prior period. The period ended June 30, 2004 included inventory step-up costs associated with the acquisitions of the businesses of approximately \$5.2 million. Excluding costs associated with the inventory step-up in the period ended June 30, 2004, gross profit increased by \$3.7 million or 12.0% for the period ended June 30, 2005. The increase in gross profit is primarily a result of the sales increase. Gross profit as a percent of sales was 54.4% for the period ended June 30, 2004 versus 43.6% for the comparable period of the prior year. Excluding the effects of the inventory step-up in the quarter ended June 30, 2004 gross margin as a percent of sales was 52.5%. The increase in gross profit percentage is primarily a result of improvements in the over-the-counter drug and household cleaning segments partially offset by declines in the personal care segment.

### ***Over-the-Counter Drug Segment***

Gross profit of the Over-the-Counter segment was \$21.7 million for the period ended June 30, 2005 versus \$16.2 million for the comparable period of the prior year. This represented an increase of \$5.5 million or 33.8% over the prior period. Excluding \$2.6 million of cost associated with the inventory step-up in the period ended June 30, 2004, gross profit increased by \$2.9 million or 15.4% for the period ended June 30, 2005. Gross profit as a percent of sales was 65.1% for the period ended June 30, 2005 versus 55.2% for the comparable period of the prior year. Excluding the inventory step-up, gross profit as a percent of sales for the quarter ended June 30, 2004 was 64.0%. The increase in gross profit as a percent of sales was due to favorable sales mix. Compound W Freeze-off has a lower gross profit

percentage

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than the average product in the Over-the-Counter Drug segment. It accounted for a smaller proportion of the sales in the period ended June 30, 2005 than in the comparable period of the prior year.

#### ***Personal Care Segment***

Gross profit of the personal care segment was \$3.4 million for the period ended June 30, 2005 versus \$3.1 million for the comparable period of the prior year. This represented an increase of \$0.3 million or 9.3% over the prior period. Excluding \$0.2 million of costs associated with the inventory step-up in the period ended June 30, 2004, gross profit increased by \$0.1 million or 2.6% over the period ended June 30, 2004. Gross profit as a percent of sales was 46.3% for the period ended June 30, 2005 versus 42.1% for the comparable period of the prior year. Excluding the inventory step-up in the quarter ended June 30, 2004, gross profit as a percent of sales was 44.8%.

#### ***Household Cleaning Segment***

Gross profit of the Household Cleaning segment was \$9.4 million for the period ended June 30, 2005 versus \$6.3 million for the comparable period of the prior year. This represented an increase of \$3.1 million or 49.3% from the prior period. Excluding \$2.4 million of costs associated with the inventory step-up in the period ended June 30, 2004, gross profit increased \$0.7 million or 8.1% over the period ended June 30, 2004. Gross profit as a percent of sales was 41.3% for the period ended June 30, 2005 versus 28.6% for the comparable period of the prior year. Excluding the inventory step-up in the quarter ended June 30, 2004 gross profit as a percent of sales was 39.5%. The improvement in margin was due to favorable product mix.

#### ***Contribution Margin***

Contribution margin, defined as gross profit less advertising and promotion expenses, was \$25.8 million for the period ended June 30, 2005 versus \$14.8 million for the comparable period of the prior year. This represented an increase of \$11.0 million or 73.9% from the prior period. Excluding costs associated with the inventory step-up mentioned above, contribution margin increased by \$5.8 million or 28.8% versus the comparable period of the prior year. The contribution margin increase is attributable to the gross profit increase combined with a \$2.1 million reduction in advertising and promotion spending in the period ended June 30, 2005 versus the same period in the prior year.

#### ***Over-the-Counter Drug Segment***

Contribution margin of the Over-the-Counter drug segment was \$15.6 million for the period ended June 30, 2005 versus \$9.7 million for the comparable period of the prior year. Excluding costs associated with the inventory step-up mentioned above, contribution margin increased by \$3.3 million or 26.9% versus the comparable period of the prior year. The contribution margin increase is a result of the gross profit increase combined with a \$0.4 million reduction in advertising and promotion spending in the period ended June 30, 2005 versus the same period of the prior year. The reduction in advertising and promotion spending was due to a Chloraseptic media test program aimed at the allergy season in the period ended June 30, 2004 which was not repeated in the period ended June 30, 2005.

