Prestige Brands Holdings, Inc.
Form 10-Q
August 04, 2016
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
[ X ] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
For the quarterly period ended June 30, 2016
OR
[ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT ] OF 1934
For the transition period from $\qquad$ to $\qquad$
Commission File Number: 001-32433

PRESTIGE BRANDS HOLDINGS, INC.
(Exact name of Registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or organization)
660 White Plains Road
Tarrytown, New York 10591
(Address of principal executive offices) (Zip Code)
(914) 524-6800
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o
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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x
Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of July 29, 2016, there were 52,915,673 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.

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## PART I FINANCIAL INFORMATION

## ITEM 1.FINANCIAL STATEMENTS

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


Cost of Sales
Cost of sales (exclusive of depreciation shown below) 87,984 79,896
Gross profit $121,591 \quad 112,236$
Operating Expenses
Advertising and promotion $\quad 27,635 \quad 26,422$
General and administrative $\quad 19,457 \quad 17,589$
Depreciation and amortization
Loss on sale of assets
6,832 $\quad 5,720$
Total operating expenses
55,453 -
Operating income
109,377 49,731
Operating income $\quad 12,214 \quad 62,505$
Other (income) expense
Interest income (57 ) (27)
Interest expense
Loss on extinguishment of debt
Total other expense
21,184 21,911
(Loss) income before income taxes
21,127 22,335
(Benefit) provision for income taxes
(8,913 ) 40,170
Net (loss) income
(3,382 ) 13,997
\$(5,531 ) \$26,173
(Loss) earnings per share:
Basic
$\$(0.10 \quad) \$ 0.50$
Diluted
\$(0.10 ) \$0.49
Weighted average shares outstanding:
Basic 52,881 52,548
Diluted $52,881 \quad 52,958$
Comprehensive (loss) income, net of tax:
Currency translation adjustments (5,824 ) (405 )
Total other comprehensive loss (5,824) (405 )
Comprehensive (loss) income \$(11,355) \$25,768
See accompanying notes.

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

| (In thousands) | $\begin{aligned} & \text { June 30, } \\ & 2016 \end{aligned}$ | $\begin{aligned} & \text { March 31, } \\ & 2016 \end{aligned}$ |
| :---: | :---: | :---: |
| Assets |  |  |
| Current assets |  |  |
| Cash and cash equivalents | \$28,877 | \$27,230 |
| Accounts receivable, net | 88,437 | 95,247 |
| Inventories | 92,867 | 91,263 |
| Deferred income tax assets | 10,702 | 10,108 |
| Prepaid expenses and other current assets | 18,730 | 25,165 |
| Assets held for sale | 41,745 | - |
| Total current assets | 281,358 | 249,013 |
| Property and equipment, net | 15,080 | 15,540 |
| Goodwill | 356,525 | 360,191 |
| Intangible assets, net | 2,223,559 | 2,322,723 |
| Other long-term assets | 1,918 | 1,324 |
| Total Assets | \$2,878,440 | \$2,948,791 |
| Liabilities and Stockholders' Equity |  |  |
| Current liabilities |  |  |
| Accounts payable | \$35,012 | \$38,296 |
| Accrued interest payable | 9,216 | 8,664 |
| Other accrued liabilities | 55,913 | 59,724 |
| Total current liabilities | 100,141 | 106,684 |
| Long-term debt |  |  |
| Principal amount | 1,602,500 | 1,652,500 |
| Less unamortized debt costs | (25,086 | ) (27,191 ) |
| Long-term debt, net | 1,577,414 | 1,625,309 |
| Deferred income tax liabilities | 460,557 | 469,622 |
| Other long-term liabilities | 2,847 | 2,840 |
| Total Liabilities | 2,140,959 | 2,204,455 |
| 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 - 53,247 shares at June 30, 2016 and 53,066 shares at March 31, 2016 | 532 | 530 |
| Additional paid-in capital | 451,075 | 445,182 |
| Treasury stock, at cost - 331 shares at June 30, 2016 and 306 shares at March 31, 2016 | (6,558 | ) $(5,163$ |

Accumulated other comprehensive loss, net of tax
Retained earnings
Total Stockholders' Equity
Total Liabilities and Stockholders' Equity
See accompanying notes.
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Prestige Brands Holdings, Inc.
Consolidated Statements of Cash Flows
(Unaudited)


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

## 1.Business and Basis of Presentation

## Nature of Business

Prestige Brands Holdings, Inc. (referred to herein as the "Company" or "we", which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct and indirect $100 \%$ owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter ("OTC") healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets, and club, convenience, and dollar stores in North America (the United States and Canada) and in Australia 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 these 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 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 these Consolidated Financial Statements. In the opinion of management, these Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, that are considered necessary for a fair statement of our consolidated financial position, results of operations and cash flows for the interim periods presented. Our fiscal year ends on March $31^{\text {st }}$ of each year. References in these Consolidated Financial Statements or related notes to a year (e.g., "2017") mean our fiscal year ending or ended on March 3'lof that year. Operating results for the three months ended June 30, 2016 are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2017. These unaudited Consolidated Financial Statements and related notes should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

## 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 our knowledge of current events and actions that we may undertake in the future, actual results could differ from those estimates. As discussed below, our most significant estimates include those made in connection with the valuation of intangible assets, stock-based compensation, fair value of debt, sales returns and allowances, trade promotional allowances and inventory obsolescence, and the recognition of income taxes using an estimated annual effective tax rate.

## Cash and Cash Equivalents

We consider all short-term deposits and investments with original maturities of three months or less to be cash equivalents. Substantially all of our cash is held by a large regional bank with headquarters in California. We do not believe that, as a result of this concentration, we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships. The Federal Deposit Insurance Corporation ("FDIC") and Securities Investor Protection Corporation ("SIPC") insure these balances up to $\$ 250,000$ and $\$ 500,000$, with a $\$ 250,000$ limit for cash, respectively. Substantially all of the Company's cash balances at June 30, 2016 are uninsured.

Accounts Receivable

We extend non-interest-bearing trade credit to our customers in the ordinary course of business. We maintain 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, we (i) have established credit limits for all of our customer relationships, (ii) perform ongoing credit evaluations of customers' financial condition, (iii) monitor the payment history and aging of customers' receivables, and (iv) monitor open orders against an individual customer's outstanding receivable balance.

## Inventories

Inventories are stated at the lower of cost or market value, with cost determined by using the first-in, first-out method. We reduce inventories for 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.

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## Assets Held for Sale

We classify assets or disposal groups to be sold as held for sale in the period in which all of the following criteria are met: (i) management, having the authority to approve the action, commits to a plan to sell the asset or disposal group, (ii) the asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups, (iii) an active program to locate a buyer and other actions required to compete the plan to sell the asset or disposal group have been initiated, (iv) the sale of the asset or disposal group is probable, and transfer of the asset or disposal group is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond our control extend the period of time required to complete the sale of the asset or disposal group beyond one year, (v) the asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value, and (vi) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

We measure an asset or disposal group that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held-for-sale criteria are met. Conversely, gains are not recognized on the sale of a long-lived asset or disposal group until the date of sale. We assess the fair value of a long-lived asset or disposal group less any costs to sell each reporting period it remains classified as held for sale and report any subsequent changes as an adjustment to the carrying value of the asset or disposal group, as long as the new carrying value does not exceed the carrying value of the asset at the time it was initially classified as held for sale.

Upon determining that an asset or disposal group meets the criteria as held for sale, the Company ceases depreciation and reports both long-lived assets and/or the current assets and liabilities of the disposal group, if material, in the line item assets held for sale in our consolidated balance sheet. Refer to Note 3 below for further discussion.

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 and software | 3 |
| Furniture and fixtures | 7 |
| Leasehold improvements | $*$ |
| *Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the |  |
| related asset. |  |

Expenditures for maintenance and repairs are charged to expense as incurred. When an asset is sold or otherwise disposed of, we remove the cost and associated accumulated depreciation from the respective accounts and recognize the resulting gain or loss in the Consolidated Statements of Operations and Comprehensive Income.

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 business combinations is classified as goodwill. Goodwill is not amortized, although the carrying value is tested for
impairment 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. Goodwill is tested for impairment at the product group level, which is one level below the operating segment level.

Intangible Assets
Intangible assets, which are comprised primarily of trademarks, are stated at cost less accumulated amortization. For intangible assets with finite lives, amortization is computed using the straight-line method over estimated useful lives, typically ranging from 10 to 30 years.

Indefinite-lived intangible assets are tested for impairment 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. Intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may 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.

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## Debt Origination Costs

We have incurred debt origination costs in connection with the issuance of long-term debt. These costs are amortized over the term of the related debt, using the effective interest method for our term loan facility and the straight-line method for our revolving credit facility.

## 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. We have determined that these criteria are met and the transfer of the risk of loss generally occurs when the product is received by the customer, and, accordingly, we recognize revenue at that time. Provisions are made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on our historical experience.

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our 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 our 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 promotional offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. We recognize the cost of such sales incentives by recording an estimate of such cost as a reduction of revenue, at the later of (a) the date the related revenue is recognized, or (b) the date when a particular sales incentive is offered. At the completion of a promotional program, the estimated amounts are adjusted to actual results.

Due to the nature of the consumer products industry, we are required to estimate future product returns. Accordingly, we record 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 our 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. Warehousing, shipping and handling and storage costs were $\$ 10.5$ million for the three months ended June 30, 2016 and $\$ 8.7$ million for the three months ended June 30, 2015.

## Advertising and Promotion Costs

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

## Stock-based Compensation

We recognize 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 recognized over the period a grantee 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 Income Taxes topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 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. 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. As a result, we have applied such guidance in determining our tax uncertainties.

We are subject to taxation in the United States and various state and foreign jurisdictions.
We classify penalties and interest related to unrecognized tax benefits as income tax expense in the Consolidated Statements of Operations and Comprehensive Income.

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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 outstanding stock options and unvested restricted stock units, are included in the earnings per share calculation to the extent that they are dilutive. In loss periods, the assumed exercise of in-the-money stock options and restricted stock units has an anti-dilutive effect and therefore, these instruments are excluded from the computation of diluted earnings per share.

Recently Issued Accounting Standards
In May 2016, the FASB issued Accounting Standards Update ("ASU") 2016-12, Revenue from Contracts with Customers. The amendments do not change the core principle of the guidance in FASB ASC 606. Rather, the amendments in this update affect only certain narrow aspects of FASB ASC 606. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU 2014-09 described below. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers. The amendments in this update clarify the implementation guidance on identifying performance obligations and licensing in FASB ASC 606. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU 2014-09 described below. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments in this update involve several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards, and classification on the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers. The amendments in this update clarify the implementation guidance on principals versus agent considerations in FASB ASC 606. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU 2014-09 described below. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this update include a new FASB ASC Topic 842 , which supersedes Topic 840 . The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all entities as of the beginning of interim or annual reporting periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. For public business entities, the amendments in this update are
effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted for all entities as of the beginning of interim or annual reporting periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The amendments in this update more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards, under which an entity should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of ASU 2015-11 is not expected to have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers - Topic 606, which supersedes the revenue recognition requirements in FASB ASC 605. The new guidance primarily states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to

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be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 from annual and interim periods beginning after December 15, 2016 to annual and interim periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.


## 2. Acquisitions

Acquisition of DenTek
On February 5, 2016, the Company completed the acquisition of DenTek Holdings, Inc. ("DenTek"), a privately-held marketer and distributor of specialty oral care products. The closing was finalized pursuant to the terms of the merger agreement, announced November 23, 2015, under which Prestige agreed to acquire DenTek from its stockholders, including TSG Consumer Partners, for a purchase price of $\$ 228.3$ million. The acquisition expands Prestige's portfolio of brands, strengthens its existing oral care platform and increases its geographic reach in parts of Europe. The Company financed the transaction with a combination of available cash on hand, available cash from its Asset Based Loan revolver, and financing of an additional unsecured bridge loan. The DenTek brands are primarily included in the Company's North American and International OTC Healthcare segments.

The DenTek acquisition was accounted for in accordance with the Business Combinations topic of the FASB ASC 805, 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.

We prepared an analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our preliminary allocation of the assets acquired and liabilities assumed as of the February 5, 2016 acquisition date.

| (In thousands) | February |
| :--- | :--- |
|  | 5,2016 |
| Cash acquired | $\$ 1,359$ |
| Accounts receivable | 9,187 |
| Inventories | 14,304 |
| Deferred income taxes | 3,303 |
| Prepaids and other current assets | 6,728 |
| Property, plant and equipment, net | 3,555 |
| Goodwill | 76,529 |
| Intangible assets, net | 206,700 |
| Total assets acquired | 321,665 |
|  |  |
| Accounts payable | 3,261 |
| Accrued expenses | 16,488 |
| Deferred income tax liabilities - long term | 73,573 |
| Total liabilities assumed | 93,322 |
| Total purchase price | $\$ 228,343$ |

Based on this preliminary analysis, we allocated $\$ 179.8$ million to non-amortizable intangible assets and $\$ 26.9$ million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average useful life of 18.5 years. The weighted average remaining life for amortizable intangible assets at June 30, 2016 was 18.2 years.

We also recorded goodwill of $\$ 76.5$ million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. Goodwill is not deductible for income tax purposes.

The pro forma effect of this acquisition on revenues and earnings was not material.
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## 3. Assets Held for Sale

## Assets Held for Sale

Late in the first quarter of fiscal 2017, the Company was approached and discussed the potential to sell certain assets. Prior to these discussions, the Company did not contemplate any divestitures, and the Company did not commit to any course of action to divest any of the assets until entering into an agreement on June 29, 2016, to sell Pediacare, New Skin and Fiber Choice. The carrying value of Pediacare, New Skin and Fiber Choice at June 30, 2016 (including inventory) was $\$ 24.1$ million, $\$ 30.6$ million, and $\$ 11.4$ million, respectively. The purchase price for all three brands combined was $\$ 40.0$ million plus inventory and included an obligation of the Company to perform certain services on behalf of the buyer for a period of up to six months (the "Transitional Services Agreement" or "TSA") and an option to the buyer to purchase Dermoplast at a specified earnings multiple as defined in the agreement. The Pediacare, New Skin and Fiber Choice brands were reported under the Cough \& Cold, Dermatologicals and Gastrointestinal product groups, respectively, and all these brands were reported under the North American OTC Healthcare segment. This transaction met the criteria as held for sale, and the related assets were measured at the lower of the carrying value or fair value less any costs to sell based on the agreed-upon sales price. As a result, as of June 30, 2016, we recorded the held for sale assets at their estimated fair value and recorded a pre-tax loss on sale of assets of $\$ 55.5$ million.

This transaction closed in July 2016 and as of June 30, 2016, the total assets held for sale, net of the loss recognized, related to Pediacare, New Skin and Fiber Choice were:

| (In thousands) | June 30, |
| :--- | :--- |
|  | 2016 |
| Components of assets held for sale: |  |
| Inventory | $\$ 2,420$ |
| Intangible assets, net | 36,405 |
| Goodwill | 2,920 |
| Assets held for sale | $\$ 41,745$ |

Refer to Note 21 below for further information. Additionally, we determined that this transaction did not meet the criteria to be classified as discontinued operations under FASB ASC 205.

## 4. Accounts Receivable

Accounts receivable consist of the following:
(In thousands)
June 30, March 31,
Components of Accounts Receivable
Trade accounts receivable
20162016

Other receivables
\$98,513 \$ 105,592
1,046 1,261
99,559 106,853
Less allowances for discounts, returns and uncollectible accounts (11,122) (11,606 )
Accounts receivable, net
\$88,437 \$95,247

## 5.Inventories

Inventories consist of the following:
(In thousands)

| June 30, | March |
| :--- | :--- |
| 2016 | 31, |
| 2016 |  |

Components of Inventories
Packaging and raw materials $\$ 7,442 \quad \$ 7,563$
Finished goods
85,425 83,700
Inventories
\$92,867 \$91,263

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Inventories are carried and depicted above at the lower of cost or market value, which includes a reduction in inventory values of $\$ 5.2$ million and $\$ 4.8$ million at June 30, 2016 and March 31, 2016, respectively, related to obsolete and slow-moving inventory.
6.Property and Equipment

Property and equipment consist of the following:

|  | June 30, <br> (In thousands) <br>  <br>  <br> Components of Property and Equipment <br> 31, |  |
| :--- | :--- | :--- |
| Machinery | $\$ 8,444$ | $\$ 7,734$ |
| Computer equipment | 13,154 | 12,793 |
| Furniture and fixtures | 2,444 | 2,445 |
| Leasehold improvements | 7,384 | 7,389 |
|  | 31,426 | 30,361 |
| Accumulated depreciation | $(16,346)$ | $(14,821)$ |
| Property and equipment, net | $\$ 15,080$ | $\$ 15,540$ |

We recorded depreciation expense of $\$ 1.5$ million and $\$ 1.3$ million for the three months ended June 30, 2016 and 2015 , respectively.

## 7.Goodwill

A reconciliation of the activity affecting goodwill by operating segment is as follows:

| (In thousands) | American <br> OTC <br> Healthcare | International <br> OTC <br> Healthcare | Household <br> Cleaning | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
| Balance - March 31, 2016 | \$330,615 | \$ 22,776 | \$ 6,800 | \$ 360,191 |
| Reclassified to assets held for sale | (2,920 ) | - | - | (2,920 |
| Effects of foreign currency exchange rates | - | (746 | - | (746 |
| Balance - June 30, 2016 | \$327,695 | \$ 22,030 | \$ 6,800 | \$ 356,525 |

As discussed in Note 2, on February 5, 2016, we completed the acquisition of DenTek. In connection with this acquisition, we recorded goodwill of $\$ 76.5$ million based on the amount by which the purchase price exceeded the fair value of net assets acquired.

Under accounting guidelines, goodwill is not amortized, but must be tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying amount.

On an annual basis during the fourth quarter of each fiscal year, or more frequently if conditions indicate that the carrying value of the asset may not be recoverable, management performs a review of the values assigned to goodwill and tests for impairment. At February 29, 2016, during our annual test for goodwill impairment, there were no indicators of impairment under the analysis. Accordingly, no impairment charge was recorded in fiscal 2016. We utilize the discounted cash flow method to estimate the fair value of our reporting units as part of the goodwill impairment test. We also considered our market capitalization at February 29, 2016, which was the date of our annual
review, as compared to the aggregate fair values of our reporting units, to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. The estimates and assumptions made in assessing the fair value of our 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 an impairment charge to be recorded in the future.

