

Prestige Brands Holdings, Inc.
Form 10-Q
February 09, 2011

U. S. SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2010

OR

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

For the transition period from _____ to _____

Commission File Number: 001-32433

PRESTIGE BRANDS HOLDINGS, INC.

(Exact name of Registrant as specified in its charter)

Delaware

20-1297589

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

90 North Broadway
Irvington, New York 10533

(Address of Principal Executive Offices, including zip code)

(914) 524-6810

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Yes No

As of January 31, 2011, there were 50,228,582 shares of common stock outstanding.

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Trademarks and Trade Names

Trademarks and trade names used in this Quarterly Report on Form 10-Q are the property of Prestige Brands Holdings, Inc. or its subsidiaries, as the case may be. We have italicized our trademarks or trade names when they appear in this Quarterly Report on Form 10-Q.

PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

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

(In thousands, except per share data)	Three Months Ended December 31		Nine Months Ended December 31	
	2010	2009	2010	2009
Revenues				
Net sales	\$90,077	\$73,372	\$238,086	\$221,178
Other revenues	531	446	2,061	1,483
Total revenues	90,608	73,818	240,147	222,661
Cost of Sales				
Cost of sales (exclusive of depreciation shown below)	46,596	34,647	115,574	104,174
Gross profit	44,012	39,171	124,573	118,487
Operating Expenses				
Advertising and promotion	13,049	6,037	28,775	24,379
General and administrative	15,426	7,411	30,941	26,087
Depreciation and amortization	2,513	2,458	7,336	7,368
Total operating expenses	30,988	15,906	67,052	57,834
Operating income	13,024	23,265	57,521	60,653
Other expense				
Interest expense, net	7,674	5,558	18,508	16,853
Loss on extinguishment of debt	—	—	300	—
Total other expense	7,674	5,558	18,808	16,853
Income from continuing operations before income taxes	5,350	17,707	38,713	43,800
Provision for income taxes	3,204	7,642	15,948	17,531
Income from continuing operations	2,146	10,065	22,765	26,269
Discontinued Operations				
Income from discontinued operations, net of income tax	32	358	591	2,402
Gain/(Loss) on sale of discontinued operations, net of income tax/(benefit)	—	157	(550)	) 157
Net income	\$2,178	\$10,580	\$22,806	\$28,828
Basic earnings per share:				
Income from continuing operations	\$0.04	\$0.20	\$0.46	\$0.53
Net income	\$0.04	\$0.21	\$0.46	\$0.58
Diluted earnings per share:				
Income from continuing operations	\$0.04	\$0.20	\$0.45	\$0.53

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Net income	\$0.04	\$0.21	\$0.45	\$0.58
Weighted average shares outstanding:				
Basic	50,085	50,030	50,059	50,008
Diluted	50,533	50,074	50,260	50,078

See accompanying notes.

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

(In thousands)	December 31, 2010	March 31, 2010
Assets		
Current assets		
Cash and cash equivalents	\$83,266	\$41,097
Accounts receivable	41,981	30,621
Inventories	47,907	27,676
Deferred income tax assets	4,700	6,353
Prepaid expenses and other current assets	1,800	4,917
Current assets of discontinued operations	—	1,486
Total current assets	179,654	112,150
Property and equipment	1,406	1,396
Goodwill	153,199	111,489
Intangible assets	712,860	554,359
Other long-term assets	6,729	7,148
Long-term assets of discontinued operations	—	4,870
Total Assets	\$1,053,848	\$791,412
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$18,682	\$12,771
Accrued interest payable	5,156	1,561
Other accrued liabilities	20,589	11,733
Current portion of long-term debt	659	29,587
Total current liabilities	45,086	55,652
Long-term debt		
Principal amount	508,841	298,500
Less unamortized discount	(5,277)	(3,943)
Long-term debt, net of unamortized discount	503,564	294,557
Deferred income tax liabilities	150,696	112,144
Total Liabilities	699,346	462,353
Commitments and Contingencies — Note 17		
Stockholders' Equity		
Preferred stock - \$0.01 par value		
Authorized - 5,000 shares		
Issued and outstanding - None	—	—
Common stock - \$0.01 par value		
Authorized - 250,000 shares		
Issued - 50,229 shares at December 31, 2010 and 50,154 shares at March 31, 2010	502	502

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Additional paid-in capital	386,928	384,027
Treasury stock, at cost - 148 shares at December 31, 2010 and 124 shares at March 31, 2010	(327) (63
Accumulated deficit	(32,601	) (55,407
Total Stockholders' Equity	354,502	329,059
Total Liabilities and Stockholders' Equity	\$1,053,848	\$791,412
See accompanying notes.		