#### ***Personal Care Segment***

Contribution margin of the personal care segment was \$2.6 million for the period ended June 30, 2005 versus \$1.2 million for the comparable period of the prior year. This represented an increase of \$1.4 million or 121.6% over the prior period. The contribution margin increase is a result of a \$1.1 million reduction in advertising and promotion spending in the period ended June 30, 2005, in combination with the gross profit increase. The reduction in advertising and promotion was primarily a result of a shift in Cutex advertising from television to print media. The Cutex print media advertising campaign is planned throughout the current fiscal year as opposed to television media which was concentrated in the first two fiscal quarters of last year.

#### ***Household Cleaning Segment***

Contribution margin of the Household Cleaning segment was \$7.7 million for the period ended June 30, 2005 versus \$4.0 million for the comparable period of the prior year. This represented an increase of \$3.7 million or 91.4% over the prior period. Excluding costs associated with the inventory step-up mentioned



above, contribution margin increased by \$1.3 million or 19.6% for the period ended June 30, 2005 versus the comparable period of the prior year. The contribution margin increase is a result of a \$0.5 million reduction in advertising and promotion in the period end June 30, 2005 from the comparable period of the prior year, combined with the gross profit increase. The decline in advertising and promotion spending is driven by the elimination of advertising and promotional spend behind the discontinued Comet Clean and Flush product line.

#### **General and Administrative**

General and administrative expenses were flat at \$4.9 million for the period ended June 30, 2005 versus the comparable period of the prior year. Synergies achieved with the integration of the Medtech, Bonita Bay and Spic and Span acquisitions were partially offset by an increase in costs associated with being a public company, including, Sarbanes-Oxley reporting compliance, regulatory filings and legal fees. The period ended June 30, 2005 includes additional expenses associated with adding the Little Remedies brand in the Vetco acquisition that was completed in October 2004.

#### **Depreciation and Amortization**

Depreciation and amortization expense was \$2.6 million for the period ended June 30, 2005 versus \$2.3 million for the comparable period of the prior year. The increase was due to amortization of intangible assets related to the Vetco acquisition.

#### **Interest Expense, net**

Net interest expense was \$8.5 million for the period ended June 30, 2005 versus \$11.0 million for the comparable period of the prior year. This represented a decrease of \$2.5 million or 23.0% from the prior period. The decrease in interest expense is due to the reduction of indebtedness outstanding.

#### **Loss on Extinguishment of Debt**

Loss on extinguishment of debt was \$0 for the period ended June 30, 2005 versus \$7.6 million for the comparable period of the prior year. The \$7.6 million for the period ended June 30, 2004 related to the write-off of deferred financing costs and debt discounts associated with the borrowings retired in connection with the Bonita Bay acquisition.

#### **Income Taxes**

The income tax provision for the period ended June 30, 2005 was \$3.8 million, with an effective rate of 39.2%, compared to a benefit of \$3.9 million, with an effective rate of 35.5% for period ended June 30, 2004. The increase in effective tax rates results primarily from the computation of taxes on a separate company basis during the three month period ended June 30, 2004 and an increase in the Company's graduated federal income tax rates from 34% to 35% due to the formation of the Company in February 2005 and the election to file a consolidated federal income tax return.

#### **Liquidity and Capital Resources**

We have historically financed our operations with a combination of internally generated funds and borrowings. In February 2005, we completed an initial public offering that provided the Company with net proceeds of \$416.8 million which were used to repay \$184.0 million of indebtedness, to repurchase common stock held by the GTCR funds and the TCW/Crescent funds, and to redeem all of the outstanding senior preferred units and class B preferred units held by previous investors. Our principal uses of cash are for operating expenses, debt service, acquisitions, working capital, and capital expenditures.

Net cash provided by operating activities was \$9.8 million for period ended June 30, 2005 compared to \$8.7 million for comparable period of the prior year. The \$1.1 million increase was primarily due to net income of \$5.9 million, adjusted for non-cash items of \$6.3 million in 2005, compared to net loss of \$7.0 million, adjusted for non-cash items of \$13.6 million for the period ended June 30, 2004, offset by working capital changes. Working capital increased by

\$12.3 million for period ended June 30, 2005, primarily due to an increase in inventory of \$5.8 million during the period and a decrease in accounts



payable and accrued expenses of \$5.3 million, offset by a reduction in accounts receivable of \$9.5 million.