On June 29, 2016, we entered into an agreement to sell Pediacare, New Skin and Fiber Choice. This transaction (see Note 3 above for further details) met the criteria as held for sale, and the related assets were measured at the lower of carrying value or fair value less cost to sell. As a result, the allocable portion of goodwill related to these businesses were reclassed and included in assets held for sale. As of June 30, 2016, no events have occurred that would indicate potential impairment of goodwill.
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## 8. Intangible Assets

A reconciliation of the activity affecting intangible assets is as follows:

| (In thousands) | Indefinite <br> Lived <br> Trademarks | Finite Lived <br> Trademarks and Customer Relationships | Totals |
| :---: | :---: | :---: | :---: |
| Gross Carrying Amounts |  |  |  |
| Balance - March 31, 2016 | \$2,020,046 | \$ 417,880 | \$2,437,926 |
| Reclassified to assets held for sale | (37,207 ) | $)(60,103)$ | ) $(97,310)$ |
| Effects of foreign currency exchange rates | (2,545 ) | $)(107)$ | ) $(2,652)$ |
| Balance - June 30, 2016 | 1,980,294 | 357,670 | 2,337,964 |
| Accumulated Amortization |  |  |  |
| Balance - March 31, 2016 | - | 115,203 | 115,203 |
| Reclassified to assets held for sale | - | (6,102 ) | ) $(6,102)$ |
| Additions | - | 5,313 | 5,313 |
| Effects of foreign currency exchange rates | - | (9 ) | $)(9)$ |
| Balance - June 30, 2016 | - | 114,405 | 114,405 |
| Intangible assets, net - June 30, 2016 | \$ 1,980,294 | \$ 243,265 | \$2,223,559 |
| Intangible Assets, net by Reportable Segment: |  |  |  |
| North American OTC Healthcare | \$ 1,786,666 | \$ 219,570 | \$2,006,236 |
| International OTC Healthcare | 83,356 | 1,453 | 84,809 |
| Household Cleaning | 110,272 | 22,242 | 132,514 |
| Intangible assets, net - June 30, 2016 | \$ 1,980,294 | \$ 243,265 | \$2,223,559 |

On June 29, 2016, we entered into an agreement to sell Pediacare, New Skin and Fiber Choice. This transaction (see Note 3 above for further details) met the criteria as held for sale, and the related assets were measured at the lower of the carrying value or fair value less cost to sell based on the agreed-upon sales price. As a result, as of June 30, 2016, we recorded the held for sale assets at their estimated fair value and recorded a pre-tax loss of $\$ 55.5$ million and reclassified $\$ 37.2$ million and $\$ 54.0$ million of indefinite and finite lived trademarks, respectively, to assets held for sale.

As discussed in Note 2, on February 5, 2016, we completed the acquisition of DenTek. In connection with this acquisition, we allocated $\$ 206.7$ million to intangible assets based on our analysis.

Under accounting guidelines, indefinite-lived assets are not amortized, but must be tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the asset below the carrying amount. Additionally, at each reporting period, an evaluation must be made to determine whether events and circumstances continue to support an indefinite useful life. Intangible assets with finite lives are amortized over their respective estimated useful lives and are also tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable and exceeds its fair value.

On an annual basis during the fourth fiscal quarter, or more frequently if conditions indicate that the carrying value of the asset may not be recoverable, management performs a review of both the values and, if applicable, useful lives assigned to intangible assets and tests for impairment.

We utilize the excess earnings method to estimate the fair value of our individual indefinite-lived intangible assets. We also considered our market capitalization at February 29, 2016, which was the date of our annual review. The estimates and assumptions made in assessing the fair value of our 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 an impairment charge to be recorded in the future.

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The weighted average remaining life for finite-lived intangible assets at June 30, 2016 was approximately 13.4 years, and the amortization expense for the three months ended June 30 , 2016 was $\$ 5.3$ million. At June 30, 2016, finite-lived intangible assets are being amortized over a period of 10 to 30 years, and the associated amortization expense is expected to be as follows:
(In thousands)
Year Ending March 31, Amount
2017 (Remaining nine
months ending March \$13,654
31, 2017)
2018 18,049
2019 18,049
$2020 \quad 18,049$
$2021 \quad 17,626$
Thereafter 157,838
\$243,265

## 9.Other Accrued Liabilities

Other accrued liabilities consist of the following:

| (In thousands) | $\begin{aligned} & \text { June } 30 \text {, } \\ & 2016 \end{aligned}$ | March 31, 2016 |
| :---: | :---: | :---: |
| Accrued marketing costs | \$29,410 | \$26,373 |
| Accrued compensation costs | 4,275 | 9,574 |
| Accrued broker commissions | 564 | 1,497 |
| Income taxes payable | 3,282 | 3,675 |
| Accrued professional fees | 2,226 | 1,787 |
| Deferred rent | 747 | 836 |
| Accrued production costs | 3,413 | 3,324 |
| Accrued lease termination costs | 417 | 448 |
| Income tax related payable | 6,354 | 6,354 |
| Other accrued liabilities | 5,225 | 5,856 |
|  | \$55,913 | \$59,724 |

## 10. Long-Term Debt

2012 Term Loan and 2012 ABL Revolver:
On January 31, 2012, Prestige Brands, Inc. (the "Borrower") entered into a new senior secured credit facility, which consists of (i) a $\$ 660.0$ million term loan facility (the " 2012 Term Loan") with a 7 -year maturity and (ii) a $\$ 50.0$ million asset-based revolving credit facility (the " 2012 ABL Revolver") with a 5 -year maturity. In subsequent years, we have utilized portions of our accordion feature to increase the amount of our borrowing capacity under the 2012 ABL Revolver by $\$ 85.0$ million to $\$ 135.0$ million and reduced our borrowing rate on the 2012 ABL Revolver by $0.25 \%$ (discussed below). The 2012 Term Loan was issued with an original issue discount of $1.5 \%$ of the principal amount thereof, resulting in net proceeds to the Borrower of $\$ 650.1$ million. In connection with these loan facilities, we incurred $\$ 20.6$ million of costs, which were capitalized as deferred financing costs and are being amortized over the terms of the facilities. The 2012 Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and

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certain of its domestic $100 \%$ owned subsidiaries, other than 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 or to make payments to the Borrower or the Company.

On February 21, 2013, we entered into Amendment No. 1 ("Term Loan Amendment No. 1") to the 2012 Term Loan. Term Loan Amendment No. 1 provided for the refinancing of all of the Borrower's existing Term B Loans with new Term B-1 Loans (the "Term B-1 Loans"). The interest rate on the Term B-1 Loans under Term Loan Amendment No. 1 was based, at the Borrower's option, on a LIBOR rate plus a margin of $2.75 \%$ per annum, with a LIBOR floor of $1.00 \%$, or an alternate base rate, with a floor of $2.00 \%$, plus a margin. The new Term B-1 Loans would have matured on the same date as the Term B Loans' original maturity date. In addition, Term Loan Amendment No. 1 provided the Borrower with certain additional capacity to prepay subordinated
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debt, the $8.125 \%$ senior notes due in 2020 and certain other unsecured indebtedness permitted to be incurred under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver. In connection with Term Loan Amendment No. 1, during the fourth quarter ended March 31, 2013, we recognized a $\$ 1.4$ million loss on the extinguishment of debt.

On September 3, 2014, we entered into Amendment No. 2 ("Term Loan Amendment No. 2") to the 2012 Term Loan. Term Loan Amendment No. 2 provided for (i) the creation of a new class of Term B-2 Loans under the 2012 Term Loan (the "Term B-2 Loans") in an aggregate principal amount of $\$ 720.0$ million, (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility and financial maintenance covenant relief, and (iii) an interest rate on (x) the Term B-1 Loans that was based, at our option, on a LIBOR rate plus a margin of $3.125 \%$ per annum, with a LIBOR floor of $1.00 \%$, or an alternate base rate, with a floor of $2.00 \%$, plus a margin, and (y) the Term B-2 Loans that was based, at our option, on a LIBOR rate plus a margin of $3.50 \%$ per annum, with a LIBOR floor of $1.00 \%$, or an alternate base rate, with a floor of $2.00 \%$, plus a margin (with a margin step-down to $3.25 \%$ per annum, based upon achievement of a specified secured net leverage ratio).

Also, on September 3, 2014, the Borrower entered into Amendment No. 3 ("ABL Amendment No. 3") to the 2012 ABL Revolver. ABL Amendment No. 3 provides for (i) a $\$ 40.0$ million increase in revolving commitments under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility. Borrowings under the 2012 ABL Revolver, as amended, bear interest at a rate per annum equal to an applicable margin, plus, at the Borrower's option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus $0.50 \%$, (b) the prime rate of Citibank, N.A., and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus $1.00 \%$ or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs. The applicable margin for borrowings under the 2012 ABL Revolver may be increased to $2.00 \%$ or $2.25 \%$ for LIBOR borrowings and $1.00 \%$ or $1.25 \%$ for base-rate borrowings, depending on average excess availability under the 2012 ABL Revolver during the prior fiscal quarter. In addition to paying interest on outstanding principal under the 2012 ABL Revolver, we are required to pay a commitment fee to the lenders under the 2012 ABL Revolver in respect of the unutilized commitments thereunder. The initial commitment fee rate is $0.50 \%$ per annum. The commitment fee rate will be reduced to $0.375 \%$ per annum at any time when the average daily unused commitments for the prior quarter is less than a percentage of total commitments by an amount set forth in the credit agreement covering the 2012 ABL Revolver. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty.

On May 8, 2015, we entered into Amendment No. 3 ("Term Loan Amendment No. 3") to the 2012 Term Loan. Term Loan Amendment No. 3 provides for (i) the creation of a new class of Term B-3 Loans under the 2012 Term Loan (the "Term B-3 Loans") in an aggregate principal amount of $\$ 852.5$ million, which combined the outstanding balances of the Term B-1 Loans of $\$ 207.5$ million and the Term B-2 Loans of $\$ 645.0$ million, and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief. The maturity date of the Term B-3 Loans remains the same as the Term B-2 Loans' original maturity date of September 3, 2021.
The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus $0.50 \%$, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus $1.00 \%$ and (d) a floor of $1.75 \%$ or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of $0.75 \%$. For the three months ended June 30, 2016, the average interest rate on the 2012 Term Loan was $4.7 \%$.

Under the 2012 Term Loan, the Borrower was originally required to make quarterly payments each equal to $0.25 \%$ of the original principal amount of the 2012 Term Loan, with the balance expected to be due on the seventh anniversary of the closing date. However, since the Borrower has previously made significant optional payments that exceeded all of our required quarterly payments, the Borrower will not be required to make another payment until the maturity date of March 31, 2019.

On June 9, 2015, we entered into Amendment No. 4 ("ABL Amendment No. 4") to the 2012 ABL Revolver. ABL Amendment No. 4 provides for (i) a $\$ 35.0$ million increase in the accordion feature under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 ABL Revolver, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief and (iii) extended the maturity date of the 2012 ABL Revolver to June 9, 2020, which is five years from the effective date. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the three months ended June 30, 2016, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was $2.2 \%$.

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In connection with the DenTek acquisition on February 5, 2016, we entered into Amendment No. 5 ("ABL Amendment No. 5") to the 2012 ABL Revolver. ABL Amendment No. 5 temporarily suspended certain financial and related reporting covenants in the 2012 ABL Revolver until the earliest of (i) the date that is 60 calendar days following February 4, 2016, (ii) the date upon which certain of DenTek's assets are included in the Company's borrowing base under the 2012 ABL Revolver and (iii) the date upon which the Company receives net proceeds from an offering of debt securities.

## 2013 Senior Notes:

On December 17, 2013, the Borrower issued $\$ 400.0$ million of senior unsecured notes, with an interest rate of $5.375 \%$ and a maturity date of December 15, 2021 (the " 2013 Senior Notes"). The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its $100 \%$ domestic owned subsidiaries, other than 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 or to make payments to the Borrower or the Company. In connection with the 2013 Senior Notes offering, we incurred $\$ 7.2$ million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2013 Senior Notes.

## 2016 Senior Notes:

On February 19, 2016, the Borrower completed the sale of $\$ 350.0$ million aggregate principal amount of $6.375 \%$ senior notes due 2024 (the "2016 Senior Notes"), pursuant to a purchase agreement, dated February 16, 2016, among the Borrower, the guarantors party thereto (the "Guarantors") and the initial purchasers party thereto. The 2016 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic $100 \%$ owned subsidiaries, other than 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 or to make payments to the Borrower or the Company. In connection with the 2016 Senior Notes offering, we incurred $\$ 5.5$ million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2016 Senior Notes.

The 2016 Senior Notes were issued pursuant to an indenture, dated February 19, 2016 (the "Indenture"). The Indenture provides, among other things, that interest will be payable on the 2016 Senior Notes on March 1 and September 1 of each year, beginning on September 1, 2016, until their maturity date of March 1, 2024. The 2016 Senior Notes are senior unsecured obligations of the Borrower.

Redemptions and Restrictions:
At any time prior to December 15, 2016, we have the option to redeem the 2013 Senior Notes in whole or in part at a redemption price equal to $100 \%$ of the principal amount of notes redeemed, plus an applicable "make-whole premium" calculated as set forth in the indenture governing the 2013 Senior Notes, together with accrued and unpaid interest, if any, to the date of redemption. On or after December 15, 2016, we have the option to redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. In addition, at any time prior to December 15, 2016, we have to the option to redeem up to $35 \%$ of the aggregate principal amount of the 2013 Senior Notes at a redemption price equal to $105.375 \%$ of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of certain equity offerings, provided that certain conditions are met. Subject to certain limitations, in the event of a change of control, as defined in the indenture governing the 2013 Senior Notes, the Borrower will be required to make an offer to purchase the 2013 Senior Notes at a price equal to $101 \%$ of the aggregate principal amount of the 2013 Senior Notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

The Borrower has the option to redeem all or a portion of the 2016 Senior Notes at any time on or after March 1, 2019 at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any. The Borrower may also redeem all or any portion of the 2016 Senior Notes at any time prior to March 1, 2019, at a price equal to $100 \%$ of the
aggregate principal amount of the notes redeemed, plus an applicable "make-whole premium" calculated as set forth in the Indenture, and accrued and unpaid interest, if any, to the date of redemption. In addition, before March 1, 2019, the Borrower may redeem up to $40 \%$ of the aggregate principal amount of the 2016 Senior Notes with the net proceeds of certain equity offerings at the redemption price set forth in the Indenture, provided that certain conditions are met. Subject to certain limitations, in the event of a change of control, as defined in the Indenture, the Borrower will be required to make an offer to purchase the 2016 Senior Notes at a price equal to $101 \%$ of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

The indentures governing the 2013 Senior Notes and the 2016 Senior Notes contain provisions that restrict us from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchases of common shares outstanding, changes of control, incurrences of indebtedness, issuance of equity, creation of liens, making of loans and transactions with affiliates. Additionally, the credit agreement with respect to the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2016 Senior 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

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governing the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2016 Senior Notes. At March 31, 2016, we were in compliance with the covenants under our long-term indebtedness.

At June 30, 2016, we had an aggregate of $\$ 1.2$ million of unamortized debt costs related to the 2012 ABL Revolver included in other long-term assets, and $\$ 25.1$ million of unamortized debt costs included in long-term debt costs, the total of which is comprised of $\$ 5.2$ million related to the 2013 Senior Notes, $\$ 5.3$ million related to the 2016 Senior Notes, and $\$ 14.6$ million related to the 2012 Term Loan.

At March 31, 2016 we had an aggregate of $\$ 1.3$ million of unamortized debt costs related to the 2012 ABL Revolver included in other long-term assets, and $\$ 27.2$ million of unamortized debts costs included in long-term debt costs, the total of which is comprised of $\$ 5.4$ million related to the 2013 Senior Notes, $\$ 5.4$ million related to the 2016 Senior Notes, and $\$ 16.4$ million related to the 2012 Term Loan.

At June 30, 2016, we had $\$ 85.0$ million outstanding on the 2012 ABL Revolver and a borrowing capacity of $\$ 38.6$ million.

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

| June 30, | March 31, <br> 2016 |
| :--- | :--- |
| 2016 |  |
| $\$ 350,000$ | $\$ 350,000$ |
| 400,000 | 400,000 |
|  |  |
| 767,500 | 817,500 | margin, due on September 3, 2021.

2012 ABL Revolver bearing interest at the Borrower's option at either a base rate plus
applicable margin or LIBOR plus applicable margin. Any unpaid balance is due on June 9, 85,000 85,000
2020.

Total long-term debt (including current portion) $\quad 1,602,500 \quad 1,652,500$
Current portion of long-term debt
Long-term debt

-     - 

Less: unamortized debt costs $\quad(25,086)(27,191)$
Long-term debt, net $\$ 1,577,414 \quad \$ 1,625,309$
At June 30, 2016, aggregate future principal payments required in accordance with the terms of the 2012 Term Loan, 2012 ABL Revolver and the indentures governing the 2016 Senior Notes and the 2013 Senior Notes are as follows: (In thousands)
Year Ending March 31, Amount
2017 (remaining nine months ending March \$-
31, 2017)
2018
2019
2020
2021
85,000
Thereafter 1,517,500 \$1,602,500

## 11.Fair Value Measurements

For certain of our financial instruments, including cash, accounts receivable, accounts payable and other current liabilities, the carrying amounts approximate their respective fair values due to the relatively short maturity of these amounts.

The Fair Value Measurements and Disclosures topic of the FASB ASC 820 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

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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.

The market values have been determined based on market values for similar instruments adjusted for certain factors. As such, the 2016 Senior Notes, the 2013 Senior Notes, the Term B-3 loans, and the 2012 ABL Revolver are measured in Level 2 of the above hierarchy (see summary below detailing the carrying amounts and estimated fair values of these borrowings at June 30, 2016 and March 31, 2016).

|  | June 30, 2016 |  | March 31, 2016 |  |
| :--- | :--- | :--- | :--- | :--- |
|  | Carrying | Fair | Carrying | Fair |
| (In thousands) | Value | Value | Value | Value |
| 2016 Senior Notes | $\$ 350,000$ | $\$ 359,625$ | $\$ 350,000$ | $\$ 363,125$ |
| 2013 Senior Notes | 400,000 | 404,000 | 400,000 | 408,000 |
| Term B-3 Loans | 767,500 | 766,541 | 817,500 | 818,522 |
| 2012 ABL Revolver | 85,000 | 85,000 | 85,000 | 85,000 |

At June 30, 2016 and March 31, 2016, we did not have any assets or liabilities measured in Level 1 or 3.

## Nonrecurring Fair Value Measurements

As of June 30, 2016, and in addition to the recurring fair value measurements disclosed above, we recorded the long-lived held for sale assets (discussed in Note 3 above) at fair value, using level 3 inputs, and recorded a pre-tax loss on sale of assets of $\$ 55.5$ million ( $\$ 35.5$ million after-tax).

## 12. Stockholders' Equity

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

Each share of common stock has the right to one vote on all matters submitted to a vote of stockholders. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all classes of outstanding stock having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through June 30, 2016.