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

(In thousands)	Nine Months Ended December 31	
	2010	2009
Operating Activities		
Net income	\$22,806	\$28,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,565	8,679
Loss (Gain) on sale of discontinued operations	890	(253)
Deferred income taxes	5,591	10,254
Amortization of deferred financing costs	767	1,432
Stock-based compensation costs	2,751	1,658
Loss on extinguishment of debt	300	—
Amortization of debt discount	480	—
Loss on disposition of equipment	131	—
Changes in operating assets and liabilities		
Accounts receivable	7,330	6,407
Inventories	2,814	(6,958)
Inventories held for sale	1,114	(1,323)
Prepaid expenses and other current assets	3,166	(664)
Accounts payable	(1,054)	1,006
Accrued liabilities	7,008	1,424
Net cash provided by operating activities	61,659	50,490
Investing Activities		
Purchases of equipment	(405)	(402)
Proceeds from sale of discontinued operations	4,122	7,993
Acquisition of Blacksmith, net of cash acquired	(202,044)	—
Net cash (used for) provided by investing activities	(198,327)	7,591
Financing Activities		
Proceeds from issuance of Senior Notes	100,250	—
Proceeds from issuance of Senior Term Loan	112,936	—
Payment of deferred financing costs	(648)	—
Repayment of long-term debt	(33,587)	(59,000)
Proceeds from exercise of stock options	150	—
Purchase of treasury stock	(264)	—
Net cash provided by (used for) financing activities	178,837	(59,000)
Increase (decrease) in cash	42,169	(919)
Cash - beginning of period	41,097	35,181
Cash - end of period	\$83,266	\$34,262
Interest paid	\$13,354	\$18,345
Income taxes paid	\$4,096	\$9,820

See accompanying notes.

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Prestige Brands Holdings, Inc.
Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Nature of Business

Prestige Brands Holdings, Inc. (referred to herein as the "Company" which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct and indirect wholly-owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter healthcare and household cleaning brands to mass merchandisers, drug stores, supermarkets and dollar and club stores primarily in the United States, Canada and certain other international markets. Prestige Brands Holdings, Inc. is a holding company with no operations and is also the parent guarantor of the senior credit facility and the senior notes described in Note 10 to the consolidated financial statements.

Basis of Presentation

The unaudited consolidated financial statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") 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 GAAP for complete financial statements. All significant intercompany transactions and balances have been eliminated in the consolidated 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 consolidated financial position, results of operations and cash flows for the interim periods. Operating results for the three and nine month periods ended December 31, 2010 are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2011. This financial information should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

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

Inventories

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

Property and Equipment

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

	Years
Machinery	5
Computer equipment	3
Furniture and fixtures	7

Leasehold improvements are amortized over the lesser of the term of the lease or 5 years.

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

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

Goodwill

The excess of the purchase price over the fair market value of assets acquired and liabilities assumed in purchase business combinations is classified as goodwill. The Company does not amortize goodwill, but performs impairment tests of the carrying value at least annually in the fourth fiscal quarter of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The Company tests goodwill for impairment at the reporting unit "brand" level which is one level below the operating segment level.

Intangible Assets

Intangible assets, which are composed primarily of trademarks, are stated at cost less accumulated amortization. For intangible assets with finite lives, amortization is computed on the straight-line method over estimated useful lives ranging from 3 to 30 years.

Indefinite-lived intangible assets are tested for impairment at least annually in the fourth fiscal quarter of each year; however, at each reporting period an evaluation is made to determine whether events and circumstances continue to support an indefinite useful life. Intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their fair values and 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 origination costs in connection with the issuance of long-term debt. These costs are capitalized as deferred financing costs and amortized using the straight-line method, which approximates the effective interest method, over the term of the related debt.

Revenue Recognition

Revenues are recognized when the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) the selling price is fixed or determinable; (iii) the product has been shipped and the customer takes ownership and assumes the risk of loss; and (iv) collection of the resulting receivable is reasonably assured. The Company has determined that these criteria are met and the transfer of the risk of loss generally occurs when product is received by the customer and, accordingly, recognizes revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on the Company's historical

experience.