Net cash used in investing activities was \$0.2 million for period ended June 30, 2005 compared to net cash used of \$373.4 million for the comparable period of the prior year. The net cash used in investing activities for the June 30, 2005 period was primarily a result of leasehold improvements on the Company's Irvington, New York offices. The net cash used in investing activities for the period ended June 30, 2004 was for the acquisition of Bonita Bay on April 6, 2004.

Net cash used in financing activities was \$1.0 million for the period ended June 30, 2005 compared to \$373.6 million for the period ended June 30, 2004. Net cash used in financing activities for June 30, 2005 was primarily due to mandatory scheduled payments on the senior secured term loan facility. In the period ended June 30, 2004, to finance the acquisitions of Bonita Bay, the Company borrowed \$668.5 million and issued preferred units and common units of \$58.5 million. The increase in debt was partially offset by the payment of deferred financing costs of \$22.6 million, repayment of the debt incurred in February 2004 at the time of the Medtech/Denorex acquisition, the pay down of the revolving credit facility and scheduled payments on current debt which all totaled \$330.8 million.

### **Capital Resources**

On February 15, 2005, the Company completed an initial public offering of common stock which resulted in net proceeds of \$416.8 million. The proceeds were used to repay the \$100.0 million outstanding under the Tranche C Term Loan Facility (plus a repayment premium of \$3.0 million and accrued interest of \$0.5 million as of February 15, 2005), and to redeem \$84.0 million in aggregate principal amount of our existing 9.25% Senior Notes (plus a redemption premium of \$7.8 million and accrued interest of \$3.3 million as of March 18, 2005). Effective upon the completion of the initial public offering, we entered into an amendment to the credit agreement that, among other things, allows us to increase the indebtedness under our Tranche B Term Loan Facility by \$200.0 million and allows for an increase in our Revolving Credit Facility up to \$60.0 million.

As of June 30, 2005, we had an aggregate of \$494.4 million of outstanding indebtedness, which consisted of (i) an aggregate of \$368.4 million of borrowings under the Tranche B Term Loan Facility, and (ii) \$126.0 million of 9.25% Senior Notes due 2012. We had \$60.0 million of borrowing capacity under the Revolving Credit Facility available at such time.

All loans under the Senior Credit Facility bear interest at floating rates, which can be either (i) based on the prime rate, or (ii) LIBOR rate, plus an applicable margin. As of June 30, 2005, an aggregate of \$368.4 million was outstanding under the term loans at a weighted average interest rate of 5.3%.

On June 30, 2004, we paid \$52,000 for a 5% interest rate cap agreement with a notional amount of \$20 million. The interest rate cap terminates in June 2006. On March 7, 2005, we paid \$2.3 million for interest rate cap agreements that become effective August 30, 2005, with a total notional amount of \$180 million and LIBOR cap rates ranging from 3.25% to 3.75%. The interest rate cap agreements terminate on May 30, 2006, 2007 and 2008 as to \$50.0 million, \$80.0 million and \$50.0 million, respectively. The fair value of the interest rate cap agreements was \$1.7 million at June 30, 2005.

The Tranche B Term Loan Facility matures in April 2011. We must make quarterly amortization payments on the term loan facility equal to 0.25% of the initial principal amount of the term loan. The Revolving Credit Facility matures and the commitments relating to the Revolving Credit Facility terminate in April 2009. The obligations under the Senior Credit Facility are guaranteed on a senior basis by Prestige Brands International, LLC, our intermediate holding company, and all of its domestic subsidiaries, other than the issuer (Prestige Brands, Inc.) and are secured by substantially all of our assets.

The Senior Credit Facility contains various financial covenants, including financial covenants that require us to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios, as well as covenants restricting us from undertaking specified corporate actions, including asset dispositions,

acquisitions, payment of dividends and other specified payments, changes of control, incurrence of indebtedness, creation of liens, making loans and investments and transactions with affiliates. Our Senior Notes require that adjusted EBITDA (as defined therein) be used as the basis for calculating our leverage and interest coverage ratios. We were in compliance with our financial and restrictive covenants under the credit facility at June 30, 2005.

Our principal sources of funds are anticipated to be cash flows from operating activities and available borrowings under the Revolving Credit Facility. We believe that these funds will provide us with sufficient liquidity and capital resources for us to meet our current and future financial obligations, as well as to provide funds for working capital, capital expenditures and other needs for at least the next 12 months. We regularly review acquisition opportunities and other potential strategic transactions, which may require additional debt or equity financing.