During the three months ended June 30, 2016 and 2015, we repurchased 24,988 shares and 39,429 shares, respectively, of restricted common stock from our employees pursuant to the provisions of various employee restricted stock awards. The repurchases for the three months ended June 30, 2016 and 2015 were at an average price of $\$ 55.82$ and $\$ 41.66$, respectively. All of the repurchased shares have been recorded as treasury stock.
13. Accumulated Other Comprehensive Loss

The table below presents accumulated other comprehensive loss ("AOCI"), which affects equity and results from recognized transactions and other economic events, other than transactions with owners in their capacity as owners.

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AOCI consisted of the following at June 30, 2016 and March 31, 2016 :
June 30, March 31,
(In thousands)
20162016
Components of Accumulated Other Comprehensive Loss
Cumulative translation adjustment
\$ $(29,349) \$(23,525)$
Accumulated other comprehensive loss, net of tax $\quad \$(29,349) \$(23,525)$

## 14. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method, which includes stock options and restricted stock units. In loss periods, the assumed exercise of in-the-money stock options and restricted stock units has an anti-dilutive effect and therefore, these instruments are excluded from the computation of diluted earnings per share. The following table sets forth the computation of basic and diluted earnings per share:

|  | Three Months Ended June 30, |
| :---: | :---: |
| (In thousands, except per share data) | 20162015 |
| Numerator |  |
| Net (loss) income | \$(5,531) \$26,173 |
| Denominator |  |
| Denominator for basic earnings per share - weighted average shares outstanding | 52,881 52,548 |
| Dilutive effect of unvested restricted stock units and options issued to employees and directors | 410 |
| Denominator for diluted earnings per share | $52,881 \quad 52,958$ |
| Earnings per Common Share: |  |
| Basic net (loss) earnings per share | \$(0.10 ) \$0.50 |
| Diluted net (loss) earnings per share | \$(0.10 ) \$0.49 |

For the three months ended June 30, 2016 and 2015 there were 0.7 million and 0.2 million shares, respectively, attributable to outstanding stock-based awards that were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive.

## 15. Share-Based Compensation

In connection with our initial public offering, the Board of Directors adopted the 2005 Long-Term Equity Incentive Plan (the "Plan"), which provides for grants of up to a maximum of 5.0 million shares of restricted stock, stock options, restricted stock units and other equity-based awards. In June 2014, the Board of Directors approved, and in July 2014, the stockholders ratified, an increase of an additional 1.8 million shares of our common stock for issuance under the Plan, increased the maximum number of shares subject to stock options that may be awarded to any one participant under the Plan during any 12 -month period from 1.0 million to 2.5 million shares, and extended the term of the Plan by ten years to February 2025. 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.

During the three months ended June 30, 2016 and 2015, pre-tax share-based compensation costs charged against income were $\$ 1.9$ million and $\$ 3.0$ million, respectively, and the related income tax benefit recognized was $\$ 0.7$
million and $\$ 1.1$ million, respectively.

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On May 9, 2016, the Compensation Committee of our Board of Directors granted 49,064 shares of restricted common stock units and stock options to acquire 224,843 shares of our common stock to certain executive officers and employees under the Plan. All of the shares of restricted common stock units vest in their entirety on the three-year anniversary of the date of grant. Upon vesting, the units will be settled in shares of our common stock. The stock options will vest $33.3 \%$ per year over three years and are exercisable for up to ten years from the date of grant. These stock options were granted at an exercise price of $\$ 57.18$ per share, which is equal to the closing price for our common stock on the date of the grant. Termination of employment prior to vesting will result in forfeiture of the unvested restricted common stock units and the unvested stock options. Vested stock options will remain exercisable by the employee after termination, subject to the terms of the Plan.

## Restricted Shares

Restricted shares granted to employees under the Plan generally vest in three to five years, primarily upon the attainment of certain time vesting thresholds, and may also be contingent on the attainment of certain performance goals of the Company, including revenue and earnings before income taxes, depreciation and amortization targets. The restricted stock unit awards provide for accelerated vesting if there is a change of control, as defined in the Plan. The restricted stock units granted to employees generally vest in their entirety on the three-year anniversary of the date of the grant. Termination of employment prior to vesting will result in forfeiture of the restricted stock units, unless otherwise accelerated by the Compensation Committee. The restricted stock units granted to directors vest in their entirety one year after the date of grant so long as the membership on the Board of Directors continues through the vesting date, with the settlement in common stock to occur on the earliest of the director's death, disability or six-month anniversary of the date on which the director's Board membership ceases for reasons other than death or disability. Upon vesting, the units will be settled in shares of our common stock.

Each of our six independent members of the Board of Directors received a grant of 2,075 restricted stock units on August 4, 2015 under the Plan. Additionally, on May 26, 2016 and May 11, 2015, the Compensation Committee granted 346 restricted stock units and 362 restricted stock units, respectively, to newly appointed Board members. The restricted stock units vest on the one year anniversary of the date of grant and will be settled by delivery to the director of one share of common stock of the Company for each vested restricted stock unit promptly following the earliest of the director's (i) death, (ii) disability or (iii) the six-month anniversary of the date on which the director's Board membership ceases for reasons other than death or disability.

The fair value of the restricted stock units is determined using the closing price of our common stock on the date of the grant. The weighted-average grant-date fair value during the three months ended June 30, 2016 and 2015 was $\$ 57.16$ and $\$ 41.85$, respectively.

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

> Weighted-

Shares Average
(in Grant-Date

## Restricted Stock Units

thousands) Fair Value
Three months ended June 30, 2015
Vested and nonvested at March 31, $2015 \quad 362.3 \quad \$ 22.74$
Granted
Vested and issued
Forfeited
$243.8 \quad 41.85$

Vested and nonvested at June 30, $2015 \quad 465.8 \quad 33.72$
$\begin{array}{lll}\text { Vested at June 30, } 2015 & 76.6 & 11.62\end{array}$
Three months ended June 30, 2016

| Vested and nonvested at March 31, 2016 | 467.8 | $\$ 35.22$ |
| :--- | :--- | :--- |
| Granted | 49.4 | 57.16 |
| Vested and issued | $(75.6$ | ) 31.36 |
| Forfeited | $(76.2$ | $) 39.93$ |
| Vested and nonvested at June 30, 2016 | 365.4 | 38.00 |
| Vested at June 30, 2016 | 70.2 | 14.89 |

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## Options

The Plan provides that the exercise price of options granted shall be no less than the fair market value of the Company's common stock on the date the options are granted. Options granted have a term of no greater than ten years from the date of grant and vest in accordance with a schedule determined at the time the option is granted, generally three to five years. The option awards provide for accelerated vesting in the event of a change in control, as defined in the Plan. Termination of employment prior to vesting will result in forfeiture of the unvested stock options. Vested stock options will remain exercisable by the employee after termination of employment, subject to the terms in the Plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model that uses the assumptions noted in the table below. Expected volatilities are based on the historical volatility of our common stock and other factors, including the historical volatilities of comparable companies. We use appropriate historical data, as well as current data, to estimate option exercise and employee termination behaviors. Employees that are expected to exhibit similar exercise or termination behaviors are grouped together for the purposes of valuation. The expected terms of the options granted are derived from our historical experience, management's estimates, and consideration of information derived from the public filings of companies similar to us, and represent the period of time that options granted are expected to be outstanding. The risk-free rate represents the yield on U.S. Treasury bonds with a maturity equal to the expected term of the granted options.

The weighted-average grant-date fair values of the options granted during the three months ended June 30, 2016 and 2015 were $\$ 22.26$ and $\$ 16.95$, respectively.

Three months
ended
June 30,
20162015
Expected volatility $\quad 37 / 84002$
Expected dividends $\quad \$-\$-$
Expected term in years $6.0 \quad 6.0$
Risk-free rate $\quad 1 . \% \quad 1 . \%$

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

Options
Three months ended June 30, 2015
Outstanding at March 31, $2015 \quad 871.2 \quad \$ 23.40$
Granted $\quad 186.3 \quad 41.44$
Exercised (330.4) 19.15
Forfeited or expired (0.9 ) 33.50
$\begin{array}{lllll}\text { Outstanding at June 30, } 2015 & 726.2 & 29.95 & 8.3 & \$ 11,830\end{array}$
Exercisable at June 30, 2015
7.2

7,966

Three months ended June 30, 2016
Outstanding at March 31, $2016 \quad 727.7 \quad \$ 30.70$
$\begin{array}{lll}\text { Granted } & 224.8 \quad 57.18\end{array}$
Exercised
(105.7 ) 32.20

|  | Weighted- <br> Average | Weighted- <br> Average <br> Remaining | Aggregate <br> Intrinsic <br> Value |
| :--- | :--- | :--- | :--- |
| Shares <br> (in | Exercise <br> thousands) | Price <br> Contractual <br> (in |  |
|  |  | Term (years) |  |
| thousands) |  |  |  |
| 871.2 | $\$ 23.40$ |  |  |
| 186.3 | 41.44 |  |  |
| $(330.4$ | ) | 19.15 |  |
| $(0.9$ | ) | 33.50 |  |
| 726.2 | 29.95 | 8.3 | $\$ 11,830$ |
| 322.5 | 21.54 | 7.2 | 7,966 |

Forfeited or expired
Outstanding at June 30, 2016
Exercisable at June 30, 2016
(45.5 ) 37.34
$\begin{array}{llll}801.3 & 37.55 & 8.0 & \$ 14,700\end{array}$
$386.4 \quad 25.20$
6.7 11,669

The aggregate intrinsic value of options exercised in the three months ended June 30, 2016 was $\$ 2.3$ million.
At June 30, 2016, there were $\$ 13.8$ million of unrecognized compensation costs related to nonvested share-based compensation arrangements under the Plan, based on management's estimate of the shares that will ultimately vest. We expect to recognize such

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costs over a weighted-average period of 1.1 years. The total fair value of options and restricted stock units vested during the three months ended June 30,2016 and 2015 was $\$ 7.0$ million and $\$ 6.2$ million, respectively. For the three months ended June 30, 2016 and 2015, cash received from the exercise of stock options was $\$ 3.4$ million and $\$ 6.3$ million, respectively, and we realized $\$ 0.7$ million and $\$ 1.0$ million, respectively, in tax benefits from the tax deductions resulting from these option exercises. At June 30, 2016, there were 2.4 million shares available for issuance under the Plan.


## 16. Income Taxes

Income taxes are recorded in our quarterly financial statements based on our estimated annual effective income tax rate, subject to adjustments for discrete events, should they occur. The effective tax rates used in the calculation of income taxes were $37.9 \%$ and $34.8 \%$ for the three months ended June 30, 2016 and 2015, respectively. The increase in the effective tax rate for the three months ended June 30,2016 was primarily due to higher marginal tax rates that apply in the current year period related to the agreement to sell Pediacare, New Skin and Fiber Choice. See Note 3 above.

During the three months ended June 30, 2016, we realized a net reduction to our deferred tax liability of $\$ 19.4$ million as a result of the agreement to sell Pediacare, New Skin and Fiber Choice.

At June 30, 2016, a $100 \%$ owned subsidiary of the Company had a net operating loss carryforward of approximately $\$ 20.9$ million ( $\$ 7.4$ million, tax effected), which may be used to offset future taxable income of the consolidated group and begins to expire in 2025. The Company expects to fully utilize the loss carryover before it expires. The net operating loss carryforward is subject to an annual limitation as to usage under Internal Revenue Code Section 382 of approximately $\$ 33.6$ million.

The balance in our uncertain tax liability was $\$ 4.1$ million at June 30, 2016 and March 31, 2016. We recognize interest and penalties related to uncertain tax positions as a component of income tax expense. We did not incur any material interest or penalties related to income taxes in any of the periods presented.

## 17. Commitments and Contingencies

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

## Lease Commitments

We have operating leases for office facilities and equipment in New York and other locations, which expire at various dates through fiscal 2022. These amounts have been included in the table below.

The following summarizes future minimum lease payments for our operating leases as of June 30, $2016{ }^{\text {(a) }}$ :
(In
thousands)
Year
Ending
Encilities Equipment Total
March
31 ,
2017
(Remaining
nine

March
31,
2017)

200185 - 2,015
2 OUM - 2,009
2(824 - 1,842
2021 - 903
Thereafter- 59
\$ 8,350 $\quad \$ \quad 34 \quad \$ 8,384$
(a) Minimum lease payments have not been reduced by minimum sublease rentals of $\$ 1.1$ million due to us in the future under noncancelable subleases.

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The following schedule shows the composition of total minimum lease payments that have been reduced by minimum sublease rentals:

|  | June 30, March |  |
| :--- | :--- | :--- |
| (In thousands) | 2016 | 31, |
|  |  | 2016 |
| Minimum lease payments | $\$ 8,384$ | $\$ 8,434$ |
| Less: Sublease rentals | $(1,100)$ | $(1,165)$ |
|  | $\$ 7,284$ | $\$ 7,269$ |

Rent expense for the three months ended June 30, 2016 and 2015 was $\$ 0.6$ million and $\$ 0.4$ million, respectively.

## Purchase Commitments

Effective November 1, 2009, we entered into a ten year supply agreement for the exclusive manufacture of a portion of one of our Household Cleaning products. Although we are committed under the supply agreement to pay the minimum amounts set forth in the table below, the total commitment is less than $10 \%$ of the estimated purchases that we expect to make during the course of the agreement.
(In
thousands)
Year
Ending
Amount
March
31,
2017
(Remaining
nine
months
ending
March
31,
2017)

201183
2829
8000
2021
\$ 3,358

## 18. Concentrations of Risk

Our revenues are concentrated in the areas of OTC Healthcare and Household Cleaning products. We sell our products to mass merchandisers, food and drug stores, and convenience, dollar and club stores. During the three months ended June 30, 2016 and 2015, approximately $42.3 \%$ and $43.9 \%$, respectively, of our total revenues were derived from our five top selling brands. One customer, Walmart, accounted for more than $10 \%$ of our gross revenues for each of the periods presented. Walmart accounted for approximately $20.7 \%$ and $19.9 \%$ of our gross revenues for the three months ended June 30, 2016 and 2015, respectively. Our next largest customer, Walgreens, accounted for approximately $10.3 \%$ and $9.4 \%$ of gross revenues for the three months ended June 30, 2016 and 2015, respectively. At June 30, 2016, approximately $23.2 \%$ and $10.2 \%$ of accounts receivable were owed by Walmart and Walgreens, respectively.

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

At June 30, 2016, we had relationships with 102 third-party manufacturers. Of those, we had long-term contracts with 55 manufacturers that produced items that accounted for approximately $79.7 \%$ of gross sales for the three months ended June 30, 2016. At June 30, 2015, we had relationships with 98 third-party manufacturers. Of those, we had long-term contracts with 47 manufacturers that produced items that accounted for approximately $83.9 \%$ of gross sales for the three months ended June 30, 2015. The fact that we do not have long-term contracts with certain manufacturers means that they could cease manufacturing our products at any time and for any reason or initiate arbitrary and costly price increases, which could have a material adverse effect on our business and results from operations. Although we are in the process of negotiating long-term contracts with certain key manufacturers, we may not be able to reach an agreement, which could have a material adverse effect on our business and results of operations.

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## 19. Business Segments

Segment information has been prepared in accordance with the Segment Reporting topic of the FASB ASC 280. Our current reportable segments consist of (i) North American OTC Healthcare, (ii) International OTC Healthcare and (iii) Household Cleaning. We evaluate the performance of our operating segments and allocate resources to these segments based primarily on contribution margin, which we define as gross profit less advertising and promotional expenses.

The tables below summarize information about our reportable segments.

| (In thousands) | Three Mon <br> North <br> American <br> OTC <br> Healthcare | ths Ended Jun <br> International <br> OTC <br> Healthcare | e 30, 2016 <br> Household Cleaning | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
| Gross segment revenues | \$173,301 | \$ 15,800 | \$ 20,890 | \$ 209,991 |
| Elimination of intersegment revenues | (1,221 | - | - | (1,221 |
| Third-party segment revenues | 172,080 | 15,800 | 20,890 | 208,770 |
| Other revenues | - | 4 | 801 | 805 |
| Total segment revenues | 172,080 | 15,804 | 21,691 | 209,575 |
| Cost of sales | 65,718 | 5,464 | 16,802 | 87,984 |
| Gross profit | 106,362 | 10,340 | 4,889 | 121,591 |
| Advertising and promotion | 25,040 | 2,124 | 471 | 27,635 |
| Contribution margin | \$81,322 | \$ 8,216 | \$ 4,418 | 93,956 |
| Other operating expenses* |  |  |  | 81,742 |
| Operating income |  |  |  | 12,214 |
| Other expense |  |  |  | 21,127 |
| Loss before income taxes |  |  |  | (8,913 |
| Benefit for income taxes |  |  |  | (3,382 |
| Net loss |  |  |  | \$ (5,531 |

*Other operating expenses includes a pre-tax loss on sale of assets of $\$ 55.5$ million recognized for assets held for sale related to Pediacare, New Skin and Fiber Choice. These assets and corresponding contribution margin are included within the North American OTC Healthcare segment.

| (In thousands) | Three Months Ended June 30, 2015 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | North <br> American <br> OTC <br> Healthcare | International OTC <br> Healthcare | Household Cleaning | Consolidated |
| Gross segment revenues | \$156,339 | \$ 14,209 | \$ 21,467 | \$ 192,015 |
| Elimination of intersegment revenues | (728 ) | - | - | (728 |
| Third-party segment revenues | 155,611 | 14,209 | 21,467 | 191,287 |
| Other revenues** | 15 | 25 | 805 | 845 |
| Total segment revenues | 155,626 | 14,234 | 22,272 | 192,132 |
| Cost of sales** | 58,503 | 4,913 | 16,480 | 79,896 |
| Gross profit | 97,123 | 9,321 | 5,792 | 112,236 |
| Advertising and promotion | 23,195 | 2,723 | 504 | 26,422 |
| Contribution margin | \$73,928 | \$ 6,598 | \$ 5,288 | 85,814 |
| Other operating expenses |  |  |  | 23,309 |
| Operating income |  |  |  | 62,505 |
| Other expense |  |  |  | 22,335 |

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Income before income taxes 40,170
Provision for income taxes 13,997
Net income
\$ 26,173
**Certain immaterial amounts relating to other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

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The tables below summarize information about our segment revenues from similar product groups.
Three Months Ended June 30, 2016

| (In thousands) | North <br> American <br> OTC <br> Healthcare | Internationa <br> OTC <br> Healthcare | Household Cleaning | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
| Analgesics | \$28,126 | \$ 527 | \$- | \$ 28,653 |
| Cough \& Cold | 17,967 | 4,392 | - | 22,359 |
| Women's Health | 32,887 | 936 | - | 33,823 |
| Gastrointestinal | 19,106 | 4,256 | - | 23,362 |
| Eye \& Ear Care | 26,007 | 2,796 | - | 28,803 |
| Dermatologicals | 22,698 | 671 | - | 23,369 |
| Oral Care | 23,811 | 2,217 | - | 26,028 |
| Other OTC | 1,478 | 9 | - | 1,487 |
| Household Cleaning | - | - | 21,691 | 21,691 |
| Total segment revenue | \$172,080 | \$ 15,804 | \$ 21,691 | \$ 209,575 |


|  | Three Months Ended June 30, 2015 <br> North <br> American |  |  |  |
| :--- | :--- | :--- | :--- | :--- |
|  | International |  |  |  |
| (In thousands) | OTC | Household <br> OTC | Cleaning |  | Consolidated

During the three months ended June 30, 2016 and 2015, approximately $87.5 \%$ and $87.3 \%$, respectively, of our total segment revenues were from customers in the United States. Other than the United States, no individual geographical area accounted for more than $10 \%$ of net sales in any of the periods presented. During the three months ended June 30, 2016, our Canada and Australia sales accounted for approximately $4.7 \%$ and $5.0 \%$, respectively, of our total segment revenues, while during the three months ended June 30, 2015, approximately $5.1 \%$ and $5.7 \%$, respectively, of our total segment revenues were attributable to sales to Canada and Australia.