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

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

Cost of Sales

Cost of sales includes product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were \$6.6 million and \$17.2 million, respectively, for the three and nine month periods ended December 31, 2010. During the three and nine month periods ended December 31, 2009, such costs were \$5.8 million and \$15.4 million, respectively.

Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred. Allowances for new distribution, including slotting fees, associated with products are recognized as a reduction of sales. Under allowances for new distribution arrangements, the retailers allow the Company's products to be placed on the stores' shelves in exchange for such fees.

Stock-based Compensation

The Company recognizes employee stock-based compensation by measuring the cost of services to be rendered based on the grant-date fair value of the equity award. Compensation expense is to be recognized over the period an employee is required to provide service in exchange for the award, generally referred to as the requisite service period.

Income Taxes

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.

The Taxes Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result, and under the prescribed FASB guidance, the Company has applied a more-likely-than-not recognition threshold for all tax uncertainties. The guidance only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the various taxing authorities.

The Company is subject to taxation in the United States and various state and foreign jurisdictions. The Company remains subject to examination by tax authorities for the fiscal year ended March 31, 2007.

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

Derivative Instruments

Companies are required to recognize derivative instruments as either assets or liabilities in the consolidated Balance Sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

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

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Earnings Per Share

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

Reclassifications

Certain prior period financial statement amounts have been reclassified to conform to the current period presentation due to the accounting treatment for discontinued operations.

Recently Issued Accounting Standards

In December 2010, the FASB issued guidance regarding the goodwill impairment test for reporting units with zero or negative carrying amounts. Under the ASC Intangibles-Goodwill and Other Topic, testing for goodwill impairment is a two-step test. When a goodwill impairment test is performed (either on an annual or interim basis), an entity must assess whether the carrying amount of a reporting unit exceeds its fair value (Step 1). If it does, an entity must perform an additional test to determine whether goodwill has been impaired and to calculate the amount of that impairment (Step 2). The new guidance modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of adopting this guidance.

In December 2010, the FASB issued guidance regarding disclosure of supplementary pro forma information for business combinations. This guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This guidance is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

In May 2009, the FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this guidance set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by the Company for the second quarter 2009 reporting. The adoption did not have a significant impact on the subsequent events that the Company reports, either through recognition or disclosure,

in the consolidated financial statements. In February 2010, the FASB amended its guidance on subsequent events to remove the requirement to disclose the date through which an entity has evaluated subsequent events, alleviating conflicts with current SEC guidance. This amendment was effective immediately and accordingly, the Company has not presented that disclosure in this Quarterly Report.

In January 2010, the FASB issued authoritative guidance requiring new disclosures and clarifying some existing disclosure requirements about fair value measurement. Under the new guidance, a reporting entity should (a) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and (b) present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

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

2. Acquisitions

Blacksmith Acquisition

On November 1, 2010, the Company acquired 100% of the capital stock of Blacksmith Brands Holdings, Inc. ("Blacksmith") for \$190.0 million in cash, plus a working capital adjustment of \$13.4 million and an additional \$1.1 million was paid by Prestige on behalf of Blacksmith for the seller's transaction costs. The working capital adjustment is among a number of items that the Company is challenging related to the purchase price. In connection with this acquisition, the Company acquired five Over-the-Counter brands: Efferdent®, Effergrip®, PediaCare®, Luden's®, and NasalCrom®. These brands are complementary to the Company's existing Over-the-Counter brands. The purchase price was funded by cash provided by the issuance of long term debt and additional bank borrowings, which are discussed further in Note 10.

The acquisition was accounted for in accordance with the Business Combinations Topic of the ASC which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

The following table summarizes the preliminary allocation of the \$204.5 million purchase price to the assets acquired and liabilities assumed at the date of acquisition:

(In thousands)

Cash acquired	\$2,507
Accounts receivable, net	17,473
Other receivables	1,198
Income taxes receivable	5
Inventories	23,045
Prepays and other current assets	44
Property, plant and equipment, net	226
Goodwill	41,710
Trademarks	165,346
Other long-term assets	19
Total assets acquired	251,573
Accounts payable	6,965
Accrued expenses	3,412
Income taxes payable	2,031
Deferred income taxes	34,614
Total liabilities assumed	47,022
Total purchase price	\$204,551

Transaction and other costs associated with the Blacksmith acquisition of \$6.9 million are included in general and administrative expenses on the Company's statement of operations for the three and nine month periods ended December 31, 2010.