### Commitments

As of June 30, 2005, we had ongoing commitments under various contractual and commercial obligations as follows:

| Contractual Obligations        | Total    | Less than<br>1 Year | 1 to 3<br>Years | 4 to 5<br>Years | After 5<br>Years |
|--------------------------------|----------|---------------------|-----------------|-----------------|------------------|
|                                |          | (in millions)       |                 |                 |                  |
| Long-term debt                 | \$ 494.4 | \$ 3.7              | \$ 7.5          | \$ 7.5          | \$ 475.7         |
| Interest on long-term debt (1) | 210.8    | 31.7                | 62.4            | 62.0            | 54.7             |
| Operating leases               | 1.6      | 0.5                 | 0.8             | 0.3             | --               |
| Total Contractual Obligations  | \$ 706.8 | \$ 35.9             | \$ 70.7         | \$ 69.8         | \$ 530.4         |

- (1) Represents the estimated interest obligations on the outstanding balance of the Tranche B Term Loan Facility and the outstanding balance of the Senior Notes, together, assuming scheduled principal payments (based on the terms of the loan agreements) were made and assuming a weighted average interest rate of 6.4%. Estimated interest obligations would be different under different assumptions regarding interest rates or timing of principal payments. If interest rates on borrowings with variable rates increased by 1%, interest expense would increase approximately \$3.7 million, in the first year.

## **Critical Accounting Policies and Estimates**

The significant accounting policies are described in the notes of the unaudited financial statements included elsewhere in this document. While all significant accounting policies are important to our consolidated financial statements, some of these policies may be viewed as being critical. Such policies are those that are both most important to the portrayal of our financial condition and require our most difficult, subjective and complex estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent assets and liabilities. These estimates are based upon our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. The most critical accounting policies are as follows:

### ***Allowance for doubtful accounts and the allowance for obsolete and damaged inventory***

In the ordinary course of business, we grant non-interest bearing trade credit to our customers on normal credit terms. To reduce our credit risk, we perform ongoing credit evaluations of our customers' financial condition. In addition, we maintain an allowance for doubtful accounts receivable based upon our historical collection experience and expected collectibility of our accounts receivable. If uncollectible account balances exceed our estimates, our financial statements would be adversely affected.

We write down our inventory for estimated obsolescence or damage equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

### ***Valuation of long-lived and intangible assets and goodwill***

Pursuant to FASB Statement No. 141, "Business Combinations" ("Statement No. 141") and Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement No. 142") goodwill and indefinite-lived intangible assets are no longer amortized, but must be tested for impairment at least annually. Intangible assets with finite lives are amortized over their respective estimated useful lives. We are required to make judgments regarding the value assigned to acquired intangible assets and their respective useful lives. Our determination of the values and lives was based on our analysis of the requirements of Statements No. 141 and No. 142, as well as an independent evaluation of such assets. We have determined that a significant portion of our trademarks have indefinite lives. If we determine that any of these assets has a finite life, we would amortize the value of that asset over the remainder of such finite life. Intangible assets with finite lives and other long-lived assets must also be evaluated for impairment when management believes that the carrying value of the asset will not be recovered. Adverse changes in market conditions or poor operating results could result in a future impairment charge. There were no impairments of goodwill, indefinite-lived intangible assets or other long-lived assets during the period ended June 30, 2005. Goodwill and other long-term assets amounted to \$901.2 million at June 30, 2005.

### ***Revenue Recognition***

We comply with the provisions Securities and Exchange Commission of Staff Accounting Bulletin 104 "Revenue Recognition," which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company has determined that the risk of loss generally occurs when product is received by the customer and, accordingly, recognizes revenue at that time.

We must make estimates of potential future product returns related to current period sales. In order to do this, we analyze historical returns, current economic trends and changes in customer demand and acceptance of our products when evaluating the adequacy of our allowance for returns in any accounting period. If actual returns are greater than those estimated by management, our financial statements in future periods would be adversely affected.



The Company frequently participates in the promotional programs of its customers, as is customary in this industry. The ultimate cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These programs may include coupons, scan downs, temporary price reductions or other price guarantee vehicles. The Company estimates the cost of such promotional programs at their inception based on historical experience and current market conditions and reduces sales by such estimates. At the completion of the promotional program, the estimated amounts are adjusted to actual results.