At June 30, 2016 and March 31, 2016, approximately $95.9 \%$ of our consolidated goodwill and intangible assets were located in the United States and approximately $4.1 \%$ were located in Australia. These consolidated goodwill and intangible assets have been allocated to the reportable segments as follows:

| June 30, 2016 <br> (In thousands) | North | International OTC Healthcare | Household Cleaning | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
|  | American OTC |  |  |  |
|  | Healthcare |  |  |  |
| Goodwill | \$327,695 | \$ 22,030 | \$6,800 | \$ 356,525 |

Intangible assets

| Indefinite-lived | $1,786,666$ | 83,356 | 110,272 | $1,980,294$ |
| :--- | :---: | :--- | :--- | :--- |
| Finite-lived | 219,570 | 1,453 | 22,242 | 243,265 |
| Intangible assets, net | $2,006,236$ | 84,809 | 132,514 | $2,223,559$ |
| Total | $\$ 2,333,931$ | $\$ 106,839$ | $\$ 139,314$ | $\$ 2,580,084$ |

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| March 31, 2016 (In thousands) | North <br> American <br> OTC <br> Healthcare | International <br> OTC <br> Healthcare | Household <br> Cleaning | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
| Goodwill | \$330,615 | \$ 22,776 | \$6,800 | \$ 360,191 |
| Intangible assets |  |  |  |  |
| Indefinite-lived | 1,823,873 | 85,901 | 110,272 | 2,020,046 |
| Finite-lived | 277,762 | 2,237 | 22,678 | 302,677 |
| Intangible assets, net | 2,101,635 | 88,138 | 132,950 | 2,322,723 |
| Total | \$2,432,250 | \$ 110,914 | \$ 139,750 | \$ 2,682,914 |

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## 20. Condensed Consolidating Financial Statements

As described in Note 10, Prestige Brands Holdings, Inc., together with certain of our $100 \%$ owned subsidiaries, has fully and unconditionally guaranteed, on a joint and several basis, the obligations of Prestige Brands, Inc. (a 100\% owned subsidiary of the Company) set forth in the indentures governing the 2016 Senior Notes and the 2013 Senior Notes, including the obligation to pay principal and interest with respect to the 2016 Senior Notes and the 2013 Senior Notes. The $100 \%$ owned subsidiaries of the Company that have guaranteed the 2016 Senior Notes and the 2013 Senior Notes are as follows: Prestige Services Corp., Prestige Brands Holdings, Inc. (a Virginia corporation), Prestige Brands International, Inc., Medtech Holdings, Inc., Medtech Products Inc., The Cutex Company, The Spic and Span Company, Blacksmith Brands, Inc., Insight Pharmaceuticals Corporation, Insight Pharmaceuticals, LLC, Practical Health Products, Inc., and DenTek Holdings, Inc. (collectively, the "Subsidiary Guarantors"). A significant portion of our operating income and cash flow is generated by our subsidiaries. As a result, funds necessary to meet Prestige Brands, Inc.'s debt service obligations are provided in part by distributions or advances from our subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as the financial condition and operating requirements of our subsidiaries, could limit Prestige Brands, Inc.'s ability to obtain cash from our subsidiaries for the purpose of meeting our debt service obligations, including the payment of principal and interest on the 2016 Senior Notes and the 2013 Senior Notes. Although holders of the 2016 Senior Notes and the 2013 Senior Notes will be direct creditors of the guarantors of the 2016 Senior Notes and the 2013 Senior Notes by virtue of the guarantees, we have indirect subsidiaries located primarily in the United Kingdom, the Netherlands and Australia (collectively, the "Non-Guarantor Subsidiaries") that have not guaranteed the 2016 Senior Notes or the 2013 Senior Notes, and such subsidiaries will not be obligated with respect to the 2016 Senior Notes or the 2013 Senior Notes. As a result, the claims of creditors of the Non-Guarantor Subsidiaries will effectively have priority with respect to the assets and earnings of such companies over the claims of the holders of the 2016 Senior Notes and the 2013 Senior Notes.

Presented below are supplemental Condensed Consolidating Balance Sheets as of June 30, 2016 and March 31, 2016, Condensed Consolidating Statements of Operations and Comprehensive Income for the three months ended June 30, 2016 and 2015, and Condensed Consolidating Statements of Cash Flows for the three months ended June 30, 2016 and 2015. Such consolidating information includes separate columns for:
a) Prestige Brands Holdings, Inc., the parent,
b) Prestige Brands, Inc., the Issuer or the Borrower,
c) Combined Subsidiary Guarantors,
d) Combined Non-Guarantor Subsidiaries, and
e) Elimination entries necessary to consolidate the Company and all of its subsidiaries.

The Condensed Consolidating Financial Statements are presented using the equity method of accounting for investments in our $100 \%$ owned subsidiaries. Under the equity method, the investments in subsidiaries are recorded at cost and adjusted for our share of the subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. The elimination entries principally eliminate investments in subsidiaries and intercompany balances and transactions. The financial information in this note should be read in conjunction with the Consolidated Financial Statements presented and other notes related thereto contained in this Quarterly Report on Form 10-Q.

[^1]Condensed Consolidating Statements of Operations and Comprehensive Income Three Months Ended June 30, 2016

| (In thousands) | Prestige <br> Brands <br> Holdings, <br> Inc. | Prestige Brands, Inc., the issuer | Combined <br> Subsidiary <br> Guarantors | Combine <br> Non- <br> Guaranto <br> Subsidiar |  | Eliminations Consolidated |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenues |  |  |  |  |  |  |  |  |
| Net sales | \$- | \$27,959 | \$168,205 | \$ 13,826 |  | \$ (1,220 |  | \$ 208,770 |
| Other revenues | - | 75 | 801 | 486 |  | (557 |  | 805 |
| Total revenues | - | 28,034 | 169,006 | 14,312 |  | (1,777 |  | 209,575 |
| Cost of Sales |  |  |  |  |  |  |  |  |
| Cost of sales (exclusive of depreciation shown below) | - | 12,086 | 71,462 | 6,000 |  | (1,564 |  | 87,984 |
| Gross profit | - | 15,948 | 97,544 | 8,312 |  | (213 |  | 121,591 |
| Operating Expenses |  |  |  |  |  |  |  |  |
| Advertising and promotion | - | 4,745 | 20,804 | 2,086 |  | - |  | 27,635 |
| General and administrative | 1,937 | 2,188 | 14,314 | 1,018 |  | - |  | 19,457 |
| Depreciation and amortization | 920 | 151 | 5,633 | 128 |  | - |  | 6,832 |
| Loss on sale of assets | - | - | 55,453 | - |  | - |  | 55,453 |
| Total operating expenses | 2,857 | 7,084 | 96,204 | 3,232 |  | - |  | 109,377 |
| Operating income (loss) | (2,857 | ) 8,864 | 1,340 | 5,080 |  | (213 |  | 12,214 |
| Other (income) expense |  |  |  |  |  |  |  |  |
| Interest income | (11,967 | ) (21,262 ) | (1,274 | ) (159 | ) | 34,605 |  | (57 |
| Interest expense | 8,440 | 21,174 | 24,901 | 1,274 |  | (34,605 |  | 21,184 |
| Equity in (income) loss of subsidiaries | 5,738 | $(31,333)$ | (3,076 | ) - |  | 28,671 |  | - |
| Total other expense (income) | 2,211 | (31,421) | 20,551 | 1,115 |  | 28,671 |  | 21,127 |
| (Loss) income before income taxes | (5,068 | ) 40,285 | (19,211 | ) 3,965 |  | (28,884 |  | (8,913 |
| (Benefit) provision for income taxes | 463 | 3,178 | (7,912 | 889 |  | - |  | (3,382 |
| Net (loss) income | \$(5,531 | ) \$37,107 | \$(11,299) | \$ 3,076 |  | \$ (28,884 |  | \$ (5,531 |
| Comprehensive (loss) income, net of tax: |  |  |  |  |  |  |  |  |
| Currency translation adjustments | (5,824 | ) $(5,824$ | (5,824 | ) $(5,824$ | ) | 17,472 |  | (5,824 |
| Total other comprehensive (loss) income | (5,824 | ) $(5,824$ | (5,824 | ) $(5,824$ | ) | 17,472 |  | (5,824 |
| Comprehensive (loss) income | \$(11,355) | \$31,283 | \$(17,123 ) | \$ (2,748 | ) | \$ (11,412 |  | \$ (11,355 |

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Condensed Consolidating Statements of Income and Comprehensive Income Three Months Ended June 30, 2015

| (In thousands) | Prestige <br> Brands <br> Holdings, <br> Inc. | Prestige <br> Brands, Inc., the issuer | Combined Subsidiary Guarantors | Combined NonGuarantor Subsidiari |  | Eliminations Consolidated |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Revenues |  |  |  |  |  |  |  |  |
| Net sales | \$- | \$27,883 | \$ 152,524 | \$ 11,608 |  | \$ (728 |  | \$ 191,287 |
| Other revenues | - | 96 | 819 | 498 |  | (568 |  | 845 |
| Total revenues | - | 27,979 | 153,343 | 12,106 |  | (1,296 |  | 192,132 |
| Cost of Sales |  |  |  |  |  |  |  |  |
| Cost of sales (exclusive of depreciation shown below) | - | 10,441 | 66,378 | 4,408 |  | (1,331 |  | 79,896 |
| Gross profit | - | 17,538 | 86,965 | 7,698 |  | 35 |  | 112,236 |
| Operating Expenses |  |  |  |  |  |  |  |  |
| Advertising and promotion | - | 2,517 | 21,228 | 2,677 |  | - |  | 26,422 |
| General and administrative | 1,315 | 2,555 | 11,951 | 1,768 |  | - |  | 17,589 |
| Depreciation and amortization | 989 | 146 | 4,445 | 140 |  | - |  | 5,720 |
| Total operating expenses | 2,304 | 5,218 | 37,624 | 4,585 |  | - |  | 49,731 |
| Operating income (loss) | (2,304 ) | ) 12,320 | 49,341 | 3,113 |  | 35 |  | 62,505 |
| Other (income) expense |  |  |  |  |  |  |  |  |
| Interest income | (12,049 ) | ) (21,408) | (1,220 ) | ) (112 |  | 34,762 |  | (27 |
| Interest expense | 8,490 | 21,908 | 25,055 | 1,220 |  | (34,762 |  | 21,911 |
| Loss on extinguishment of debt | - | 451 | - | - |  | - |  | 451 |
| Equity in (income) loss of subsidiaries | (25,306 ) | ) (16,955 ) | (1,450 ) | ) - |  | 43,711 |  | - |
| Total other (income) expense | $(28,865)$ | ) $(16,004)$ | ) 22,385 | 1,108 |  | 43,711 |  | 22,335 |
| Income (loss) before income taxes | 26,561 | 28,324 | 26,956 | 2,005 |  | (43,676 |  | 40,170 |
| Provision for income taxes | 388 | 4,025 | 9,029 | 555 |  | - |  | 13,997 |
| Net income (loss) | \$26,173 | \$24,299 | \$17,927 | \$ 1,450 |  | \$ (43,676 | ) | \$ 26,173 |
| Comprehensive income, net of tax: |  |  |  |  |  |  |  |  |
| Currency translation adjustments | (405 ) | ) (405 ) | (405 ) | ) (405 |  | 1,215 |  | (405 |
| Total other comprehensive income (loss) | (405 ) | ) (405 ) | (405 ) | ) (405 |  | 1,215 |  | (405 |
| Comprehensive income (loss) | \$25,768 | \$23,894 | \$ 17,522 | \$ 1,045 |  | \$ (42,461 |  | \$25,768 |

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Condensed Consolidating Balance Sheet
June 30, 2016

| (In thousands) | Prestige <br> Brands Holdings, Inc. | Prestige <br> Brands, Inc., the issuer | Combined <br> Subsidiary <br> Guarantors | Combined <br> Non- <br> Guarantor <br> Subsidiaries | Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Assets |  |  |  |  |  |  |
| Current assets |  |  |  |  |  |  |
| Cash and cash equivalents | \$5,311 | \$- | \$2,278 | \$ 21,288 | \$- | \$28,877 |
| Accounts receivable, net | - | 10,167 | 69,646 | 8,624 | - | 88,437 |
| Inventories | - | 10,017 | 73,711 | 9,884 | (745 | ) 92,867 |
| Deferred income tax assets | 325 | 826 | 8,812 | 739 | - | 10,702 |
| Prepaid expenses and other current assets | 9,012 | 538 | 8,365 | 815 | - | 18,730 |
| Assets held for sale | - | - | 41,745 | - | - | 41,745 |
| Total current assets | 14,648 | 21,548 | 204,557 | 41,350 | (745 | ) 281,358 |
| Property and equipment, net | 8,624 | 216 | 5,641 | 599 | - | 15,080 |
| Goodwill | - | 66,007 | 268,490 | 22,028 | - | 356,525 |
| Intangible assets, net | - | 191,655 | 1,946,309 | 85,595 | - | 2,223,559 |
| Other long-term assets | - | 1,918 | - | - | - | 1,918 |
| Intercompany receivables | 1,460,733 | 2,664,832 | 1,249,875 | 11,046 | (5,386,486 | - |
| Investment in subsidiary | 1,631,033 | 1,553,227 | 77,679 | - | (3,261,939 ) | ) - |
| Total Assets | \$3,115,038 | \$4,499,403 | \$3,752,551 | \$ 160,618 | \$(8,649,170) | ) $\$ 2,878,440$ |
| Liabilities and Stockholders' Equity Current liabilities |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
| Accounts payable | \$ 1,384 | \$6,922 | \$24,731 | \$ 1,975 | \$- | \$35,012 |
| Accrued interest payable | - | 9,216 | - | - | - | 9,216 |
| Other accrued liabilities | 7,991 | 2,137 | 39,617 | 6,168 | - | 55,913 |
| Total current liabilities | 9,375 | 18,275 | 64,348 | 8,143 | - | 100,141 |
| Long-term debt |  |  |  |  |  |  |
| Principal amount | - | 1,602,500 | - | - | - | 1,602,500 |
| Less unamortized debt costs | - | (25,086 ) | ) - | - | - | (25,086 ) |
| Long-term debt, net | - | 1,577,414 | - | - | - | 1,577,414 |
| Deferred income tax liabilities | - | 60,847 | 399,323 | 387 | - | 460,557 |
| Other long-term liabilities | - | - | 2,682 | 165 | - | 2,847 |
| Intercompany payables | 2,368,182 | 1,243,701 | 1,697,409 | 77,194 | (5,386,486 ) | ) - |
| Total Liabilities | 2,377,557 | 2,900,237 | 2,163,762 | 85,889 | (5,386,486 ) | ) $2,140,959$ |
| Stockholders' Equity Common stock | 532 | - | - | - | - | 532 |

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$\left.\begin{array}{llllllll}\text { Additional paid-in capital } & 451,075 & 1,280,947 & 1,359,921 & 78,774 & (2,719,642 & ) 451,075 \\ \text { Treasury stock, at cost } & (6,558 & )- & - & - & - & (6,558\end{array}\right)$

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Condensed Consolidating Balance Sheet
March 31, 2016

| (In thousands) | Prestige <br> Brands Holdings, Inc. | Prestige <br> Brands, Inc., the issuer | Combined <br> Subsidiary <br> Guarantors | Combined <br> Non- <br> Guarantor <br> Subsidiaries | Eliminations | Consolidated |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Assets |  |  |  |  |  |  |
| Current assets |  |  |  |  |  |  |
| Cash and cash equivalents | \$4,440 | \$- | \$2,899 | \$ 19,891 | \$- | \$27,230 |
| Accounts receivable, net | - | 12,025 | 74,446 | 8,776 | - | 95,247 |
| Inventories | - | 9,411 | 72,296 | 10,088 | (532 ) | ) 91,263 |
| Deferred income tax assets | 316 | 681 | 8,293 | 818 | - | 10,108 |
| Prepaid expenses and other current assets | 15,311 | 257 | 8,379 | 1,218 | - | 25,165 |
| Total current assets | 20,067 | 22,374 | 166,313 | 40,791 | (532 ) | ) 249,013 |
| Property and equipment, net | 9,166 | 210 | 5,528 | 636 | - | 15,540 |
| Goodwill | - | 66,007 | 271,409 | 22,775 | - | 360,191 |
| Intangible assets, net | - | 191,789 | 2,042,640 | 88,294 | - | 2,322,723 |
| Other long-term assets | - | 1,324 | - | - | - | 1,324 |
| Intercompany receivables | 1,457,011 | 2,703,192 | 1,083,488 | 10,738 | (5,254,429 ) | ) - |
| Investment in subsidiary | 1,641,477 | 1,527,718 | 81,545 | - | (3,250,740 ) | ) - |
| Total Assets | \$3,127,721 | \$4,512,614 | \$3,650,923 | \$ 163,234 | \$ $8,505,701$ ) | ) $\$ 2,948,791$ |
| Liabilities and Stockholders' Equity Current liabilities |  |  |  |  |  |  |
| Accounts payable | \$2,914 | \$7,643 | \$24,437 | \$ 3,302 | \$- | \$38,296 |
| Accrued interest payable | - | 8,664 | - | - | - | 8,664 |
| Other accrued liabilities | 12,285 | 1,714 | 38,734 | 6,991 | - | 59,724 |
| Total current liabilities | 15,199 | 18,021 | 63,171 | 10,293 | - | 106,684 |
| Long-term debt |  |  |  |  |  |  |
| Principal amount | - | 1,652,500 | - | - | - | 1,652,500 |
| Less unamortized debt costs | - | (27,191 | ) - | - | - | (27,191 |
| Long-term debt, net | - | 1,625,309 | - | - | - | 1,625,309 |
| Deferred income tax liabilities | - | 60,317 | 408,893 | 412 | - | 469,622 |
| Other long-term liabilities | - | - | 2,682 | 158 | - | 2,840 |
| Intercompany payables | 2,368,186 | 1,241,084 | 1,570,265 | 74,894 | (5,254,429 ) | - |
| Total Liabilities | 2,383,385 | 2,944,731 | 2,045,011 | 85,757 | (5,254,429 ) | ) $2,204,455$ |
| Stockholders' Equity |  |  |  |  |  |  |
| Common stock | 530 | - | - | - | - | 530 |
| Additional paid-in capital | 445,182 | 1,280,947 | 1,359,921 | 78,774 | (2,719,642 ) | ) 445,182 |
| Treasury stock, at cost | (5,163 ) | ) - | - | - | - | (5,163 ) |
| Accumulated other comprehensive income (loss), net of tax | (23,525 ) | ) $(23,525)$ | ) $(23,525$ | ) $(23,525)$ | 70,575 | (23,525 ) |
|  | 327,312 | 310,461 | 269,516 | 22,228 | (602,205 ) | ) 327,312 |