The preliminary allocation of the purchase price to assets acquired and liabilities assumed is based on valuations performed to determine the fair value of such assets as of the acquisition date. The Company is still assessing the economic characteristics of certain trademarks. The Company expects to substantially complete this assessment during the fourth quarter of the fiscal year ending March 31, 2011 and may adjust the amounts recorded as of December 31, 2010 to reflect any revised valuations.

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The Company preliminarily recorded goodwill based on the amount by which the purchase price exceeded the preliminary fair value of net assets acquired. The preliminary amount of goodwill deductible for tax purposes is \$4.6 million.

The Company is amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average life of 15 years.

The operating results of Blacksmith have been included in the consolidated financial statements from the date of acquisition. Revenues of the acquired operations from November 1, 2010 through December 31, 2010 were \$15.2 million while the net loss was \$3.2 million.

The following table provides the Company's unaudited pro forma revenues, income from continuing operations and income from continuing operations per basic and diluted common share as if the results of Blacksmith's operations had been included in the Company's operations commencing on April 1, 2010, based upon available information related to Blacksmith's operations. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized by the Company had the Blacksmith acquisition been consummated at the beginning of the period for which the pro forma information is presented, or of future results.

(In thousands, except per share data)	Three Months Ended December 31, 2010	Nine Months Ended December 31, 2010
Revenues	\$ 100,515	\$ 295,838
Income from continuing operations	2,509	25,033
Basic earnings per share:		
Income from continuing operations	\$0.05	\$0.50
Diluted earnings per share:		
Income from continuing operations	\$0.05	\$0.50

Dramamine Acquisition

On January 6, 2011, the Company completed the acquisition of certain assets associated with the Dramamine business in the United States. The acquisition is more fully described in Note 21.

3. Discontinued Operations and Sale of Certain Assets

On September 1, 2010, the Company sold certain assets related to the nail polish remover brand previously included in its Personal Care products segment to an unrelated third party. In accordance with the Discontinued Operations Topic of the ASC, the Company reclassified the related assets as assets of discontinued operations in the consolidated balance sheet as of March 31, 2010, and reclassified the related operating results as discontinued operations in the consolidated financial statements and related notes for all periods presented. The Company recognized a loss of \$0.9 million on a pre-tax basis and \$0.6 million net of tax effects on the sale in the nine month period ended December 31, 2010. The total sales price for the assets was \$4.1 million, the proceeds for which were received upon closing. As the assets sold comprised a substantial majority of the assets in the Personal Care segment, the Company reclassified the remaining assets to the Over-the-Counter Healthcare segment for all periods presented.

In October 2009, the Company sold certain assets related to the shampoo brands previously included in its Personal Care products segment to an unrelated third party. In accordance with the Discontinued Operations Topic of the ASC,

the Company reclassified the related assets as held for sale in the consolidated balance sheet as of March 31, 2010 and the Company reclassified the related operating results as discontinued in the consolidated financial statements and related notes for all periods presented. The Company recognized a gain of \$0.3 million on a pre-tax basis and \$0.2 million net of tax effects on the sale in the quarter and nine month period ended December 31, 2009. The total sales price for the assets was \$9.0 million, subject to an inventory adjustment, with \$8.0 million received upon closing. The remaining \$1.0 million was received by the Company in October 2010.

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The following table presents the assets related to the discontinued operations as of December 31, 2010 and March 31, 2010 (in thousands):

	December 31, 2010	March 31, 2010
Inventory	\$—	\$1,486
Intangible assets	—	4,870
Total assets of discontinued operations	\$—	\$6,356

The following table summarizes the results of discontinued operations (in thousands):

	Three Months Ended December 31		Nine Months Ended December 31	
	2010	2009	2010	2009
Components of Income				
Revenues	\$84	\$2,281	\$4,027	\$12,979
Income before income taxes	51	576	957	3,868

4. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	December 31, 2010	March 31, 2010
Trade accounts receivable	\$47,357	\$35,527
Other receivables	1,313	1,588
	48,670	37,115
Less allowances for discounts, returns and uncollectible accounts	(6,689)	(6,494)
	\$41,981	\$30,621

5. Inventories

Inventories consist of the following (in thousands):

	December 31, 2010	March 31, 2010
Packaging and raw materials	\$1,046	\$1,818
Finished goods	46,861	25,858
	\$47,907	\$27,676

Inventories are shown net of allowances for obsolete and slow moving inventory of \$2.3 million and \$2.0 million at December 31, 2010 and March 31, 2010, respectively.