### **Recent Accounting Pronouncements**

In March 2005, the FASB issued FIN 47 which clarifies guidance provided by Statement No. 143, "Accounting for Asset Retirement Obligations." FIN 47 is effective for the Company no later than March 31, 2006. The adoption of FIN 47 is not expected to have a significant impact on our financial position, results of operations or cash flows.

In April 2005, the Securities and Exchange Commission approved an amendment to Rule 4-01 of Regulations S-X that delays the effective date of Statement No 123(R), which requires companies to expense the value of employee and director stock options and similar awards. The results of operations for the period ended June 30, 2005 would not have been affected had the Company applied the fair value recognition provisions of Statement 123 during this period.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("Statement No. 154") which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes" (APB Opinion No. 20") and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements". Statement No. 154 requires that voluntary changes in accounting principle be applied retrospectively to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings. APB Opinion No 20 had required that most voluntary changes in accounting principle be recognized by including in net income the cumulative effect of changing to the new principle. Statement No. 154 is effective for all accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements or financing activities with special-purpose entities.

### **Inflation**

Inflationary factors such as increases in the costs of raw materials, packaging materials, purchased product and overhead may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations for the periods referred to above, a high rate of inflation in the future may have an adverse effect on us and our operating results.

### **Seasonality**

The first quarter of our fiscal year typically has the lowest level of revenue due to the seasonal nature of certain of our brands relative to the summer and winter months. In addition, the first quarter is the least profitable quarter due the increased advertising and promotional spending to support those brands with a summer season, such as, Compound W, Cutex and New Skin. The Company's advertising and promotional campaign in the third quarter influence sales in the fourth quarter winter months. Additionally, the fourth quarter has the lowest level of advertising and promotional spending as a percent of revenue.



## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Amendment No. 1 to the quarterly report on Form 10-Q/A for the period ended June 30, 2005 contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Act”), including information within Management’s Discussion and Analysis of Financial Condition and Results of Operations. The following cautionary statements are being made pursuant to the provisions of the Act and with the intention to obtaining the benefits of the “safe harbor” provisions of the Act. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward looking statement.

These forward-looking statements may or may not contain the words “believe,” “anticipate,” “expect,” “estimate,” “project,” “be,” “will continue,” “will likely result,” or other similar words and phrases. Forward-looking statements and our plans and expectations are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, including, but not limited to the following:

- general economic conditions affecting our products and their respective markets,
- the high level of competition in our industry and markets,
- our dependence on a limited number of customers for a large portion of our sales,
- disruptions in our distribution center,
- acquisitions or other strategic transactions diverting managerial resources, or incurrence of additional liabilities or integration problems associated with such transactions,
- changing consumer trends, pricing pressures which may cause us to lower our prices,
- increases in supplier prices,
- changes in our senior management team,
- our ability to protect our intellectual property rights,
- our dependency on the reputation of our brand names,
- shortages of supply of sourced goods or interruptions in the manufacturing of our products,
- our level of debt, and ability to service our debt,
- our ability to obtain additional financing, and
- the restrictions imposed by our senior credit facility and the indenture on our operations.

Forward-looking statements speak only as of the date of this Amendment. Except as required under federal securities laws and the rules and regulations of the Securities and Exchange Commission, we do not have any intention to update any forward-looking statements to reflect events or circumstances arising after the date of this Amendment, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on forward-looking statements included in this Amendment or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.



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

We are exposed to changes in interest rates because our senior credit facility is variable rate debt. Interest rate changes, therefore, generally do not affect the market value of such debt, but do impact the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. At June 30, 2005, we had variable rate debt of approximately \$368.0 million related to our

Tranche B Term Loan. There were no borrowings outstanding at June 30, 2005 related to our Revolving Credit Facility. Holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates on our variable debt would have an adverse impact on pre-tax earnings and cash flows for the next year of approximately \$3.7 million.