Retained earnings (accumulated deficit)
Total Stockholders' Equity $\quad 744,336 \quad 1,567,883 \quad 1,605,912 \quad 77,477 \quad(3,251,272) 744,336$
Total Liabilities and Stockholders'
Equity
\$3,127,721 $\begin{array}{lllll} & 4,512,614 & \$ 3,650,923 & \$ 163,234 & \$(8,505,701)\end{array} \$ 2,948,791$

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Condensed Consolidating Statement of Cash Flows
Three Months Ended June 30, 2016
(In thousands)

Operating Activities
Net (loss) income
Adjustments to reconcile net (loss) income to net cash provided by operating activities:
Depreciation and amortization
Loss on sale of assets
Deferred income taxes
Amortization of debt origination costs
Stock-based compensation costs
Equity in income of subsidiaries
Changes in operating assets and liabilities, net of effects from acquisitions:
Accounts receivable
Inventories
Prepaid expenses and other current assets
Accounts payable
Accrued liabilities
Net cash provided by operating activities
Investing Activities
Purchases of property and equipment
Net cash used in investing activities

Financing Activities
Term loan repayments
Payments of debt origination costs
Proceeds from exercise of stock options
Excess tax benefits from share-based awards
Fair value of shares surrendered as payment
of tax withholding
Intercompany activity, net
Net cash (used in) provided by financing activities

| Prestige | Prestige |  | Combined | Combined |
| :--- | :--- | :--- | :--- | :--- |
| Brands | Brands, | Non- | Eliminations Consolidated |  |
| Holdings, | Inc., | Guarantors | Guarantor | Eliminations |
| Inc. | the issuer |  | Subsidiaries |  |

$\$(5,531) \$ 37,107 \quad \$(11,299) \$ 3,076 \quad \$(28,884) \$(5,531)$
$\left.\begin{array}{llllll}920 & 151 & 5,633 & 128 & - & 6,832 \\ - & - & 55,453 & - & - & 55,453 \\ (9 & ) 385 & (10,089 & ) 53 & - & (9,660 \quad\end{array}\right)$

| - | 1,858 | 4,800 | $(1,507$ | $)-$ | 5,151 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
| - | $(606$ | $)(3,835$ | $)(99$ | $) 213$ | $(4,327$ | $)$ |
| 6,299 | $(281$ | $)(697$ | $) 376$ | - | 5,697 |  |
| $(1,556$ | $)(721$ | $) 109$ | $(1,233$ | $)-$ | $(3,401$ | $)$ |
| $(4,294$ | $)$ | 975 | 261 | $(576$ | $)-$ | $(3,634$ |
| 3,507 | 9,766 | 37,260 | 218 | - | 50,751 |  |


| $(225$ | $)$ |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- |
| $(225$ | $)$ | $(23$ | $)(596$ | $)(51$ | $)-$ |
| $(596$ | $)(51$ | $)-$ | $(895$ | $)$ |  |

$\left.\begin{array}{lllllll}- & (50,000 & ) & - & - & (50,000 & ) \\ - & (9 & )- & - & - & (9 & ) \\ 3,405 & - & - & - & - & 3,405 & \\ 550 & - & - & - & - & 550 & \\ (1,395 & )- & - & - & - & (1,395 & ) \\ (4,971 & ) & 40,266 & (37,285 & ) 1,990 & - & - \\ (2,411 & )(9,743 & )(37,285 & ) & 1,990 & - & (47,449\end{array}\right)$

Effect of exchange rate changes on cash and cash equivalents
Increase (decrease) in cash and cash
equivalents
Cash and cash equivalents - beginning of period
Cash and cash equivalents - end of period

| - | - | - | $(760$ | $)$ | $(760$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 871 | - | $(621$ | $) 1,397$ | - | 1,647 |
| 4,440 | - | 2,899 | 19,891 | - | 27,230 |
| $\$ 5,311$ | $\$-$ | $\$ 2,278$ | $\$ 21,288$ | $\$-$ | $\$ 28,877$ |

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Condensed Consolidating Statement of Cash Flows
Three Months Ended June 30, 2015
(In thousands)

Operating Activities
Net income (loss)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:
Depreciation and amortization
Gain on sale of asset Deferred income taxes
Amortization of debt origination costs
Stock-based compensation costs
Loss on extinguishment of debt
Equity in income of subsidiaries
Changes in operating assets and liabilities, net of effects from acquisitions:
$\left.\begin{array}{llllllll}\text { Accounts receivable } & - & 3,171 & 735 & (1,328 & ) & 2,578 & (35 \\ \text { Inventories } & - & 1,175 & (1,457 & ) & 106 & (211 & ) \\ \text { Prepaid expenses and other current assets } & (2,152 & )(102 & ) & 722 & 10 & - & (1,522\end{array}\right)$

Investing Activities
$\left.\begin{array}{llllllll}\text { Purchases of property and equipment } & (648 & )- & (27 & )(105 & )- & (780 \\ \begin{array}{l}\text { Proceeds from the sale of property and } \\ \text { equipment }\end{array} & - & - & - & 344 & - & 344 \\ \begin{array}{l}\text { Net cash (used in) provided by investing } \\ \text { activities }\end{array} & (648 & )- & (27 & ) & 239 & - & (436\end{array}\right)$

Financing Activities
$\left.\begin{array}{lllllll}\text { Term loan repayments } & - & (25,000 & - & - & - & (25,000 \\ \text { Borrowings under revolving credit } & - & 15,000 & - & - & - & 15,000 \\ \begin{array}{llllll}\text { agreement }\end{array} & - & (35,000 & - & - & - & (35,000\end{array}\right)$
$\left.\begin{array}{lllllll}\text { Intercompany activity, net } & (4,277 & ) & 37,147 & (33,616 & ) & 746 \\ \begin{array}{l}\text { Net cash (used in) provided by financing } \\ \text { activities }\end{array} & 2,008 & (12,025 & ) & (33,616 & ) & 746 \\ \\ \begin{array}{l}\text { Effect of exchange rate changes on cash } \\ \text { and cash equivalents }\end{array} & - & - & - & - & - & (42,887\end{array}\right)$

## 21. Subsequent Events

Divestitures
Sale of Pediacare, New Skin and Fiber Choice brands
On July 7, 2016, we divested the Pediacare, New Skin and Fiber Choice brands, which were non-core OTC brands. As a result, we received approximately $\$ 40.1$ million including inventory, less certain immaterial holdbacks which will be paid upon meeting certain criteria as defined in the agreement. The proceeds were used to repay debt. We recorded a pre-tax loss of approximately $\$ 55.5$ million as a result of the sale.

Concurrent with the completion of the sale of these brands, we entered into a Transitional Services Agreement with the buyer, whereby we agreed to provide the buyer with various services, including marketing, operations, finance and other services from the date of the acquisition through January 7, 2017. We also entered into an option agreement with the buyer to purchase Dermoplast at a specified earnings multiple as defined in the agreement. The buyer must notify us of its election to purchase the option and pay a $\$ 1.25$ million deposit within ninety days of closing and complete the transaction by December 31, 2017.

Chief Financial Officer Resignation:
On July 14, 2016, David Marberger, our Chief Financial Officer, resigned effective August 5, 2016. Following his resignation, and effective August 5, 2016, Ron Lombardi, our President and Chief Executive Officer and member of the Board of Directors, will succeed Mr. Marberger as interim Chief Financial Officer. The Company has commenced a search for a new Chief Financial Officer.

Royalty Income
Historically, we received royalty income from the licensing of the names of certain of our brands in geographic areas or markets in which we do not directly compete. We have had royalty agreements for our Comet brand for several years, which included options on behalf of the licensee to purchase license rights in certain geographic areas and markets in perpetuity. In December 2014, we amended these agreements and we sold rights to use of the Comet brand in certain Eastern European countries to a third-party licensee in exchange for $\$ 10.0$ million as a partial early buyout. However, we continued to receive royalty payments of $\$ 1.0$ million per quarter for the remaining geographic areas. The amendments also granted the licensee the right to exercise an option to acquire the license rights in the remaining geographic areas anytime after June 30, 2016. In July 2016, the licensee elected to exercise its option, as defined in the amended agreement. As a result, the licensee will no longer be required to make quarterly payments to us and our quarterly royalty income will be reduced by approximately $\$ 0.8$ million beginning in the second quarter of 2017, when we expect to close on this transaction.

## Issuance of Restricted Stock Units

Pursuant to the Plan, each of the independent members of the Board of Directors received a grant of 1,896 restricted stock units on August 2, 2016. The restricted stock units vest on August 2, 2017 and shall be settled by delivery to the director of one share of common stock of the Company for each vested restricted stock unit promptly following the earliest of the director's (i) death, (ii) disability or (iii) the six-month anniversary of the date on which the director's Board membership ceases for reasons other than death or disability.

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

The following discussion of our financial condition and results of operations should be read together with the Consolidated Financial Statements and the related notes included in this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2016. This discussion and analysis may contain
forward-looking statements that involve certain risks, assumptions and uncertainties. Future results could differ materially from the discussion that follows for many reasons, including the factors described in Part I, Item 1A., "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as well as those described in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in future reports filed with the Securities and Exchange Commission (the "SEC").
See also "Cautionary Statement Regarding Forward-Looking Statements" on page 52 of this Quarterly Report on Form 10-Q.

General
We are engaged in the marketing, sales and distribution of well-recognized, brand name OTC healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets, and club, convenience, and dollar stores in North America (the United

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States and Canada) and in Australia and certain other international markets. We use the strength of our brands, our established retail distribution network, a low-cost operating model and our experienced management team to our competitive advantage.

We have grown our brand portfolio both organically and through acquisitions. We develop our existing brands by investing in new product lines, brand extensions and strong advertising support. Acquisitions of OTC brands have also been an important part of our growth strategy. We have acquired strong and well-recognized brands from consumer products, pharmaceutical and private equity companies. While many of these brands have long histories of brand development and investment, we believe that, at the time we acquired them, most were considered "non-core" by their previous owners. As a result, these acquired brands did not benefit from adequate management focus and marketing support during the period prior to their acquisition, which created opportunities for us to reinvigorate these brands and improve their performance post-acquisition. After adding a core brand to our portfolio, we seek to increase its sales, market share and distribution in both existing and new channels through our established retail distribution network. We pursue this growth through increased spending on advertising and promotional support, new sales and marketing strategies, improved packaging and formulations, and innovative development of brand extensions.

## Acquisitions

## Acquisition of DenTek

On February 5, 2016, we completed the acquisition of DenTek Holdings, Inc. ("DenTek"), a privately-held marketer and distributor of specialty oral care products. The closing was finalized pursuant to the terms of the merger agreement, announced November 23, 2015, under which we agreed to acquire DenTek from its stockholders, including TSG Consumer Partners, for a purchase price of $\$ 228.3$ million. The acquisition expands our portfolio of brands, strengthens our existing oral care platform and increases our geographic reach in parts of Europe. We financed the transaction with a combination of available cash on hand, available cash from our Asset Based Loan revolver, and financing of an additional unsecured bridge loan. The DenTek brands are primarily included in our North American and International OTC Healthcare segments.

The DenTek acquisition was accounted for in accordance with the Business Combinations topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 805, 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.

We prepared an analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our preliminary allocation of the assets acquired and liabilities assumed as of the February 5, 2016 acquisition date.

| (In thousands) | February |
| :--- | :--- |
|  | 5,2016 |
| Cash acquired | $\$ 1,359$ |
| Accounts receivable | 9,187 |
| Inventories | 14,304 |
| Deferred income taxes | 3,303 |
| Prepaids and other current assets | 6,728 |
| Property, plant and equipment, net | 3,555 |
| Goodwill | 76,529 |
| Intangible assets, net | 206,700 |
| Total assets acquired | 321,665 |

Accounts payable 3,261
Accrued expenses 16,488
Deferred income tax liabilities - long term 73,573
Total liabilities assumed 93,322
Total purchase price \$228,343

Based on this preliminary analysis, we allocated $\$ 179.8$ million to non-amortizable intangible assets and $\$ 26.9$ million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an

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estimated weighted average useful life of 18.5 years. The weighted average remaining life for amortizable intangible assets at June 30, 2016 was 18.2 years.

We also recorded goodwill of $\$ 76.5$ million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. Goodwill is not deductible for income tax purposes.

The pro forma effect of this acquisition on revenues and earnings was not material.

Loss on Sale of Assets

## Assets Held for Sale

Late in the first quarter of fiscal 2017, the Company was approached and discussed the potential to sell certain assets. Prior to these discussions, the Company did not contemplate any divestitures, and the Company did not commit to any course of action to divest any of the assets until entering into an agreement on June 29, 2016, to sell Pediacare, New Skin and Fiber Choice. The carrying value of Pediacare, New Skin and Fiber Choice at June 30, 2016 (including inventory) was $\$ 24.1$ million, $\$ 30.6$ million, and $\$ 11.4$ million, respectively. The purchase price for all three brands combined was $\$ 40.0$ million plus inventory and included an obligation of the Company to perform certain services on behalf of the buyer for a period of up to six months (the "Transitional Services Agreement" or "TSA") and an option to the buyer to purchase Dermoplast at a specified earnings multiple as defined in the agreement. The Pediacare, New Skin and Fiber Choice brands were reported under the Cough \& Cold, Dermatologicals and Gastrointestinal product groups, respectively, and all these brands were reported under the North American OTC Healthcare segment. This transaction met the criteria as held for sale, and the related assets were measured at the lower of the carrying value or fair value less any costs to sell based on the agreed-upon sales price. As a result, as of June 30, 2016, we recorded the held for sale assets at their estimated fair value and recorded a pre-tax loss on sale of assets of $\$ 55.5$ million.

This transaction closed in July 2016 and as of June 30, 2016, the total assets held for sale, net of the loss recognized, related to Pediacare, New Skin and Fiber Choice were:
(In thousands)
June 30, 2016
Components of assets held for sale:
Inventory $\quad \$ 2,420$
Intangible assets, net 36,405
Goodwill 2,920
Assets held for sale $\$ 41,745$
Refer to Note 21 below for further information. Additionally, we determined that this transaction did not meet the criteria to be classified as discontinued operations under FASB ASC 205.

## Results of Operations

Three Months Ended June 30, 2016 compared to the Three Months Ended June 30, 2015

## Total Segment Revenues

The following table represents total revenue by segment, including product groups, for the three months ended June 30, 2016 and 2015.
$\left.\begin{array}{llllllll} & & & & & \begin{array}{l}\text { Increase } \\ \text { (Decrease) }\end{array} \\ \text { (In thousands) } \\ \text { North American OTC Healthcare } & 2016 & \% & 2015 & \% & & \\ \text { Amount }\end{array}\right)$

International OTC Healthcare

Analgesics
Cough \& Cold
Women's Health
Gastrointestinal
Eye \& Ear Care
Dermatologicals
Oral Care
Other OTC
Total International OTC Healthcare

Total OTC Healthcare
Household Cleaning
Total Consolidated
(*) \% not meaningful

| 527 | 0.3 | 530 | 0.3 | $(3$ | $)(0.6)$ |
| :--- | :--- | :--- | :--- | :--- | :--- |
| 4,392 | 2.1 | 4,506 | 2.3 | $(114$ | $)(2.5)$ |
| 936 | 0.4 | 700 | 0.4 | 236 | 33.7 |
| 4,256 | 2.0 | 3,808 | 2.0 | 448 | 11.8 |
| 2,796 | 1.3 | 3,955 | 2.0 | $(1,159$ | $)(29.3)$ |
| 671 | 0.3 | 534 | 0.3 | 137 | 25.7 |
| 2,217 | 1.1 | 194 | 0.1 | 2,023 | $(*)$ |
| 9 | - | 7 | - | 2 | 28.6 |
| 15,804 | 7.5 | 14,234 | 7.4 | 1,570 | 11.0 |

$\begin{array}{llllll}187,884 & 89.7 & 169,860 & 88.4 & 18,024 & 10.6\end{array}$
21,691 $10.3 \quad 22,272 \quad 11.6$ (581 )(2.6 )
\$209,575 100.0\$192,132 100.0\$17,443 9.1

Total segment revenues for the three months ended June 30 , 2016 were $\$ 209.6$ million, an increase of $\$ 17.4$ million, or $9.1 \%$, versus the three months ended June 30, 2015. This increase was primarily related to an increase in the North American OTC Healthcare segment, largely due to the acquisition of DenTek. The DenTek brands accounted for approximately $\$ 15.0$ million of revenues in the North American OTC Healthcare segment that were not included in the comparable period in the prior year.

North American OTC Healthcare Segment
Revenues for the North American OTC Healthcare segment increased $\$ 16.5$ million, or $10.6 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. This increase was primarily due to the increase of $\$ 13.8$ million in the oral care product group largely due to the acquisition of DenTek.

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In addition to the revenue increases contributed by DenTek, there was an increase of $\$ 1.4$ million in revenue, primarily consisting of increases in the dermatologicals, eye \& ear care and analgesics product groups, which was partially offset by decreases in the cough \& cold, gastrointestinal and oral care product groups.

## International OTC Healthcare Segment

Revenues for the International OTC Healthcare segment increased $\$ 1.6$ million, or $11.0 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. This increase was primarily due to an increase of $\$ 2.0$ million in the oral care product group largely due to the acquisition of DenTek.

In addition to the revenue increases contributed by DenTek, there was a decrease of $\$ 0.4$ million in revenue, primarily consisting of decreases in the eye \& ear care, cough \& cold and oral care product groups, which was partially offset by increases in the gastrointestinal, women's health and dermatologicals product groups.

## Household Cleaning Segment

Revenues for the Household Cleaning segment decreased by $\$ 0.6$ million, or $2.6 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. This decrease was primarily attributable to decreased sales in certain distribution channels.

## Cost of Sales

The following table presents our cost of sales and cost of sales as a percentage of total segment revenues, by segment for each of the periods presented.

