Prestige Brands Holdings, Inc.
Form 10-Q
February 01, 2018
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 OF 1934
For the quarterly period ended December 31, 2017
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to _____
Commission File Number: 001-32433

PRESTIGE BRANDS HOLDINGS, INC.
(Exact name of Registrant as specified in its charter)

Delaware	20-1297589
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. 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 January 26, 2018, there were 53,038,866 shares of common stock outstanding.

Prestige Brands Holdings, Inc.
Form 10-Q
Index

PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Condensed Consolidated Statements of Income and Comprehensive Income for the three and nine months ended December 31, 2017 and 2016 (unaudited)	2
	Condensed Consolidated Balance Sheets as of December 31, 2017 (unaudited) and March 31, 2017	3
	Condensed Consolidated Statements of Cash Flows for the nine months ended December 31, 2017 and 2016 (unaudited)	4
	Notes to Condensed Consolidated Financial Statements (unaudited)	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	37
Item 4.	Controls and Procedures	37
PART II.	OTHER INFORMATION	
Item 1A.	Risk Factors	38
Item 6.	Exhibits	39
	Signatures	40

Trademarks and Trade Names

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended December 31,		Nine Months Ended December 31,	
(In thousands, except per share data)	2017	2016	2017	2016
Revenues				
Net sales	$270,522	$216,732	$784,939	$640,519
Other revenues	93	31	275	871
Total revenues	270,615	216,763	785,214	641,390
Cost of Sales				
Cost of sales excluding depreciation	121,730	92,216	346,067	271,287
Cost of sales depreciation	1,211	—	3,899	—
Cost of sales	122,941	92,216	349,966	271,287
Gross profit	147,674	124,547	435,248	370,103
Operating Expenses				
Advertising and promotion	35,835	30,682	111,967	86,909
General and administrative	21,207	22,131	63,110	60,383
Depreciation and amortization	7,129	5,852	21,482	18,700
(Gain) loss on divestitures	—	(3,405)	—	51,552
Total operating expenses	64,171	55,260	196,559	217,544
Operating income	83,503	69,287	238,689	152,559
Other (income) expense				
Interest income	(119)	(46)	(273)	(149)
Interest expense	25,983	18,600	79,314	60,660
Total other expense	25,864	18,554	79,041	60,511
Income before income taxes	57,639	50,733	159,648	92,048
(Benefit) provision for income taxes	(257,154)	19,092	(219,609)	33,743
Net income	$314,793	$31,641	$379,257	$58,305
Earnings per share:				
Basic	$5.93	$0.60	$7.14	$1.10
Diluted	$5.88	$0.59	$7.08	$1.09
Weighted average shares outstanding:				
Basic	53,129	52,999	53,089	52,960
Diluted	53,543	53,359	53,531	53,339
Comprehensive income (loss), net of tax:				
Currency translation adjustments	4,492	(8,736)	8,327	(11,857)
Unrecognized net gain on pension plans	—	—	1	—
Total other comprehensive income (loss)	4,492	(8,736)	8,328	(11,857)

Comprehensive income	$319,285	$22,905	$387,585	$46,448

See accompanying notes.

Prestige Brands Holdings, Inc.
Condensed Consolidated Balance Sheets

(In thousands)	December 31, 2017 (Unaudited)	March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 45,376	$ 41,855
Accounts receivable, net of allowance of $20,603 and $13,010, respectively	150,417	136,742
Inventories	114,894	115,609
Prepaid expenses and other current assets	21,441	40,228
Total current assets	332,128	334,434
Property, plant and equipment, net	51,059	50,595
Goodwill	620,333	615,252
Intangible assets, net	2,887,997	2,903,613
Other long-term assets	6,405	7,454
Total Assets	$ 3,897,922	$ 3,911,348
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 59,345	$ 70,218
Accrued interest payable	8,701	8,130
Other accrued liabilities	83,458	83,661
Total current liabilities	151,504	162,009
Long-term debt		
Principal amount	2,077,000	2,222,000
Less unamortized debt costs	(23,731)	(28,268)
Long-term debt, net	2,053,269	2,193,732
Deferred income tax liabilities	454,153	715,086
Other long-term liabilities	21,559	17,972
Total Liabilities	2,680,485	3,088,799
Commitments and Contingencies — Note 16		
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 - 53,392 shares at December 31, 2017 and 53,287 shares at March 31, 2017	534	533
Additional paid-in capital	466,632	458,255
Treasury stock, at cost - 353 shares at December 31, 2017 and 332 shares at March 31, 2017	(7,669)	(6,594)
Accumulated other comprehensive loss, net of tax	(18,024)	(26,352)

Retained earnings	775,964	396,707
Total Stockholders' Equity	1,217,437	822,549
Total Liabilities and Stockholders' Equity	$ 3,897,922	$ 3,911,348

See accompanying notes.