However, on June 30, 2004, we paid \$52,000 for a 5% interest rate cap agreement with a notional amount of \$20.0 million that terminates in June 2006. Additionally, on March 7, 2005, we paid \$2.3 million for interest rate cap agreements that become effective August 30, 2005, with a total notional amount of \$180.0 million and LIBOR cap rates ranging from 3.25% to 3.75%. These interest rate cap agreements terminate on May 30, 2006, 2007 and 2008 as to \$50.0 million, \$80.0 million and \$50.0 million, respectively. Given the protection afforded by the interest rate cap agreements, the impact on pre-tax earnings and cash flows during the next year of a one percentage point increase in interest rates would be limited to \$2.1 million. The fair value of the interest rate cap agreements was \$1.7 million at June 30, 2005.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

As of the end of the period covered by this report, June 30, 2005, an evaluation was carried out by our management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely discussions regarding required disclosure. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that certain deficiencies in the Company's internal control over financial reporting that are described below and in Note 2 to the consolidated condensed financial statements contained in Part I, Item 1 of this Amendment, and Item 4.02(a) of the Company's Current Reports on Form 8-K filed with the Commission on November 15, 2005 and November 30, 2005 (the "Restatement 8-K's") constituted material weaknesses that existed at June 30, 2005, and that the Company's disclosure controls and procedures were not effective as of June 30, 2005. The Company's management nevertheless has concluded that the consolidated financial statements included in this Amendment present fairly, in all material respects, the Company's financial position, and results of operation and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States of America.

### **Internal Control Over Financial Reporting**

Management, with the oversight of the Audit Committee of the Company's Board of Directors, recently conducted an internal review of the Company's books and records. As a result of the findings of that review (including with respect to effects of the above referenced control deficiencies), as noted above, the Company has restated its audited consolidated financial statements for the years ended March 31, 2005, 2004 and 2003 and the quarterly data for the years ended March 31, 2005 and 2004 included in the Company's Annual Report on Form 10-K and Amendment No. 1 to the Company's Annual Report on Form 10-K/A for the year ended March 31, 2005, the financial statements for the quarterly periods ended June 30, 2005 and 2004 included in this Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for the quarterly period ended June 30, 2005, and the financial statements of Prestige International for the quarterly periods ended December 31, 2004 and 2003 included in Amendment No. 1 to Prestige International's Quarterly Report on Form 10-Q/A for the quarterly period ended December 31, 2004. According to PCAOB Accounting Standard No. 2, *An Audit Of Internal Control Over Financial Reporting Performed in*

*Conjunction With an Audit of Financial Statements*, a restatement of previously-

issued financial statements is at least a significant deficiency and a strong indicator that a material weakness exists with respect to internal control over financial reporting. As noted above, management concluded that the control deficiencies listed below constituted material weaknesses as of June 30, 2005. Material weaknesses are control deficiencies, or a combination of control deficiencies, that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The control deficiencies that the Company identified were as follows:

- a) The Company did not maintain effective controls over the completeness and accuracy of revenue in accordance with the requirements of SAB No. 104. Specifically, the Company's controls failed to ensure that risk of loss had passed to the customer before revenue was recognized.
- b) The Company did not maintain effective controls over the classification of promotions and allowances in accordance with the requirements of EITF 01-09. Specifically, the Company's controls failed to prevent or detect the incorrect classification of promotions and allowances as an operating expense instead of as a reduction of revenue.
- c) The Company did not maintain effective controls over the completeness and accuracy of deferred income tax balances. Specifically, the Company's controls failed to ensure that adjustments to deferred income taxes for increases in graduated federal income tax rates were timely recognized in the Company's financial statements.
- d) The Company did not maintain effective controls over the accuracy of the computation of earnings per share. Specifically, the Company's controls failed to ensure that unvested restricted shares of common stock were properly considered in the computation of earnings per share.

Management, with the oversight of the Audit Committee of the Board of Directors, is devoting and intends to continue to devote considerable effort to making improvements in the Company's internal control over financial reporting. These improvements have included appointing a new Corporate Controller in June 2005 who reports to the Company's Chief Financial Officer. Additionally, in July 2005, the Company engaged an independent tax consultant to provide guidance with regard to the determination of corporate tax obligations. This consultant reports directly to the Corporate Controller. Specifically related to the control deficiencies referenced above and described in the Restatement 8-K's, the Company's remediation plan includes the following:

- The Company is enhancing its guidelines and implementing controls in connection with the issuance of trade promotional allowances. Additionally, the Company will provide training to employees on the proper accounting and documentation policies related to trade promotional allowances and implement new policies to ensure compliance throughout the year.
- The Company is taking measures to enhance the controls over the selection, application and monitoring of its accounting policies to ensure consistent application of accounting policies that are generally accepted in the United States of America. The Company is also integrating reporting lines, increasing communication and supervision across operating and accounting organizations, and increasing the review of existing accounting policies. Specifically as it relates to the accounting for revenue recognition, the Company is changing its controls and accounting policies surrounding the review, analysis and recording of shipments and shipping terms with customers, including the selection and monitoring of appropriate assumptions and guidelines to be applied during the review and analysis of all customer terms. Specifically, the Company is implementing controls over the accounting, monitoring, and analysis of all customer shipping terms and conditions to ensure transactions are recorded consistent with generally accepted accounting principles.