Three Months Ended June 30,

| (In thousands) |  |  |  |  | Increase <br> (Decrease) |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :---: | :---: | :---: |
| Cost of Sales | 2016 | $\%$ | 2015 | $\%$ | Amount $\%$ |  |  |  |  |

Cost of sales increased $\$ 8.1$ million, or $10.1 \%$, during the three months ended June 30,2016 versus the three months ended June 30, 2015. This increase was largely due to an increase in the North American OTC Healthcare segment. As a percentage of total revenue, cost of sales increased to $42.0 \%$ in the three months ended June 30, 2016 from $41.6 \%$ in the three months ended June 30, 2015. This increase in cost of sales as a percentage of revenues was primarily the result of an unfavorable product mix in the North American OTC Healthcare and Household Cleaning segments.

## North American OTC Healthcare Segment

Cost of sales for the North American OTC Healthcare segment increased $\$ 7.2$ million, or $12.3 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. This cost of sales increase was due to higher overall sales volume primarily attributable to the acquisition of DenTek. As a percentage of the North American OTC Healthcare revenues, cost of sales increased slightly to $38.2 \%$ during the three months ended June 30, 2016 from 37.6\% during the three months ended June 30, 2015.

## International OTC Healthcare Segment

Cost of sales for the International OTC Healthcare segment increased $\$ 0.6$ million, or $11.2 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. This cost of sales increase was due to higher overall sales volume primarily attributable to the acquisition of DenTek. As a percentage of the International OTC Healthcare revenues, cost of sales remained relatively consistent at $34.6 \%$ during the three months ended June 30,

2016 from 34.5\% during the three months ended June 30, 2015.

## Household Cleaning Segment

Cost of sales for the Household Cleaning segment increased $\$ 0.3$ million, or $2.0 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. As a percentage of Household Cleaning revenues, cost of sales increased to $77.5 \%$ during the three months ended June 30, 2016 from $74.0 \%$ during the three months ended June 30, 2015. This increase in cost of sales as a percentage of revenues was primarily attributable to an unfavorable product mix.

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Gross Profit
The following table presents our gross profit and gross profit as a percentage of total segment revenues, by segment for each of the periods presented.

Three Months Ended June 30,

| (In thousands) |  |  |  | Increase (Decrease) |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Gross Profit | 2016 | \% | 2015 | \% | Amount |  |
| North American OTC Healthcare | \$ 106,362 | 61.8 | \$97,123 | 62.4 | \$9,239 | 9.5 |
| International OTC Healthcare | 10,340 | 65.4 | 9,321 | 65.5 | 1,019 | 10.9 |
| Household Cleaning | 4,889 | 22.5 | 5,792 | 26.0 | (903 | (15.6) |
|  | \$ 121,591 | 58.0 | \$ 112,236 | 58.4 | \$9,355 | 8.3 |

Gross profit for the three months ended June 30, 2016 increased $\$ 9.4$ million, or $8.3 \%$, when compared with the three months ended June 30, 2015. As a percentage of total revenues, gross profit decreased to $58.0 \%$ in the three months ended June 30, 2016 from $58.4 \%$ in the three months ended June 30, 2015. The decrease in gross profit as a percentage of revenues was primarily due to the decreases in gross margin in the Household Cleaning segment.

North American OTC Healthcare Segment
Gross profit for the North American OTC Healthcare segment increased $\$ 9.2$ million, or $9.5 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. The increase was due to higher overall sales volume, primarily attributable to the acquisition of DenTek. As a percentage of North American OTC Healthcare revenues, gross profit decreased to $61.8 \%$ during the three months ended June 30, 2016 from $62.4 \%$ during the three months ended June 30, 2015.

International OTC Healthcare Segment
Gross profit for the International OTC Healthcare segment increased $\$ 1.0$ million, or $10.9 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. The increase was due to higher overall sales volume, primarily attributable to the acquisition of DenTek. As a percentage of International OTC Healthcare revenues, gross profit was relatively consistent at $65.4 \%$ during the three months ended June 30, 2016 from $65.5 \%$ during the three months ended June 30, 2015.

## Household Cleaning Segment

Gross profit for the Household Cleaning segment decreased $\$ 0.9$ million, or $15.6 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. As a percentage of Household Cleaning revenue, gross profit decreased to $22.5 \%$ during the three months ended June 30, 2016 from $26.0 \%$ during the three months ended June 30, 2015. As discussed above, the decrease in gross profit as a percentage of revenues was primarily attributable to decreased sales in certain distribution channels and an unfavorable product mix.

## Contribution Margin

The following table presents our contribution margin and contribution margin as a percentage of total segment revenues, by segment for each of the periods presented.

Three Months Ended June 30,
(In thousands)
Contribution Margin $2016 \quad \% \quad 2015 \quad \% \quad$ Amount \%
North American OTC Healthcare $\$ 81,32247.3$ \$73,928 $47.5 \$ 7,39410.0$
$\begin{array}{lllllll}\text { International OTC Healthcare } & 8,216 & 52.0 & 6,598 & 46.4 & 1,618 & 24.5\end{array}$
$\left.\begin{array}{lclll} & \text { Edgar Filing: Prestige Brands Holdings, Inc. - Form 10-Q } \\ \text { Household Cleaning } & 4,418 & 20.4 & 5,288 & 23.7(870\end{array}\right)(16.5)$

Contribution margin is a non-GAAP financial measure that we use as a primary measure for evaluating segment performance. It is defined as gross profit less advertising and promotional expenses. Contribution margin increased $\$ 8.1$ million, or $9.5 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. This increase was primarily related to the increase in gross profit in the North American OTC Healthcare segment.

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## North American OTC Healthcare Segment

Contribution margin for the North American OTC Healthcare segment increased $\$ 7.4$ million, or $10.0 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. The contribution margin increase was primarily the result of higher sales volumes and gross profit attributable to the acquisition of DenTek. As a percentage of North American OTC Healthcare revenues, contribution margin remained relatively consistent at $47.3 \%$ during the three months ended June 30, 2016 from 47.5\% during the three months ended June 30, 2015.

International OTC Healthcare Segment
Contribution margin for the International OTC Healthcare segment increased $\$ 1.6$ million, or $24.5 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. The contribution margin increase was primarily the result of higher sales volumes and gross profit attributable to the acquisition of DenTek. As a percentage of International OTC Healthcare revenues, contribution margin increased to $52.0 \%$ during the three months ended June 30, 2016 from $46.4 \%$ during the three months ended June 30, 2015. This increase in contribution margin as a percentage of revenues was primarily the result of the increase in gross profit as a percentage of revenues discussed above.

## Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased $\$ 0.9$ million, or $16.5 \%$, during the three months ended June 30, 2016 versus the three months ended June 30, 2015. As a percentage of Household Cleaning revenues, contribution margin decreased to $20.4 \%$ during the three months ended June 30,2016 from $23.7 \%$ during the three months ended June 30, 2015. The contribution margin decrease as a percentage of revenues was primarily due to the gross profit decrease as a percentage of revenues in the Household Cleaning segment discussed above.

General and Administrative
General and administrative expenses were $\$ 19.5$ million for the three months ended June 30,2016 versus $\$ 17.6$ million for the three months ended June 30, 2015. The increase in general and administrative expenses was primarily due to an increase in compensation, acquisition and divestiture costs associated with the acquisition of DenTek and the costs associated with the agreement to sell Pediacare, Fiber Choice and New Skin.

Depreciation and Amortization
Depreciation and amortization expense was $\$ 6.8$ million and $\$ 5.7$ million for the three months ended June 30,2016 and 2015, respectively. The increase in depreciation and amortization expense was primarily due to higher intangible asset amortization during 2017 related to the intangible assets acquired as a result of the DenTek acquisition.

## Interest Expense

Net interest expense was $\$ 21.2$ million during the three months ended June 30,2016 versus $\$ 21.9$ million during the three months ended June 30, 2015. The decrease in net interest expense was primarily attributable to the issuance of the $\$ 350.0$ million aggregate principal amount of $6.375 \%$ senior notes due 2024 (the " 2016 Senior Notes") and the redemption of the $8.125 \%$ senior notes due 2020 (the " 2012 Senior Notes") during the fourth quarter of 2016, as the interest rate for the 2016 Senior Notes is $6.375 \%$ versus the interest rate of $8.125 \%$ for the 2012 Senior Notes. The average indebtedness remained consistent at $\$ 1.6$ billion during the three months ended June 30, 2016 and 2015.

## Loss on Sale of Assets

Late in the first quarter of fiscal 2017, the Company was approached and discussed the potential to sell certain assets. Prior to these discussions, the Company did not contemplate any divestitures, and the Company did not commit to any course of action to divest any of the assets until entering into an agreement on June 29, 2016, to sell Pediacare, New Skin and Fiber Choice. The carrying value of Pediacare, New Skin and Fiber Choice at June 30, 2016 (including inventory) was $\$ 24.1$ million, $\$ 30.6$ million, and $\$ 11.4$ million, respectively. The purchase price for all three brands combined was $\$ 40.0$ million plus inventory and included a TSA obligation of the Company to perform certain

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services on behalf of the buyer for a period of up to six months and an option to the buyer to purchase Dermoplast at a specified earnings multiple as defined in the agreement. The Pediacare, New Skin and Fiber Choice brands were reported under the Cough \& Cold, Dermatologicals and Gastrointestinal product groups, respectively, and all these brands were reported under the North American OTC Healthcare segment. This transaction met the criteria as held for sale, and the related assets were measured at the lower of the carrying value or fair value less any costs to sell based on the agreed-upon sales price. As a result, as of June 30, 2016, we recorded the held for sale assets at their estimated fair value and recorded a pre-tax loss on sale of assets of $\$ 55.5$ million.

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## Income Taxes

The benefit for income taxes during the three months ended June 30 , 2016 was $\$ 3.4$ million versus a provision for income taxes of $\$ 14.0$ million during the three months ended June 30, 2015. The effective tax rate during the three months ended June 30, 2016 was $37.9 \%$ versus $34.8 \%$ during the three months ended June 30, 2015. The increase in the effective tax rate for the three months ended June 30, 2016 versus the three months ended June 30, 2015 was primarily due to the impact of certain non-deductible items in the current year period related to the agreement to sell Pediacare, New Skin and Fiber Choice. The estimated effective tax rate for the remaining quarters of the fiscal year ending March 31, 2017 is expected to be approximately $35.5 \%$, excluding the impact of acquisitions and discrete items that may occur.

## Liquidity and Capital Resources

## Liquidity

Our primary source of cash comes from our cash flow from operations. In the past, we have supplemented this source of cash with various debt facilities, primarily in connection with acquisitions. We have financed our operations, and expect to continue to finance our operations over the next twelve months, with a combination of borrowings and funds generated from operations. Our principal uses of cash are for operating expenses, debt service, acquisitions, working capital and capital expenditures. Based on our current levels of operations and anticipated growth, excluding acquisitions, we believe that our cash generated from operations and our existing credit facilities, will be adequate to finance our working capital and capital expenditures through the next twelve months, although no assurance can be given in this regard.

The following table summarizes our cash provided by (used in) operating activities, investing activities and financing activities as reported in our consolidated statements of cash flows in the accompanying Consolidated Financial Statements.


## Operating Activities

Net cash provided by operating activities was $\$ 50.8$ million for the three months ended June 30, 2016 compared to $\$ 43.5$ million for the three months ended June 30, 2015. The $\$ 7.2$ million increase in net cash provided by operating activities was primarily due to an increase in non-cash charges of $\$ 33.9$ million and an increase in working capital of $\$ 5.0$ million, partially offset by a decrease in net income of $\$ 31.7$ million. The decrease in net income was due to a loss on sale of assets associated with the agreement to sell Pediacare, New Skin and Fiber Choice.

Working capital is defined as current assets (excluding cash and cash equivalents) minus current liabilities. Working capital increased in the three months ended June 30, 2016 compared to the three months ended June 30, 2015 as a result of a decrease in the year-over-year change in prepaid expenses and other current assets and accounts receivable of $\$ 7.2$ million and $\$ 2.6$ million, respectively, and an increase in accrued liabilities of $\$ 3.5$ million. These increases were partially offset by a decrease in the year-over-year change in accounts payable of $\$ 4.2$ million and an increase in the year-over-year change in inventory of $\$ 4.1$ million.

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Non-cash charges increased $\$ 33.9$ million for the three months ended June 30, 2016 compared to the three months ended June 30, 2015, primarily due to a pre-tax loss on sale of assets of $\$ 55.5$ million associated with loss on sale of assets discussed above. This increase was slightly offset by a decrease in deferred income taxes of $\$ 21.2$ million due to the sale of assets discussed above.

## Investing Activities

Net cash used in investing activities increased slightly to $\$ 0.9$ million for the three months ended June 30, 2016 compared to net cash used in investing activities of $\$ 0.4$ million for the three months ended June 30, 2015.

Financing Activities
Net cash used in financing activities was $\$ 47.4$ million for the three months ended June 30, 2016 compared to net cash used in financing activities of $\$ 42.9$ million for the three months ended June 30, 2015. The change was primarily due to an increase in term loan repayments of $\$ 25.0$ million year-over-year, offset partially by a decrease in net repayments under our existing credit facilities of $\$ 20.0$ million in the current year period.

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## Capital Resources

## 2012 Term Loan and 2012 ABL Revolver:

On January 31, 2012, Prestige Brands Holdings, Inc. (the "Borrower") entered into a new senior secured credit facility, which consists of (i) a $\$ 660.0$ million term loan facility (the " 2012 Term Loan") with a 7 -year maturity and (ii) a $\$ 50.0$ million asset-based revolving credit facility (the "2012 ABL Revolver") with a 5 -year maturity. In subsequent years, we have utilized portions of our accordion feature to increase the amount of our borrowing capacity under the 2012 ABL Revolver by $\$ 85.0$ million to $\$ 135.0$ million and reduced our borrowing rate on the 2012 ABL Revolver by $0.25 \%$ (discussed below). The 2012 Term Loan was issued with an original issue discount of $1.5 \%$ of the principal amount thereof, resulting in net proceeds to the Borrower of $\$ 650.1$ million. In connection with these loan facilities, we incurred $\$ 20.6$ million of costs, which were capitalized as deferred financing costs and are being amortized over the terms of the facilities. The 2012 Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic $100 \%$ owned subsidiaries, other than 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 or to make payments to the Borrower or Prestige Brands Holdings, Inc. (the "Company").

On February 21, 2013, we entered into Amendment No. 1 ("Term Loan Amendment No. 1") to the 2012 Term Loan. Term Loan Amendment No. 1 provided for the refinancing of all of the Borrower's existing Term B Loans with new Term B-1 Loans (the "Term B-1 Loans"). The interest rate on the Term B-1 Loans under Term Loan Amendment No. 1 was based, at the Borrower's option, on a LIBOR rate plus a margin of $2.75 \%$ per annum, with a LIBOR floor of $1.00 \%$, or an alternate base rate, with a floor of $2.00 \%$, plus a margin. The new Term B-1 Loans would have matured on the same date as the Term B Loans' original maturity date. In addition, Term Loan Amendment No. 1 provided the Borrower with certain additional capacity to prepay subordinated debt, the 2012 Senior Notes and certain other unsecured indebtedness permitted to be incurred under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver. In connection with Term Loan Amendment No. 1, during the fourth quarter ended March 31, 2013, we recognized a $\$ 1.4$ million loss on the extinguishment of debt.

On September 3, 2014, we entered into Amendment No. 2 ("Term Loan Amendment No. 2") to the 2012 Term Loan. Term Loan Amendment No. 2 provided for (i) the creation of a new class of Term B-2 Loans under the 2012 Term Loan (the "Term B-2 Loans") in an aggregate principal amount of $\$ 720.0$ million, (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility and financial maintenance covenant relief, and (iii) an interest rate on (x) the Term B-1 Loans that was based, at our option, on a LIBOR rate plus a margin of $3.125 \%$ per annum, with a LIBOR floor of $1.00 \%$, or an alternate base rate, with a floor of $2.00 \%$, plus a margin, and (y) the Term B-2 Loans that was based, at our option, on a LIBOR rate plus a margin of $3.50 \%$ per annum, with a LIBOR floor of $1.00 \%$, or an alternate base rate, with a floor of $2.00 \%$, plus a margin (with a margin step-down to $3.25 \%$ per annum, based upon achievement of a specified secured net leverage ratio).

Also, on September 3, 2014, the Borrower entered into Amendment No. 3 ("ABL Amendment No. 3") to the 2012 ABL revolver. ABL Amendment No. 3 provides for (i) a $\$ 40.0$ million increase in revolving commitments under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility. Borrowings under the 2012 ABL Revolver, as amended, bear interest at a rate per annum equal to an applicable margin, plus, at the Borrower's option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus $0.50 \%$, (b) the prime rate of Citibank, N.A., and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus $1.00 \%$ or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs. The applicable margin for borrowings under the 2012 ABL Revolver may be increased to $2.00 \%$ or $2.25 \%$ for LIBOR borrowings and $1.00 \%$ or $1.25 \%$ for base-rate borrowings,
depending on average excess availability under the 2012 ABL Revolver during the prior fiscal quarter. In addition to paying interest on outstanding principal under the 2012 ABL Revolver, we are required to pay a commitment fee to the lenders under the 2012 ABL Revolver in respect of the unutilized commitments thereunder. The initial commitment fee rate is $0.50 \%$ per annum. The commitment fee rate will be reduced to $0.375 \%$ per annum at any time when the average daily unused commitments for the prior quarter is less than a percentage of total commitments by an amount set forth in the credit agreement covering the 2012 ABL Revolver. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty.

On May 8, 2015, we entered into Amendment No. 3 ("Term Loan Amendment No. 3") to the 2012 Term Loan. Term Loan Amendment No. 3 provides for (i) the creation of a new class of Term B-3 Loans under the 2012 Term Loan (the "Term B-3 Loans") in an aggregate principal amount of $\$ 852.5$ million, which combined the outstanding balances of the Term B-1 Loans of $\$ 207.5$ million and the Term B-2 Loans of $\$ 645.0$ million, and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief. The maturity date of the Term B-3 Loans remains the same as the Term B-2 Loans' original maturity date of September 3, 2021.

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The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus $0.50 \%$, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus $1.00 \%$ and (d) a floor of $1.75 \%$ or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of $0.75 \%$. For the three months ended June 30, 2016, the average interest rate on the 2012 Term Loan was $4.7 \%$.

Under the 2012 Term Loan, the Borrower was originally required to make quarterly payments each equal to $0.25 \%$ of the original principal amount of the 2012 Term Loan, with the balance expected to be due on the seventh anniversary of the closing date. However, since the Borrower has previously made significant optional payments that exceeded all of our required quarterly payments, the Borrower will not be required to make another payment until the maturity date of March 31, 2019.