6. Property and Equipment

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

	December 31, 2010	March 31, 2010
Machinery	\$1,203	\$1,620
Computer equipment	2,102	1,570
Furniture and fixtures	277	239
Leasehold improvements	422	418
	4,004	3,847
Less accumulated depreciation	(2,598)	(2,451)
	\$1,406	\$1,396

The Company recorded depreciation expense of \$0.2 million for each of the three months ended December 31, 2010 and 2009, and of \$0.5 million for each of the nine months ended December 31, 2010 and 2009.

7. Goodwill

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

	Over-the- Counter Healthcare	Household Cleaning	Consolidated
Balance — March 31, 2010			
Goodwill	\$240,432	\$72,549	\$312,981
Accumulated purchase price adjustments	(6,162)	)	(6,162)
Accumulated impairment losses	(130,170)	) (65,160)	) (195,330)
	104,100	7,389	111,489
Additions	41,710		41,710
Net adjustments			
Goodwill	(4,643)	)	(4,643)
Accumulated impairment losses	4,643	—	4,643
	—	—	—
Balance — December 31, 2010			
Goodwill	277,499	72,549	350,048
Accumulated purchase price adjustments	(6,162)	)	(6,162)
Accumulated impairment losses	(125,527)	) (65,160)	) (190,687)
	\$145,810	\$7,389	\$153,199

As described in Note 2, on November 1, 2010, the Company acquired 100% of the capital stock of Blacksmith. In connection with this acquisition, the Company preliminarily recorded goodwill of \$41.7 million based on the amount by which the purchase price exceeded the preliminary fair value of net assets acquired.

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As described in Note 3, on September 1, 2010, the Company sold certain assets related to its nail polish remover brand previously included in its Personal Care segment to an unrelated third party. In connection with this divestiture, the Company reversed the gross goodwill asset balance of \$4.6 million, which was fully impaired as of March 31, 2010, and the related accumulated impairment charges of \$4.6 million, which had been recorded for the nail polish remover brand. As described in Note 19, the Company's operating and reportable segments now consist of Over-the-Counter Healthcare and Household Cleaning, and any assets remaining in the Personal Care segment after the divestiture have been reclassified to the Over-the-Counter Healthcare segment. As such, the reversal of goodwill for Personal Care is included in the Over-the-Counter Healthcare segment in the table above.

At March 31, 2010, in conjunction with the annual test for goodwill impairment, the Company recorded an impairment charge aggregating \$2.8 million to adjust the carrying amounts of goodwill related to its nail polish remover brand to its fair value of \$0, as determined by use of a discounted cash flow methodology. The impairment was a result of distribution losses and increased competition from private label store brands.

For the nine months ended December 31, 2010, the Company was not required to recognize an additional impairment charge.

The discounted cash flow methodology is a widely-accepted valuation technique utilized by market participants in the transaction evaluation process and has been applied consistently. However, the Company considered its market capitalization at March 31, 2010, as compared to the aggregate fair values of the Company's reporting units to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. Although the impairment charges represent management's best estimate, the estimates and assumptions made in assessing the fair value of the Company's reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties. Consequently, changing rates of interest and inflation, declining sales or margins, increases in competition, changing consumer preferences, technical advances or reductions in advertising and promotion may require additional impairments in the future.

8. Intangible Assets

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

	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Carrying Amounts				
Balance — March 31, 2010	\$454,571	\$142,994	\$158	\$597,723
Additions	158,047	7,299	—	165,346
Balance — December 31, 2010	\$612,618	\$150,293	\$158	\$763,069
Accumulated Amortization				
Balance — March 31, 2010	\$—	\$43,206	\$158	\$43,364
Additions	—	6,845	—	6,845
Balance — December 31, 2010	\$—	\$50,051	\$158	\$50,209
Intangibles, net — December 31, 2010	\$612,618	\$100,242	\$—	\$712,860

As described in Note 2, on November 1, 2010, the Company acquired 100% of the capital stock of Blacksmith. In connection with this acquisition, the Company preliminarily allocated \$165.3 million of the purchase price to intangible assets, which are comprised of acquired trademarks. The preliminary allocation is based on valuations performed to determine the fair value of such assets as of the acquisition date.