- With respect to the computation of earnings per share, the Company will provide training to employees on the proper accounting related to the proper treatment of unvested shares in the basic and diluted computations.

The above-described remedial efforts all began following the completion of the Company's quarter ended September 30, 2005. There were no changes in the Company's or Prestige International's internal controls over financial reporting during the quarter ended June 30, 2005 that materially affected or are reasonably likely to materially affect internal control over financial reporting.

Management is not required to report on the assessment of its internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 until it files its Annual Report on Form 10-K for the fiscal year ended March 31, 2006. Although it expects its internal control over financial reporting to be effective at that time, if it fails to remediate any condition constituting a material weakness on or before March 31, 2006, the presence of a material weakness at that time would cause management to conclude that its internal controls over financial reporting are ineffective and would cause its external auditors to issue an adverse opinion on the effectiveness of such internal controls.

## **PART II.**

## **OTHER INFORMATION**

### **ITEM 1.**

### **LEGAL PROCEEDINGS**

In June 2003, Dr. Jason Theodosakis filed a lawsuit, *Theodosakis v. Walgreens, et al.*, in Federal District Court in Arizona, alleging that two of the Company's subsidiaries, Medtech Products and Pecos Pharmaceutical, as well as other unrelated parties, infringed the trade dress of two of his published books. Specifically, Dr. Theodosakis published "The Arthritis Cure" and "Maximizing the Arthritis Cure" regarding the use of dietary supplements to treat arthritis patients. Dr. Theodosakis alleged that his books have a distinctive trade dress, or cover layout, design, color and typeface, and those products that the defendants sold under the ARTHx trademarks infringed the books' trade dress and constituted unfair competition and false designation of origin. Additionally, Dr. Theodosakis alleged that the defendants made false endorsements of the products by referencing his books on the product packaging and that the use of his name, books and trade dress invaded his right to publicity. The Company sold the ARTHx trademarks, goodwill and inventory to a third party, Contract Pharmacal Corporation, in March 2003. On January 12, 2005, the court granted the Company's motion for summary judgment and dismissed all claims against Pecos and Medtech. The plaintiff has filed an appeal in the U.S. Court of Appeals which is pending.

On January 3, 2005, the Company was served with process by its former lead counsel in the Theodosakis litigation seeking \$0.7 million plus interest. The case was filed in the Supreme Court of New York and is styled as *Dickstein Shapiro et al v. Medtech Products, Inc.* In February 2005, the plaintiffs filed an amended complaint naming the Pecos Pharmaceutical Company as defendant. The Company has answered and filed a counterclaim against Dickstein and also filed a third party complaint against the Lexington Insurance Company, the Company's product liability carrier. The Company believes that if there is any obligation to the Dickstein firm relating to this matter, it is an obligation of Lexington and not the Company.

On May 9, 2005, the Company was served with a complaint in a class action lawsuit filed in Essex County, Massachusetts, styled as *Dawn Thompson v. Wyeth, Inc.* relating to the Company's Little Remedies pediatric cough products. The Company is one of several corporate defendants, all of whom market over-the-counter cough syrup products for pediatric use. The complaint alleges that the ingredient dextromethorphan is no more effective than a placebo. There is no allegation of physical injury caused by the product or the ingredient. In June 2005, the Company was served in a second class action complaint involving dextromethorphan. The second case, styled *Tina Yescavage v. Wyeth* was filed in Lee County Florida and similarly involves multiple corporate defendants. The Company

believes that both of the

dextromethorphan cases are without merit and is actively pursuing appropriate defenses. The use of dextromethorphan in pediatric products is fully consistent with and supported by FDA regulations.

On August 3, 2005, the Company was served with a complaint in a class action lawsuit filed in United States District Court for the Southern District of New York, Charter Township of Clinton Township Police and Fire Retirement System v. Prestige Brands Holdings, Inc. et al, on behalf of all persons who purchased the Company's securities pursuant to and/or traceable to the Company's initial public offering (the "IPO") on or about February 9, 2005 through July 28, 2005. The complaint also names as defendants Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co and J.P. Morgan Securities Inc., the lead or co-lead underwriters of the IPO. The complaint charges the Company, certain of its officers and directors, and other insiders with violations of the Securities Act of 1933. The Company plans to defend this matter vigorously.