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

	Nine Months Ended December 31,	
(In thousands)	2017	2016
Operating Activities		
Net income	$379,257	$58,305
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,381	18,700
Loss on divestitures	—	51,552
Loss on disposals of property and equipment	1,510	255
Deferred income taxes	(256,850)	(12,530)
Amortization of debt origination costs	4,746	6,129
Excess tax benefits from share-based awards	470	800
Stock-based compensation costs	6,912	6,260
Write-off of indemnification asset	704	—
Lease termination costs	214	—
Changes in operating assets and liabilities, net of effects from acquisitions:		
Accounts receivable	(14,073)	(12,374)
Inventories	1,167	(16,589)
Prepaid expenses and other current assets	18,935	11,149
Accounts payable	(11,036)	7,168
Accrued liabilities	(1,033)	22,323
Pension and deferred compensation contribution	(329)	—
Noncurrent assets and liabilities	(303)	—
Net cash provided by operating activities	155,672	141,148
Investing Activities		
Purchases of property, plant and equipment	(9,656)	(1,935)
Acquisition of Fleet escrow payment	970	—
Proceeds from the sales of property, plant and equipment	—	85
Proceeds from divestitures	—	110,717
Proceeds from DenTek working capital arbitration settlement	—	1,419
Net cash (used in) provided by investing activities	(8,686)	110,286
Financing Activities		
Term loan repayments	(125,000)	(130,500)
Borrowings under revolving credit agreement	20,000	20,000
Repayments under revolving credit agreement	(40,000)	(105,000)
Payments of debt origination costs	—	(9)
Proceeds from exercise of stock options	1,466	3,444
Fair value of shares surrendered as payment of tax withholding	(1,075)	(1,431)
Net cash used in financing activities	(144,609)	(213,496)
Effects of exchange rate changes on cash and cash equivalents	1,144	(1,879)
Increase in cash and cash equivalents	3,521	36,059
Cash and cash equivalents - beginning of period	41,855	27,230
Cash and cash equivalents - end of period	$45,376	$63,289

Interest paid	$73,779	$54,615
Income taxes paid	$16,861	$25,127

See accompanying notes.

Prestige Brands Holdings, Inc.
Notes to Condensed 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 development, manufacturing, marketing, sales and distribution of over-the-counter (“OTC”) healthcare and household cleaning products to mass merchandisers and drug, food, dollar, convenience and club 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 8.

Basis of Presentation
The unaudited Condensed 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 consolidation. In the opinion of management, these Condensed 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 31st of each year. References in these Condensed Consolidated Financial Statements or related notes to a year (e.g., “2018”) mean our fiscal year ending or ended on March 31st of that year. Operating results for the three and nine months ended December 31, 2017 are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2018. These unaudited Condensed 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, 2017.

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.

Reclassification
In accordance with Accounting Standards Update (“ASU”) 2016-09, Compensation - Stock Compensation (Topic 718), we have reclassified cash flows on our Condensed Consolidated Statements of Cash Flows related to excess tax benefits from a financing activity to an operating activity for all periods presented. The impact of the reclassification on our Financial Statements was not material.

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.

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

Recently Adopted Accounting Pronouncements
In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): 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 were effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. We adopted ASU 2016-09 effective April 1, 2017, and the adoption did not have a material impact on our 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 were effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Our adoption of ASU 2015-11, effective April 1, 2017, did not have a material impact on our Financial Statements.

Recently Issued Accounting Pronouncements
In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350). The amendments in this update simplify the test for goodwill impairment by eliminating Step 2 from the impairment test, which required the entity to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining fair value of assets acquired and liabilities assumed in a business combination. The amendments in this update are effective for public companies for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. We are evaluating the impact of adopting this guidance on our Financial Statements and whether to early adopt this ASU.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805); Clarifying the Definition of a Business. The amendments in this update clarify the definition of a business to help companies evaluate whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The amendments in this update are effective for public companies for annual periods beginning after December 15, 2017, including interim periods within those periods. We are evaluating the impact of adopting this guidance on our Financial Statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The amendments in this update provide clarification and guidance on eight cash flow classification issues. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2016-15 is not expected to have a material impact on our Financial Statements.

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this update include a new FASB Accounting Standards Codification ("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 Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers - Topic 606, including new FASB ASC 606, which supersedes the revenue recognition requirements in FASB ASC 605. The new guidance will eliminate industry-specific revenue recognition guidance under current GAAP and replace it with a principle-based approach for determining revenue recognition. This ASU 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. This ASU will also require additional disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. 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. With the issuance of ASU 2016-08 in March 2016, the FASB clarified the implementation guidance on principals versus agent considerations in FASB ASC 606. In April 2016, the FASB issued ASU 2016-10, which clarified implementation guidance on identifying performance obligations and licensing in FASB ASC 606. Certain narrow aspects of the guidance in FASB ASC 606 were amended with the issuances of ASU 2016-12 in May 2016 and ASU 2016-20 in December 2016. We expect to adopt this guidance when effective using the modified retrospective transition method. Our implementation approach included performing a detailed study of the various types of agreements that we have with our customers and assessing conformance of our current accounting practices with the new standard. We have completed our assessment and contract review under the new guidance and are in the final stages of determining the impact of the new guidance. Currently, it is not expected that the adoption of this new guidance will have a material impact on our Financial Statements, revenue recognition process, or our internal controls. We continue to monitor additional amendments, clarifications and interpretations issued by the FASB that may affect our current conclusions.