On June 9, 2015, we entered into Amendment No. 4 ("ABL Amendment No. 4") to the 2012 ABL Revolver. ABL Amendment No. 4 provides for (i) a $\$ 35.0$ million increase in the accordion feature under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 ABL Revolver, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief and (iii) extended the maturity date of the 2012 ABL Revolver to June 9, 2020, which is five years from the effective date. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the three months ended June 30, 2016, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was $2.2 \%$.
In connection with the DenTek acquisition on February 5, 2016, we entered into Amendment No. 5 ("ABL Amendment No. 5") to the 2012 ABL Revolver. ABL Amendment No. 5 temporarily suspended certain financial and related reporting covenants in the 2012 ABL Revolver until the earliest of (i) the date that is 60 calendar days following February 4, 2016, (ii) the date upon which certain of DenTek's assets are included in the Company's borrowing base under the 2012 ABL Revolver and (iii) the date upon which the Company receives net proceeds from an offering of debt securities.

## 2013 Senior Notes:

On December 17, 2013, the Borrower issued $\$ 400.0$ million of senior unsecured notes, with an interest rate of $5.375 \%$ and a maturity date of December 15, 2021 (the "2013 Senior Notes"). The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its $100 \%$ domestic owned subsidiaries, other than 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 or to make payments to the Borrower or the Company. In connection with the 2013 Senior Notes offering, we incurred $\$ 7.2$ million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2013 Senior Notes.

## 2016 Senior Notes:

On February 19, 2016, the Borrower completed the sale of $\$ 350.0$ million aggregate principal amount of $6.375 \%$ senior notes due 2024 (the "2016 Senior Notes"), pursuant to a purchase agreement, dated February 16, 2016, among the Borrower, the guarantors party thereto (the "Guarantors") and the initial purchasers party thereto. The 2016 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic $100 \%$ owned subsidiaries, other than 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 or to make payments to the Borrower or the Company. In connection with the 2016 Senior Notes offering, we incurred $\$ 5.5$ million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2016 Senior Notes.

The 2016 Senior Notes were issued pursuant to an indenture, dated February 19, 2016 (the "Indenture"). The Indenture provides, among other things, that interest will be payable on the 2016 Senior Notes on March 1 and September 1 of each year, beginning on September 1, 2016, until their maturity date of March 1, 2024. The 2016 Senior Notes are senior unsecured obligations of the Borrower.

Redemptions and Restrictions:
At any time prior to December 15, 2016, we have the option to redeem the 2013 Senior Notes in whole or in part at a redemption price equal to $100 \%$ of the principal amount of notes redeemed, plus an applicable "make-whole premium" calculated as set forth in the indenture governing the 2013 Senior Notes, together with accrued and unpaid interest, if any, to the date of redemption. On or after December 15, 2016, we have the option to redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. In addition, at any time prior to December 15, 2016, we have to the option to redeem up to $35 \%$ of the aggregate principal amount of the 2013 Senior Notes at a redemption price equal to $105.375 \%$ of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of certain equity offerings, provided that certain conditions are met. Subject to certain limitations, in the event of a change of control, as

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defined in the indenture governing the 2013 Senior Notes, the Borrower will be required to make an offer to purchase the 2013 Senior Notes at a price equal to $101 \%$ of the aggregate principal amount of the 2013 Senior Notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

The Borrower has the option to redeem all or a portion of the 2016 Senior Notes at any time on or after March 1, 2019 at the redemption prices set forth in the Indenture, plus accrued and unpaid interest, if any. The Borrower may also redeem all or any portion of the 2016 Senior Notes at any time prior to March 1, 2019, at a price equal to $100 \%$ of the aggregate principal amount of the notes redeemed, plus an applicable "make-whole premium" calculated as set forth in the Indenture, and accrued and unpaid interest, if any, to the date of redemption. In addition, before March 1, 2019, the Borrower may redeem up to $40 \%$ of the aggregate principal amount of the 2016 Senior Notes with the net proceeds of certain equity offerings at the redemption price set forth in the Indenture, provided that certain conditions are met. Subject to certain limitations, in the event of a change of control, as defined in the Indenture, the Borrower will be required to make an offer to purchase the 2016 Senior Notes at a price equal to $101 \%$ of the aggregate principal amount of the notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

As of June 30, 2016, we had an aggregate of $\$ 1,602.5$ million of outstanding indebtedness, which consisted of the following:
\$400.0 million of 5.375\% 2013 Senior Notes due 2021;
$\$ 350.0$ million of $6.375 \%$ 2016 Senior Notes due 2024;
$\$ 767.5$ million of borrowings under the Term B-3 Loans; and
$\$ 85.0$ million of borrowings under the 2012 ABL Revolver.
As of June 30, 2016, we had $\$ 38.6$ million of borrowing capacity under the 2012 ABL Revolver.
As we deem appropriate, we may from time to time utilize derivative financial instruments to mitigate the impact of changing interest rates associated with our long-term debt obligations or other derivative financial instruments. While we have utilized derivative financial instruments in the past, we did not have any significant derivative financial instruments outstanding at either June 30, 2016 or March 31, 2016 or during any of the periods presented. We have not entered into derivative financial instruments for trading purposes; all of our derivatives were over-the-counter instruments with liquid markets.

Our debt facilities contain various financial covenants, including provisions that require us to maintain certain leverage, interest coverage and fixed charge ratios. The credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and 2016 Senior Notes contain provisions that accelerate our indebtedness on certain changes in control and restrict us from undertaking specified corporate actions, including asset dispositions, acquisitions, payment of dividends and other specified payments, repurchasing our equity securities in the public markets, incurrence of indebtedness, creation of liens, making loans and investments and transactions with affiliates. Specifically, we must:

Have a leverage ratio of less than 6.75 to 1.0 for the quarter ended June 30, 2016 (defined as, with certain adjustments, the ratio of our consolidated total net debt as of the last day of the fiscal quarter to our trailing twelve month consolidated net income before interest, taxes, depreciation, amortization, non-cash charges and certain other items ("EBITDA")). Our leverage ratio requirement decreases over time to 3.75 to 1.0 for the quarter ending March 31, 2019 and remains level thereafter;

Have an interest coverage ratio of greater than 2.50 to 1.0 for the quarter ended June 30, 2016 (defined as, with certain adjustments, the ratio of our consolidated EBITDA to our trailing twelve month consolidated cash interest expense). Our interest coverage requirement increases over time to 3.50 to 1.0 for the quarter ending March 31, 2018 and
remains level thereafter; and
Have a fixed charge ratio of greater than 1.0 to 1.0 for the quarter ended June 30, 2016 (defined as, with certain adjustments, the ratio of our consolidated EBITDA minus capital expenditures to our trailing twelve month consolidated interest paid, taxes paid and other specified payments). Our fixed charge requirement remains level throughout the term of the agreement.

At June 30, 2016, we were in compliance with the applicable financial and restrictive covenants under the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2016 Senior Notes. Additionally, management anticipates that in the normal course of operations, we will be in compliance with the financial and restrictive covenants during the remainder of 2017. During the years ended March 31, 2016, 2015 and 2014, we made voluntary principal payments against outstanding indebtedness of $\$ 60.0$ million, $\$ 130.0$ million and $\$ 157.5$ million, respectively, under the 2012 Term Loan. Under Term Loan Amendment No. 2, we were required to make quarterly payments each equal to $0.25 \%$ of the original principal amount of the Term B-2 Loans, with the balance expected to be due on the seventh anniversary of the closing date. However, since we

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entered into Term Loan Amendment No. 3, we are required to make quarterly payments each equal to $0.25 \%$ of the aggregate principal amount of $\$ 852.5$ million. Since we have previously made optional payments that exceeded a significant portion of our required quarterly payments, we will not be required to make another payment until the fiscal year ending March 31, 2019.


## 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 and financial condition. Although we do not believe that inflation has had a material impact on our financial condition or results from operations for the three months ended June 30, 2016, a high rate of inflation in the future could have a material adverse effect on our financial condition or results from operations. More volatility in crude oil prices may have an adverse impact on transportation costs, as well as certain petroleum based raw materials and packaging material. Although we make efforts to minimize the impact of inflationary factors, including raising prices to our customers, a high rate of pricing volatility associated with crude oil supplies or other raw materials used in our products may have an adverse effect on our operating results.

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## Critical Accounting Policies and Estimates

Our significant accounting policies are described in the notes to the unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016. While all significant accounting policies are important to our Consolidated Financial Statements, certain 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 results of operations and require our most difficult, subjective and complex estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, or the related disclosure of contingent assets and liabilities. These estimates are based on 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. The most critical accounting policies are as follows:

## Revenue Recognition

We recognize revenue when the following revenue recognition 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. We have determined that these criteria are met and the transfer of risk of loss generally occurs when product is received by the customer, and, accordingly we recognize 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 our historical experience.

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our 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 our 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 promotional offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. We recognize the cost of such sales incentives by recording an estimate of such cost as a reduction of revenue, at the later of (a) the date the related revenue is recognized, or (b) the date when a particular sales incentive is offered. At the completion of the promotional program, these estimated amounts are adjusted to actual amounts. Our related promotional expense for the fiscal year ended March 31, 2016 was $\$ 56.4$ million. For the three months ended June 30, 2016, our related promotional expense was $\$ 14.4$ million. We believe that the estimation methodologies employed, combined with the nature of the promotional campaigns, make the likelihood remote that our obligation would be misstated by a material amount. However, for illustrative purposes, had we underestimated the promotional program rate by $10 \%$ for the fiscal year ended March 31, 2016, our sales and operating income would have been reduced by approximately $\$ 5.6$ million. Net income would have been adversely affected by approximately $\$ 3.6$ million. Similarly, had we underestimated the promotional program rate by $10 \%$ for the three months ended June 30, 2016, our sales and operating income would have been adversely affected by approximately $\$ 1.4$ million. Net income would have been adversely affected by approximately $\$ 0.9$ million for the three months ended June 30, 2016.

We also periodically run coupon programs in Sunday newspaper inserts, on our product websites, or as on-package instant redeemable coupons. We utilize a national clearing house to process coupons redeemed by customers. At the time a coupon is distributed, a provision is made based upon historical redemption rates for that particular product, information provided as a result of the clearing house's experience with coupons of similar dollar value, the length of time the coupon is valid, and the seasonality of the coupon drop, among other factors. For the fiscal year ended March 31, 2016, we had 395 coupon events. The amount recorded against revenues and accrued for these events during 2016 was $\$ 5.6$ million. Cash settlement of coupon redemptions during 2016 was $\$ 3.5$ million. During the three months ended June 30, 2016, we had 161 coupon events. The amount recorded against revenue and accrued for these events during the three months ended June 30,2016 was $\$ 2.6$ million. Cash settlement of coupon redemptions during
the three months ended June 30, 2016 was $\$ 0.5$ million.
Allowances for Product Returns
Due to the nature of the consumer products industry, we are required to estimate future product returns. Accordingly, we record an estimate of product returns concurrent with recording sales. Such estimates are made after analyzing (i) historical return rates, (ii) current economic trends, (iii) changes in customer demand, (iv) product acceptance, (v) seasonality of our product offerings, and (vi) the impact of changes in product formulation, packaging and advertising.

We construct our returns analysis by looking at the previous year's return history for each brand. Subsequently, each month, we estimate our current return rate based upon an average of the previous twelve months' return rate and review that calculated rate for reasonableness, giving consideration to the other factors described above. Our historical return rate has been relatively stable; for example, for the years ended March 31, 2016, 2015 and 2014, returns represented $3.7 \%, 4.2 \%$ and $2.2 \%$, respectively, of gross sales. For the three months June 30, 2016, product returns represented 3.5\% of gross sales. At June 30, 2016 and March 31, 2016, the allowance for sales returns and cash discounts was $\$ 10.2$ million and $\$ 10.7$ million, respectively.

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While we utilize the methodology described above to estimate product returns, actual results may differ materially from our estimates, causing our future financial results to be adversely affected. Among the factors that could cause a material change in the estimated return rate would be significant unexpected returns with respect to a product or products that comprise a significant portion of our revenues. Based on the methodology described above and our actual returns experience, management believes the likelihood of such an event remains remote. As noted, over the last three years our actual product return rate has stayed within a range of $2.2 \%$ to $4.2 \%$ of gross sales. However, a hypothetical increase of $0.1 \%$ in our estimated return rate as a percentage of gross sales would have adversely affected our reported sales and operating income for the fiscal year ended March 31, 2016 by approximately $\$ 0.9$ million. Net income would have been reduced by approximately $\$ 0.6$ million. A hypothetical increase of $0.1 \%$ in our estimated return rate as a percentage of gross sales for the three months ended June 30, 2016 would have reduced our reported sales and operating income by approximately $\$ 0.2$ million. Net income would have been reduced by approximately $\$ 0.2$ million.

## Lower of Cost or Market for Obsolete and Damaged Inventory

We value our inventory at the lower of cost or market value. Accordingly, we reduce our 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.

Many of our products are subject to expiration dating. As a general rule, our customers will not accept goods with expiration dating of less than 12 months from the date of delivery. To monitor this risk, management utilizes a detailed compilation of inventory with expiration dating between zero and 15 months and reserves for $100 \%$ of the cost of any item with expiration dating of 12 months or less. Inventory obsolescence costs charged to operations were $\$ 2.6$ million for the fiscal year ended March 31, 2016, while for the three months ended June 30, 2016, we recorded obsolescence costs of $\$ 0.7$ million. A hypothetical increase of $1.0 \%$ in our allowance for obsolescence at March 31, 2016 would have adversely affected our reported operating income and net income for the fiscal year ended March 31, 2016 by less than $\$ 0.1$ million. Similarly, a hypothetical increase of $1.0 \%$ in our obsolescence allowance for the three months ended June 30, 2016 would have adversely affected each of our reported operating income and net income by less than $\$ 0.1$ million.

Allowance for Doubtful Accounts
In the ordinary course of business, we grant non-interest bearing trade credit to our customers on normal credit terms. We maintain an allowance for doubtful accounts receivable, which is based upon our historical collection experience and expected collectability of the accounts receivable. In an effort to reduce our credit risk, we (i) establish credit limits for all of our customer relationships, (ii) perform ongoing credit evaluations of our customers' financial condition, (iii) monitor the payment history and aging of our customers' receivables, and (iv) monitor open orders against an individual customer's outstanding receivable balance.

We establish specific reserves for those accounts which file for bankruptcy, have no payment activity for 180 days, or have reported major negative changes to their financial condition. The allowance for bad debts amounted to $0.8 \%$ of accounts receivable at June 30, 2016 and March 31, 2016. Bad debt expense for the fiscal year ended March 31, 2016 was approximately $\$ 0.1$ million, while during the three months ended June 30, 2016, we recorded bad debt expense of less than $\$ 0.1$ million.

While management believes that it is diligent in its evaluation of the adequacy of the allowance for doubtful accounts, an unexpected event, such as the bankruptcy filing of a major customer, could have an adverse effect on our future
financial results. A hypothetical increase of $0.1 \%$ in our bad debt expense as a percentage of sales during the fiscal year ended March 31, 2016 would have resulted in a decrease in each of reported operating income and reported net income of less than $\$ 0.1$ million. Similarly, a hypothetical increase of $0.1 \%$ in our bad debt expense as a percentage of sales for the three months ended June 30, 2016 would have resulted in a decrease in each of reported operating income and reported net income of less than $\$ 0.1$ million.

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Valuation of Intangible Assets and Goodwill
Goodwill and intangible assets amounted to $\$ 2,580.1$ million and $\$ 2,682.9$ million at June 30, 2016 and March 31, 2016, respectively. At June 30, 2016, goodwill and intangible assets were apportioned among our three operating segments as follows:

| (In thousands) | North <br> American <br> OTC <br> Healthcare | International <br> OTC <br> Healthcare | Household Cleaning | Consolidated |
| :---: | :---: | :---: | :---: | :---: |
| Goodwill | \$327,695 | \$ 22,030 | \$6,800 | \$ 356,525 |
| Intangible assets, net |  |  |  |  |
| Indefinite-lived: |  |  |  |  |
| Analgesics | 308,205 | 2,009 | - | 310,214 |
| Cough \& Cold | 138,946 | 18,681 | - | 157,627 |
| Women's Health | 532,300 | 1,637 | - | 533,937 |
| Gastrointestinal | 213,639 | 59,094 | - | 272,733 |
| Eye \& Ear Care | 172,318 | - | - | 172,318 |
| Dermatologicals | 180,020 | 1,935 | - | 181,955 |
| Oral Care | 241,238 | - | - | 241,238 |
| Household Cleaning | - | - | 110,272 | 110,272 |
| Total indefinite-lived intangible assets, net | 1,786,666 | 83,356 | 110,272 | 1,980,294 |
| Finite-lived: |  |  |  |  |
| Analgesics | 41,373 | - | - | 41,373 |
| Cough \& Cold | 28,561 | 566 | - | 29,127 |
| Women's Health | 35,489 | 260 | - | 35,749 |
| Gastrointestinal | 8,938 | 202 | - | 9,140 |
| Eye \& Ear Care | 28,087 | - | - | 28,087 |
| Dermatologicals | 22,724 | - | - | 22,724 |
| Oral Care | 40,348 | 425 | - | 40,773 |
| Other OTC | 14,050 | - | - | 14,050 |
| Household Cleaning | - | - | 22,242 | 22,242 |
| Total finite-lived intangible assets, net | 219,570 | 1,453 | 22,242 | 243,265 |
| Total intangible assets, net | 2,006,236 | 84,809 | 132,514 | 2,223,559 |
| Total goodwill and intangible assets, net | \$2,333,931 | \$ 106,839 | \$ 139,314 | \$2,580,084 |

At June 30, 2016, our highest valued brands were Monistat, BC/Goody's, DenTek, and Clear Eyes, comprising approximately $54.0 \%$ of the intangible assets within the OTC Healthcare segments. The Comet, Chore Boy, and Spic and Span brands comprise substantially all of the intangible assets value within the Household Cleaning segment.

Goodwill and intangible assets comprise substantially all of our assets. Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in a business combination. Intangible assets generally represent our trademarks, brand names and patents. When we acquire a brand, we are required to make judgments regarding the value assigned to the associated intangible assets, as well as their respective useful lives. Management considers many factors both prior to and after the acquisition of an intangible asset in determining the value, as well as the useful life, assigned to each intangible asset that we acquire or continue to own and promote.

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The most significant factors are:

## Brand History

A brand that has been in existence for a long period of time (e.g., 25,50 or 100 years) generally warrants a higher valuation and longer life (sometimes indefinite) than a brand that has been in existence for a very short period of time. A brand that has been in existence for an extended period of time generally has been the subject of considerable investment by its previous owner(s) to support product innovation and advertising and promotion.

## Market Position

Consumer products that rank number one or two in their respective market generally have greater name recognition and are known as quality product offerings, which warrant a higher valuation and longer life than products that lag in the marketplace.

## Recent and Projected Sales Growth

Recent sales results present a snapshot as to how the brand has performed in the most recent time periods and represent another factor in the determination of brand value. In addition, projected sales growth provides information about the strength and potential longevity of the brand. A brand that has both strong current and projected sales generally warrants a higher valuation and a longer life than a brand that has weak or declining sales. Similarly, consideration is given to the potential investment, in the form of advertising and promotion, that is required to reinvigorate a brand that has fallen from favor.