The table above represents intangible assets related to continuing operations. As described in Note 3, on September 1, 2010, the Company sold certain assets related to its nail polish remover brand previously included in its Personal Care segment to an unrelated third party. In connection with this divestiture, the Company excluded gross intangible assets of \$8.3 million and the

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related accumulated amortization of \$3.4 million as of March 31, 2010 from the table above. The net intangible assets related to the nail polish remover brand of \$4.9 million as of March 31, 2010 are presented separately on the Consolidated Balance Sheets.

In a manner similar to goodwill, the Company completed a test for impairment of its intangible assets during the fourth quarter of 2010. The Company recorded no impairment charge as facts and circumstances indicated that the fair values of the intangible assets for its operating segments exceeded their carrying values. Additionally, for the indefinite-lived intangible assets, an evaluation of the facts and circumstances as of December 31, 2010 continues to support an indefinite useful life for these assets.

For the nine months ended December 31, 2010, the Company was not required to recognize an impairment charge.

At December 31, 2010, intangible assets are expected to be amortized over a period of 3 to 30 years as follows (in thousands):

Year Ending December 31	
2011	\$9,221
2012	8,769
2013	8,062
2014	6,247
2015	6,082
Thereafter	61,861
	\$100,242

9. Other Accrued Liabilities

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

	December 31, 2010	March 31, 2010
Accrued marketing costs	\$10,873	\$3,823
Accrued payroll	5,186	5,233
Accrued commissions	642	285
Accrued income taxes	—	372
Accrued professional fees	1,392	1,089
Accrued severance	1,912	929
Other	584	2
	\$20,589	\$11,733

10. Long-Term Debt

Long-term debt consists of the following (in thousands), as of the dates indicated:

	December 31, 2010	March 31, 2010
Senior secured term loan facility ("2010 Senior Term Loan") that bears interest at the Company's option at either the prime rate plus a margin of 2.25% or LIBOR plus 3.25% with a LIBOR floor of 1.5%. At December 31, 2010, the average interest rate on the 2010 Senior Term Loan was 4.75%. Principal payments of \$0.7 million are payable quarterly beginning December 31, 2011, accrued interest is payable quarterly, with the remaining principal due on the 2010 Senior Term Loan maturity date. The 2010 Senior Term Loan matures on March 24, 2016 and is collateralized by substantially all of the Company's assets. The 2010 Senior Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and its domestic wholly-owned subsidiaries, other than Prestige Brands, Inc. (the "Borrower"). 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.	\$259,500	\$150,000
Senior unsecured notes ("2010 Senior Notes") that bear interest at 8.25% which is payable on April 1st and October 1st of each year. The 2010 Senior Notes mature on April 1, 2018; however, the Company may earlier redeem some or all of the 2010 Senior Notes at redemption prices set forth in the indenture governing the 2010 Senior Notes (the "Senior Notes Indenture"). The 2010 Senior Notes are unconditionally guaranteed by Prestige Brands Holdings, Inc. and its domestic wholly-owned subsidiaries other than Prestige Brands, Inc., the issuer. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries.	250,000	150,000
Senior subordinated notes ("Senior Subordinated Notes") that bore interest of 9.25% which was payable on April 15th and October 15th of each year. The balance outstanding on the Senior Subordinated Notes as of March 31, 2010 was repaid in full, on April 15, 2010. The Senior Subordinated Notes were unconditionally guaranteed by Prestige Brands Holdings, Inc., and its domestic wholly-owned subsidiaries other than Prestige Brands, Inc., the issuer.	—	28,087
	509,500	328,087
Current portion of long-term debt	(659	) (29,587
	508,841	298,500
Less: net unamortized discount and premium on the 2010 Senior Term Loan and the 2010 Senior Notes	(5,277	) (3,943
Long-term debt, net of unamortized discount and premium	\$503,564	\$294,557

On March 24, 2010, Prestige Brands, Inc. issued \$150.0 million of 2010 Senior Notes, with an interest rate of 8.25% and a maturity date of April 1, 2018. On November 1, 2010, Prestige Brands, Inc. issued an additional \$100.0 million of 2010 Senior Notes as part of the same series as the 2010 Senior Notes issued in March 2010. The 2010 Senior

Notes issued in March and November were issued at an aggregate face value of \$150.0 million and \$100.0 million, respectively, with a discount to the initial purchasers of \$2.2 million and a premium of \$0.3 million, respectively, and net proceeds to the Company of \$147.8 million and \$100.3 million, respectively, yielding an 8.5% effective interest rate.