The Company is also involved from time to time in routine legal matters and other claims incidental to its business. When it appears probable in management's judgment that the Company will incur monetary damages or other costs in connection with such claims and proceedings, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges are recorded against earnings. The Company believes the resolution of such routine matters and other incidental claims, taking into account reserves and insurance, will not have a material adverse effect on its financial condition or results of operation.

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

None

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company's 2005 Annual Meeting of Stockholders was held on July 29, 2005. The following nominees were elected to the Company's Board of Directors to serve until the 2006 Annual Meeting of Stockholders and until their respective successors have been elected and qualified, or until their earlier death, resignation or retirement:

|                  | <b>For</b> | <b>Withheld</b> | <b>Broker<br/>Non-Votes</b> |
|------------------|------------|-----------------|-----------------------------|
| Peter C. Mann    | 43,854,444 | 2,907,753       | --                          |
| L. Dick Buell    | 36,568,359 | 10,193,838      | --                          |
| Gary E. Costley  | 36,568,519 | 10,193,678      | --                          |
| David A. Donnini | 42,296,352 | 4,465,845       | --                          |
| Ronald Gordon    | 45,782,108 | 980,089         | --                          |
|                  | 36,467,294 | 10,294,903      | --                          |



Vincent J. Hemmer

|                  |            |         |    |
|------------------|------------|---------|----|
| Patrick Lonergan | 45,840,039 | 922,158 | -- |
|------------------|------------|---------|----|

The votes for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the audit of the Company's financial statements for the fiscal year ending March 31, 2006 were as follows:

| <b>For</b> | <b>Against</b> | <b>Withheld</b> | <b>Broker<br/>Non-Votes</b> |
|------------|----------------|-----------------|-----------------------------|
| 29,967,938 | 16,786,058     | 8,201           | --                          |

## **ITEM 5. OTHER INFORMATION**

None

## **ITEM 6. EXHIBITS**

- 2.1 Asset Sale and Purchase Agreement, dated July 22, 2005, by and among Reckitt Benckiser Inc., Reckitt Benckiser (Canada) Inc., Prestige Brands Holdings, Inc. and the Spic and Span Company, incorporated by reference to the Form 8-K of Prestige Brands, Inc. filed on July 28, 2005, and incorporated herein by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed with the Commission on August 9, 2005.
- 10.1 Form of Restricted Stock Agreement, incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 filed with the Commission on August 9, 2005.
- 31.1 Rule 13a-14(a)/ 15d-14(a) Certification, executed by Peter C. Mann, Chairman and Chief Executive Officer of Prestige Brands Holdings, Inc.
- 31.2 Rule 13a-14(a)/ 15d-14(a) Certification, executed by Peter J. Anderson, Chief Financial Officer of Prestige Brands Holdings, Inc.
- 31.3 Rule 13a-14(a)/ 15d-14(a) Certification, executed by Peter C. Mann, Chairman and Chief Executive Officer of Prestige Brands International, LLC.
- 31.4 Rule 13a-14(a)/ 15d-14(a) Certification, executed by Peter J. Anderson, Chief Financial Officer of Prestige Brands International, LLC.
- 32.1 Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code 302 (18 U.S.C. 1350), executed by Peter C. Mann, Chairman and Chief Executive Officer of Prestige Brands Holdings, Inc.
- 32.2 Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code 302 (18 U.S.C. 1350) executed by Peter J. Anderson, Chief Financial Officer of Prestige Brands Holdings, Inc.

- 32.3 Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code 302 (18 U.S.C. 1350), executed by Peter C. Mann, Chairman and Chief Executive Officer of Prestige Brands International, LLC.
- 32.4 Certification required by Rule 13a-14(b) or Rule 15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code 302 (18 U.S.C. 1350) executed by Peter J. Anderson, Chief Financial Officer of Prestige Brands International, LLC.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

### **Prestige Brand Holdings, Inc.**

Date: January 12, 2006

By: /s/ PETER J. ANDERSON

\_\_\_\_\_  
Title: Chief Financial Officer

### **Prestige Brands International, LLC**

Date: January 12, 2006

By: /s/ PETER J. ANDERSON

\_\_\_\_\_  
Title: Chief Financial Officer