## History of and Potential for Product Extensions

Consideration is given to the product innovation that has occurred during the brand's history and the potential for continued product innovation that will determine the brand's future. Brands that can be continually enhanced by new product offerings generally warrant a higher valuation and longer life than a brand that has always "followed the leader".

After consideration of the factors described above, as well as current economic conditions and changing consumer behavior, management prepares a determination of an intangible asset's value and useful life based on its analysis. Under accounting guidelines, goodwill is not amortized, but must be tested for impairment annually, or more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying amount. In a similar manner, indefinite-lived assets are not amortized. They are also subject to an annual impairment test, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Additionally, at each reporting period an evaluation must be made to determine whether events and circumstances continue to support an indefinite useful life. Intangible assets with finite lives are amortized over their respective estimated useful lives and must also be tested for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable and exceeds its fair value.

On an annual basis, during the fourth fiscal quarter, or more frequently if conditions indicate that the carrying value of the asset may not be recovered, management performs a review of both the values and, if applicable, useful lives assigned to goodwill and intangible assets and tests for impairment.

We report goodwill and indefinite-lived intangible assets in three reportable segments: North American OTC Healthcare, International OTC Healthcare and Household Cleaning. We identify our reporting units in accordance with the FASB ASC Subtopic 280. The carrying value and fair value for intangible assets and goodwill for a reporting unit are calculated based on key assumptions and valuation methodologies previously discussed. As a result, any material changes to these assumptions could require us to record additional impairment in the future.

In the past, we have experienced declines in revenues and profitability of certain brands in the North American OTC Healthcare and Household Cleaning segments. Sustained or significant future declines in revenue, profitability, other
adverse changes in expected operating results, and/or unfavorable changes in other economic factors used to estimate fair values of certain brands could indicate that fair value no longer exceeds carrying value, in which case a non-cash impairment charge may be recorded in future periods.

## Goodwill

As of February 29, our annual impairment review date, and March 31, 2016, we had 15 reporting units with goodwill. As part of our annual test for impairment of goodwill, management estimates the discounted cash flows of each reporting unit to estimate their respective fair values. In performing this analysis, management considers current information and future events, such as competition, technological advances and reductions in advertising support for our trademarks and trade names, that could cause subsequent evaluations to utilize different assumptions. In the event that the carrying value of the reporting unit exceeds the fair value, management would then be required to allocate the estimated fair value of the assets and liabilities of the reporting unit as - 48-

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if the unit was acquired in a business combination, thereby revaluing the carrying amount of goodwill. As of June 30, 2016, we had entered into an agreement to sell Pediacare, New Skin and Fiber Choice. This transaction met the criteria as held for sale, and we measured the related assets at the lower of carrying value or fair value less cost to sell. We did not record an impairment charge as the fair values of these brands exceeded our carrying values. As of June 30, 2016, other than the agreement noted above, there have been no triggering events that would indicate potential impairment of goodwill and no impairment charge was recorded during the three months ended June 30, 2016.

## Indefinite-Lived Intangible Assets

At each reporting period, management analyzes current events and circumstances to determine whether the indefinite life classification for a trademark or trade name continues to be valid. If circumstances warrant a change to a finite life, the carrying value of the intangible asset would then be amortized prospectively over the estimated remaining useful life.

Management tests the indefinite-lived intangible assets for impairment by comparing the carrying value of the intangible asset to its estimated fair value. Since quoted market prices are seldom available for trademarks and trade names such as ours, we utilize present value techniques to estimate fair value. Accordingly, management's projections are utilized to assimilate all of the facts, circumstances and expectations related to the trademark or trade name and estimate the cash flows over its useful life. In a manner similar to goodwill, future events, such as competition, technological advances and reductions in advertising support for our trademarks and trade names, could cause subsequent evaluations to utilize different assumptions. Once that analysis is completed, a discount rate is applied to the cash flows to estimate fair value. In connection with this analysis, management:

Reviews period-to-period sales and profitability by brand;
Analyzes industry trends and projects brand growth rates;
Prepares annual sales forecasts;
Evaluates advertising effectiveness;
Analyzes gross margins;
Reviews contractual benefits or limitations;
Monitors competitors' advertising spend and product innovation;
Prepares projections to measure brand viability over the estimated useful life of the intangible asset; and
Considers the regulatory environment, as well as industry litigation.

## Finite-Lived Intangible Assets

When events or changes in circumstances indicate the carrying value of the assets may not be recoverable, management performs a review similar to indefinite-lived intangible assets to ascertain the impact of events and circumstances on the estimated useful lives and carrying values of our trademarks and trade names.

If the analysis warrants a change in the estimated useful life of the intangible asset, management will reduce the estimated useful life and amortize the carrying value prospectively over the shorter remaining useful life. Management's projections are utilized to assimilate all of the facts, circumstances and expectations related to the trademark or trade name and estimate the cash flows over its useful life. Future events, such as competition, technological advances and reductions in advertising support for our trademarks and trade names, could cause subsequent evaluations to utilize different assumptions. In the event that the long-term projections indicate that the carrying value is in excess of the undiscounted cash flows expected to result from the use of the intangible assets, management is required to record an impairment charge. Once that analysis is completed, a discount rate is applied to the cash flows to estimate fair value. The impairment charge is measured as the excess of the carrying amount of the intangible asset over fair value, as calculated using the discounted cash flow analysis.

Although we experienced declines in revenues in certain other brands in the past, we continue to believe that the fair values of our remaining brands exceed their carrying values. However, sustained or significant future declines in revenue, profitability, lost distribution, other adverse changes in expected operating results, and/or unfavorable changes in other economic factors used to estimate fair value of certain brands could indicate that the fair value no longer exceeds carrying value, in which case a non-cash impairment charge may be recorded in future periods.

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## Impairment Analysis

During the fourth quarter of each fiscal year, we perform our annual impairment analysis. We utilized the discounted cash flow method to estimate the fair value of our reporting units as part of the goodwill impairment test and the excess earnings method to estimate the fair value of our individual indefinite-lived intangible assets. The discount rate utilized in the analyses, as well as future cash flows, may be influenced by such factors as changes in interest rates and rates of inflation. Additionally, should the related fair values of goodwill and intangible assets be adversely affected as a result of declining sales or margins caused by competition, changing consumer preferences, technological advances or reductions in advertising and promotional expenses, we may be required to record impairment charges in the future.

## Stock-Based Compensation

The Compensation and Equity topic of the FASB ASC 718 requires us to measure the cost of services to be rendered based on the grant-date fair value of an equity award. Compensation expense is to be recognized over the period during which an employee is required to provide service in exchange for the award, generally referred to as the requisite service period. Information utilized in the determination of fair value includes the following:

Type of instrument (i.e., restricted shares, stock options, warrants or performance shares);
Strike price of the instrument;
Market price of our common stock on the date of grant;
Discount rates;
Duration of the instrument; and
Volatility of our common stock in the public market.

Additionally, management must estimate the expected attrition rate of the recipients to enable it to estimate the amount of non-cash compensation expense to be recorded in our financial statements. While management prepares various analyses to estimate the respective variables, a change in assumptions or market conditions, as well as changes in the anticipated attrition rates, could have a significant impact on the future amounts recorded as non-cash compensation expense. We recorded non-cash compensation expense of $\$ 1.9$ million and $\$ 3.0$ million for the three months ended June 30, 2016 and 2015, respectively.

Loss Contingencies
Loss contingencies are recorded as liabilities when it is probable that a liability has been incurred and the amount of such loss is reasonably estimable. Contingent losses are often resolved over longer periods of time and involve many factors, including:

Rules and regulations promulgated by regulatory agencies;
Sufficiency of the evidence in support of our position;
Anticipated costs to support our position; and
Likelihood of a positive outcome.

Recent Accounting Pronouncements
In May 2016, the FASB issued Accounting Standards Update ("ASU") 2016-12, Revenue from Contracts with Customers. The amendments do not change the core principle of the guidance in FASB ASC 606. Rather, the amendments in this update affect only certain narrow aspects of FASB ASC 606. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU 2014-09 described below. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In April 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers. The amendments in this update clarify the implementation guidance on identifying performance obligations and licensing in FASB ASC 606. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU 2014-09 described below. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. The amendments in this update involve several aspects of accounting for share-based payment transactions, including income tax consequences, classification of awards, and classification on the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers. The amendments in this update clarify the implementation guidance on principals versus agent considerations in FASB ASC 606. The effective date and transition requirements for the amendments in this update are the same as the effective date and transition requirements of ASU 2014-09 described below. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

[^2]In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this update include a new FASB ASC Topic 842, which supersedes Topic 840. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all entities as of the beginning of interim or annual reporting periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. For public business entities, the amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted for all entities as of the beginning of interim or annual reporting periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The amendments in this update more closely align the measurement of inventory in GAAP with the measurement of inventory in International Financial Reporting Standards, under which an entity should measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The adoption of ASU 2015-11 is not expected to have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers - Topic 606, which supersedes the revenue recognition requirements in FASB ASC 605. The new guidance primarily states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 from annual and interim periods beginning after December 15, 2016 to annual and interim periods beginning after December 15, 2017. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

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## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"), including, without limitation, 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 PSLRA and with the intention of obtaining the benefits of the "safe harbor" provisions of the PSLRA.

Forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required under federal securities laws and the rules and regulations of the SEC, we do not intend to update any forward-looking statements to reflect events or circumstances arising after the date of this Quarterly Report on Form 10-Q, 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 Quarterly Report on Form 10-Q 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.

These forward-looking statements generally can be identified by the use of words or phrases such as "believe," "anticipate," "expect," "estimate," "project," "intend," "strategy," "goal," "future," "seek," "may," "should," "would," "will," or other similar words and phrases. Forward-looking statements are based on current expectations and assumptions that are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, including, without limitation:

The high level of competition in our industry and markets;
Our inability to increase organic growth via new product introductions, line extensions, increased spending on advertising and promotional support, and other new sales and marketing strategies;
Our inability to invest successfully in research and development;
Our dependence on a limited number of customers for a large portion of our sales;
Changes in inventory management practices by retailers;
Our inability to grow our international sales;
General economic conditions affecting sales of our products and their respective markets;
Economic factors, such as increases in interest rates and currency exchange rate fluctuations;
Business, regulatory and other conditions affecting retailers;
Changing consumer trends, additional store brand competition or other pricing pressures which may cause us to lower our prices;
Our dependence on third-party manufacturers to produce the products we sell;
Price increases for raw materials, labor, energy and transportation costs, and for other input costs;
Disruptions in our distribution center;
Acquisitions, dispositions or other strategic transactions diverting managerial resources, the incurrence of additional
liabilities or integration problems associated with such transactions;
Actions of government agencies in connection with our products or regulatory matters governing our industry;
Product liability claims, product recalls and related negative publicity;
Our inability to protect our intellectual property rights;
Our dependence on third parties for intellectual property relating to some of the products we sell;
Our assets being comprised virtually entirely of goodwill and intangibles and possible changes in their value based on adverse operating results;
Our dependence on key personnel;
Shortages of supply of sourced goods or interruptions in the manufacturing of our products;
The costs associated with any claims in litigation or arbitration and any adverse judgments rendered in such litigation or arbitration;

Our level of indebtedness and possible inability to service our debt;
Our ability to obtain additional financing; and
The restrictions imposed by our financing agreements on our operations.
For more information, see "Risk Factors" contained in Part I, Item 1A., "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 and Part II, Item 1A of this Quarterly Report on Form 10-Q.

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

Interest Rate Risk
We are exposed to changes in interest rates because our 2012 Term Loan and 2012 ABL Revolver are variable rate debt. Interest rate changes generally do not significantly affect the market value of the 2012 Term Loan and the 2012 ABL Revolver but do affect the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. At June 30, 2016, we had variable rate debt of approximately $\$ 852.5$ million under our 2012 Term Loan.

Holding other variables constant, including levels of indebtedness, a $1.0 \%$ increase in interest rates on our variable rate debt would have had an adverse impact on pre-tax earnings and cash flows for the three months ended June 30, 2016 of approximately $\$ 2.2$ million.

## Foreign Currency Exchange Rate Risk

During the three months ended June 30, 2016 and 2015, approximately $11.4 \%$ of our revenues were denominated in currencies other than the U.S. Dollar. As such, we are exposed to transactions that are sensitive to foreign currency exchange rates, including insignificant foreign currency forward exchange agreements. These transactions are primarily with respect to the Canadian and Australian Dollar.

We performed a sensitivity analysis with respect to exchange rates for the three months ended June 30, 2016 and 2015. Holding all other variables constant, and assuming a hypothetical $10.0 \%$ adverse change in foreign currency exchange rates, this analysis resulted in a $10.2 \%$ impact on pre-tax income of approximately $\$ 0.9$ million for the three months ended June 30, 2016 and a less than $5.0 \%$ impact on pre-tax income of approximately $\$ 0.7$ million for the three months ended June 30, 2015. The increase in the impact on pre-tax income year-over-year was primarily due to a pre-tax loss on the sale of assets of $\$ 55.5$ million in the first quarter of 2017. Excluding this loss, and holding all other variables constant, a hypothetical $10.0 \%$ adverse change in foreign currency exchange rates would have resulted in a less than $5.0 \%$ impact on pre-tax income for the three months ended June 30, 2016.

## ITEM 4. CONTROLS AND PROCEDURES

## Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of June 30, 2016. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2016, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports the Company files or submits 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 the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

## Changes in Internal Control over Financial Reporting

As stated in our most recent Annual Report on Form 10-K, we completed the acquisition of DenTek Holdings, Inc. ("DenTek") during the fourth quarter of 2016. We are currently in the process of incorporating DenTek's historical internal control over financial reporting structure with ours. Other than the changes noted above, there have been no

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changes during the quarter ended June 30, 2016 in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

## ITEM 1A. RISK FACTORS

In addition to the risk factors set forth below and the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended March 31, 2016, which could materially affect our business, financial condition or future results of operations. The risks described below and in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial

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condition and results of operations. The information below amends, updates and should be read in conjunction with the risk factors and information disclosed in our Annual Report on Form 10-K for the year ended March 31, 2016.

Our annual and quarterly results from operations may fluctuate significantly and could fall below the expectations of securities analysts and investors due to a number of factors, many of which are beyond our control, resulting in a decline in the price of our securities.

Our annual and quarterly results from operations may fluctuate significantly because of numerous factors, including:

The timing of when we make acquisitions or introduce new products;

Our inability to increase the sales of our existing products and expand their distribution;

The timing of the introduction or return to the market of competitive products and the introduction of store brand products;

Inventory management resulting from consolidation among our customers;
Adverse regulatory or market events in the United States or in our international markets;

Changes in consumer preferences, spending habits and competitive conditions, including the effects of competitors' operational, promotional or expansion activities;

Seasonality of our products;

Fluctuations in commodity prices, product costs, utilities and energy costs, prevailing wage rates, insurance costs and other costs;

The discontinuation and return of our products from retailers;

Our ability to recruit, train and retain qualified employees, and the costs associated with those activities;

Changes in advertising and promotional activities and expansion to new markets;

Negative publicity relating to us and the products we sell;

Litigation matters;

Unanticipated increases in infrastructure costs;

Impairment of goodwill or long-lived assets;

Changes in interest rates; and

Changes in accounting, tax, regulatory or other rules applicable to our business.

Our quarterly operating results and revenues may fluctuate as a result of any of these or other factors. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year, and revenues for any particular future period may decrease. In the future, operating results may fall below the expectations of securities analysts and investors. In that event, the market price of our outstanding securities could be adversely impacted.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
ISSUER PURCHASES OF EQUITY SECURITIES (a)

| Period | Total Number of Shares Purchased | Average <br> Price <br> Paid per <br> Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs |
| :---: | :---: | :---: | :---: | :---: |
| April 1 to |  |  |  |  |
| $\begin{aligned} & \text { April 30, } \\ & 2016 \end{aligned}$ | - | - | n/a | n/a |
| May 1 to |  |  |  |  |
| $\begin{aligned} & \text { May 31, } \\ & 2016 \end{aligned}$ | 24,988 | \$ 55.82 | n/a | n/a |
| June 1 to |  |  |  |  |
| $\begin{aligned} & \text { June 30, } \\ & 2016 \end{aligned}$ | - | - | n/a | n/a |
| Total | 24,988 |  | n/a | n/a |

(a) These purchases were made pursuant to our 2005 Long-Term Equity Incentive Plan, which allows for the indirect purchase of shares through a net-settlement feature upon the vesting of shares in order to satisfy minimum statutory tax-withholding requirements.

Item 5. Other Information
Submission of Matters to a Vote of Security Holders.
The 2016 Annual Meeting of Stockholders of the Company was held on August 2, 2016. The stockholders of the Company voted upon three proposals at the Annual Meeting, with the following results:

Item 1 - Election of seven directors nominated by the Board of Directors to serve until the 2017 Annual Meeting of Stockholders.
Director Nominee For WithheldBroker Non-Votes
Ronald M. Lombardi 46,542,264 166,725 1,894,971
John E. Byom 46,539,622169,367 1,894,971
Gary E. Costley $\quad 46,379,523329,466 \quad 1,894,971$
Sheila A. Hopkins $\quad 46,540,293168,6961,894,971$
James M. Jenness $\quad 46,539,837169,152 \quad 1,894,971$
Carl J. Johnson $\quad 46,538,835170,1541,894,971$
Natale S. Ricciardi $\quad 46,540,888168,101 \quad 1,894,971$
Item 2 - Ratification of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the fiscal year ending March 31, 2017.
For Against Abstentions
48,110,930351,738141,292
Item 3 - Non-binding resolution to approve the compensation of the Company's named executive officers as disclosed in the Company's proxy statement.
For Against Abstentions Broker Non-Votes
45,300,2861,145,253263,450 1,894,971

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## ITEM 6. EXHIBITS

See Exhibit Index immediately following the signature page.

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRESTIGE BRANDS HOLDINGS, INC.

Date: August 4, 2016 By:/s/ David S. Marberger
David S. Marberger
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

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## Exhibit Index

Certification of Principal Executive Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.

Certification of Principal Financial Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1 Certification of Principal Executive Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2 Certification of Principal Financial Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.IXßRL Instance Document
101.SKBIRL Taxonomy Extension Schema Document
101. CABREL Taxonomy Extension Calculation Linkbase Document
101.DXGBRL Taxonomy Extension Definition Linkbase Document
101. LAXBRL Taxonomy Extension Label Linkbase Document
101.PKBRL Taxonomy Extension Presentation Linkbase Document

* XBRL information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934, and is not subject to liability under those sections, is not part of any registration statement, prospectus or other document to which it relates and is not incorporated or deemed to be incorporated by reference into any registration statement, prospectus or other document.


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