On March 24, 2010, Prestige Brands, Inc. entered into a senior secured term loan facility (“2010 Senior Term Loan”) for \$150.0 million, with an interest rate at LIBOR plus 3.25% with a LIBOR floor of 1.5% and a maturity date of March 24, 2016. The \$150.0 million 2010 Senior Term Loan was entered into with a discount to lenders of \$1.8 million and net proceeds to the Company of \$148.2 million, yielding a 5.0% effective interest rate. On November 1, 2010, the Company, together with the Borrower and certain other subsidiaries of the Company, executed an Increase Joinder to the Company's Credit Agreement dated March 24, 2010 pursuant to which the Borrower borrowed an incremental term loan in the amount of \$115.0 million. The incremental term loan will mature on March 24, 2016 and otherwise has the same terms as the 2010 Senior Term Loan.

Additionally, Prestige Brands, Inc. entered into a non-amortizing senior secured revolving credit facility (“2010 Revolving Credit Facility”) and, collectively with the 2010 Senior Term Loan, the “Credit Agreement”) in an aggregate principal amount of up to \$30.0 million. On November 1, 2010, pursuant to the Increase Joinder, the amount of the Borrower's 2010 Revolving Credit Facility was increased by \$10.0 million and the Borrower had borrowing capacity under the revolving credit facility in

an aggregate principal amount of up to \$40.0 million. The Company's 2010 Revolving Credit Facility was available for maximum borrowings of \$40.0 million at December 31, 2010. Except for the increase in the amount of the revolving credit facility, no other changes were made to the 2010 Revolving Credit Facility.

In connection with the financing activities of March 2010 relating to the 2010 Senior Notes, the 2010 Senior Term Loan, and the 2010 Revolving Credit Facility, the Company incurred \$7.3 million in issuance costs, of which \$6.6 million was capitalized as deferred financing costs and \$0.7 million expensed. In connection with the financing activities of November 2010 relating to the 2010 Senior Notes, the 2010 Senior Term Loan, and the 2010 Revolving Credit Facility, the Company incurred \$0.6 million in issuance costs, all of which was capitalized as deferred financing costs. The deferred financing costs are being amortized over the terms of the related loan and notes.

On March 24, 2010, the Company retired its Tranche B Term Loan facility with an original maturity date of April 6, 2011. In addition, on March 24, 2010, we repaid a portion and, on April 15, 2010, redeemed in full the remaining outstanding indebtedness under our previously outstanding Senior Subordinated Notes due in 2012, which bore interest at 9.25% with a maturity date of April 15, 2012. In connection with the refinancing, the Company recognized a \$0.3 million loss on the extinguishment of debt for the nine months ended December 31, 2010.

The 2010 Senior Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis. The 2010 Senior Notes are effectively junior in right of payment to all existing and future secured obligations of the Company, equal in right of payment with all existing and future senior unsecured indebtedness of the Company, and senior in right of payment to all future subordinated debt of the Company.

At any time prior to April 1, 2014, the Company may redeem the 2010 Senior Notes in whole or in part at a redemption price equal to 100% of the principal amount of the notes redeemed, plus a “make-whole premium” calculated as set forth in the Senior Notes Indenture, together with accrued and unpaid interest, if any, to the date of redemption. The Company may redeem the 2010 Senior Notes in whole or in part at any time on or after the 12-month period beginning April 1, 2014 at a redemption price of 104.125% of the principal amount thereof, at a redemption price of 102.063% of the principal amount thereof if the redemption occurs during the 12-month period beginning on April 1, 2015, and at a redemption price of 100% of the principal amount thereof if the redemption occurs on and after April 1, 2016, in each case, plus accrued and unpaid interest, if any, to the redemption date. In addition, prior to April 1, 2013, with the net cash proceeds from certain equity offerings, the Company may redeem up to 35% in aggregate principal amount of the 2010 Senior Notes at a redemption price of 108.250% of the principal amount of the 2010 Senior Notes to be redeemed, plus accrued and unpaid interest to the redemption date.

The Credit Agreement contains various financial covenants, including provisions that require the Company to maintain certain leverage and interest coverage ratios and not to exceed annual capital expenditures of \$3.0 million. The Credit Agreement, the Senior Notes Indenture and the Indenture governing the Senior Subordinated Notes also contain provisions that restrict the Company from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchases of common shares outstanding, changes of control, incurrences of indebtedness, creation of liens, making of loans and transactions with affiliates. Additionally, the Credit Agreement, the Senior Notes Indenture and the Indenture governing the Senior Subordinated Notes contain cross-default provisions whereby a default pursuant to the terms and conditions of certain indebtedness will cause a default on the remaining indebtedness under the Credit Agreement, the Senior Notes Indenture and the Indenture governing the Senior Subordinated Notes. At December 31, 2010, the Company was in compliance with the covenants under its long-term indebtedness.

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

Year Ending December 31	
2011	\$659
2012	2,636
2013	2,636
2014	2,636
2015	2,636

Thereafter

498,297

\$509,500

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11. Fair Value Measurements

As deemed appropriate, the Company uses derivative financial instruments to mitigate the impact of changing interest rates associated with its long-term debt obligations. At December 31, 2010, the Company had no open financial derivative financial obligations. While the Company has not historically entered into derivative financial instruments for trading purposes, all of the Company's derivatives were over-the-counter instruments with liquid markets. The notional, or contractual, amount of the Company's derivative financial instruments was used to measure the amount of interest to be paid or received and did not represent an actual liability. The Company accounted for the interest rate cap and swap agreements as cash flow hedges.

The Company entered into an interest rate swap agreement, effective March 26, 2008, in the notional amount of \$175.0 million, decreasing to \$125.0 million at March 26, 2009 to replace and supplement the interest rate cap agreement that expired on May 30, 2008. The Company agreed to pay a fixed rate of 2.88% while receiving a variable rate based on LIBOR. The agreement terminated on March 26, 2010, and was neither renewed nor replaced.

The Fair Value Measurements and Disclosures Topic of the FASB ASC requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market assuming an orderly transaction between market participants. The Fair Value Measurements and Disclosures Topic established market (observable inputs) as the preferred source of fair value to be followed by the Company's assumptions of fair value based on hypothetical transactions (unobservable inputs) in the absence of observable market inputs.

Based upon the above, the following fair value hierarchy was created:

Level 1 — Quoted market prices for identical instruments in active markets,

Level 2 — Quoted prices for similar instruments in active markets, as well as quoted prices for identical or similar instruments in markets that are not considered active, and

Level 3 — Unobservable inputs developed by the Company using estimates and assumptions reflective of those that would be utilized by a market participant.

A summary of the fair value of the Company's derivative instruments, their impact on the consolidated statements of operations and comprehensive income and the amounts reclassified from other comprehensive income is as follows (in thousands):

	December 31, 2010		Fair Value Asset/ (Liability)	For the Three Months Ended December 31, 2010		
				Income Statement Account	Amount Income	Amount Gains
Cash Flow Hedging Instruments	Balance Sheet Location	Notional Amount		Gains/ Losses Charged	(Expense) Recognized In Income	(Losses) Recognized In OCI
Interest Rate Swap	n/a	\$—	\$—	n/a	\$—	\$—

For the Nine Months Ended December 31, 2010

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	December 31, 2010			Income Statement Account	Amount Income	Amount Gains
	Balance Sheet Location	Notional Amount	Fair Value Asset/ (Liability)	Gains/ Losses Charged	(Expense) Recognized In Income	(Losses) Recognized In OCI
Cash Flow Hedging Instruments						
Interest Rate Swap	n/a	\$—	\$—	n/a	\$—	\$—

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				For the Three Months Ended December 31, 2009		
December 31, 2009				Income Statement Account	Amount Income	Amount Gains
Cash Flow Hedging Instruments	Balance Sheet Location	Notional Amount	Fair Value Asset/ (Liability)	Gains/ Losses Charged	(Expense) Recognized In Income	(Losses) Recognized In OCI
Interest Rate Swap	Other Accrued Liabilities	\$125,000	\$(794)	) Interest Expense	\$(830	) \$778
December 31, 2009				Income Statement Account	Amount Income	