2. Acquisitions

Acquisition of Fleet

On January 26, 2017, the Company completed the acquisition of C.B. Fleet Company, Inc. ("Fleet") pursuant to the Agreement and Plan of Merger, dated as of December 22, 2016, for $823.7 million plus cash on hand at closing and subject to certain adjustments related to net working capital. The purchase price was funded by available cash on hand, additional borrowings under our asset-based revolving credit facility, and a new $740.0 million senior secured incremental term loan. As a result of the merger, we acquired multiple women's health, gastrointestinal and dermatological care OTC brands, including Summer’s Eve, Fleet, and Boudreaux's Butt Paste, as well as a “mix and fill” manufacturing facility in Lynchburg, Virginia. The financial results from the Fleet acquisition are included in the Company's North American and International OTC Healthcare segments.

The acquisition was accounted for in accordance with 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 allocation of the assets acquired and liabilities assumed as of the January 26, 2017 acquisition date.

(In thousands)	January 26, 2017
Cash	$ 19,884
Accounts receivable	25,293
Inventories	20,812
Prepaid expenses and other current assets	17,024
Property, plant and equipment	38,661
Goodwill	273,058

Intangible assets	747,600
Other long-term assets	1,137
Total assets acquired	1,143,469
Accounts payable	10,412
Accrued expenses	22,895
Deferred income taxes - long term	261,555
Other long term liabilities	24,884
Total liabilities assumed	319,746
Total purchase price	$ 823,723

Based on this preliminary analysis, we allocated $648.7 million to non-amortizable intangible assets and $98.9 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 18.7 years.

We recorded goodwill of $273.1 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. The goodwill is a result of acquiring and retaining workforces and expected synergies from integrating Fleet's operations into the Company's. Goodwill is not deductible for income tax purposes.

The following table provides our unaudited pro forma revenues, net income and net income per basic and diluted common share had the results of Fleet's operations been included in our operations commencing on April 1, 2016, based on available information related to Fleet's operations. This pro forma information is not necessarily indicative either of the combined results of operations that actually would have been realized by us had the Fleet acquisition been consummated at the beginning of the period for which the pro forma information is presented, or of future results.

	Three Months Ended December 31, 2016	Nine Months Ended December 31, 2016
(In thousands, except per share data)	(Unaudited)	
Revenues	$273,137	$ 799,880
Net income	$30,398	$ 56,826
Earnings per share:		
Basic EPS	$0.57	$ 1.07
Diluted EPS	$0.57	$ 1.07

3. Divestitures and Sale of License Rights

Divestitures

On July 7, 2016, we completed the sale of the Pediacare, New Skin and Fiber Choice brands for $40.0 million plus the cost of inventory. During the nine months ended December 31, 2016, we recorded a pre-tax loss on sale of $56.2 million.

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 option agreement. The buyer paid a $1.25 million deposit for this option in September 2016 and later notified us of its election to exercise the option. In December 2016, we completed the sales of the Dermoplast brand, and in a separate transaction, the e.p.t brand, for an aggregate amount of $59.6 million. As a result, we recorded a pre-tax net gain on these divestitures of $3.9 million.

Sale of license rights

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 of the license. The amended agreement provided that we would continue to receive royalty payments of $1.0 million per quarter for the remaining geographic areas and also granted the licensee an option to acquire the license rights in the remaining geographic areas any time after June 30, 2016. In July 2016, the licensee elected to exercise its option. In August 2016, we received $11.0 million for the purchase of the remaining license rights and, as a result, we recorded a pre-tax gain of $1.2 million and reduced our indefinite-lived trademarks by $9.0 million. Furthermore, the licensee was no longer required to make additional royalty payments to us, and as a result, our future royalty income was reduced accordingly.

4. Inventories

Inventories consist of the following:

(In thousands)	December 31, 2017	March 31, 2017
Components of Inventories		
Packaging and raw materials	$ 10,459	$ 9,984
Work in process	246	369
Finished goods	104,189	105,256
Inventories	$ 114,894	$ 115,609

Inventories are carried and depicted above at the lower of cost or net realizable value, which includes a reduction in inventory values of $4.1 million and $6.6 million at December 31, 2017 and March 31, 2017, respectively, related to obsolete and slow-moving inventory.

5. Goodwill

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

(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Balance — March 31, 2017	$ 576,453	$ 32,554	$ 6,245	$ 615,252
Adjustments [(a)]	4,481	—	—	4,481
Effects of foreign currency exchange rates	—	600	—	600
Balance — December 31, 2017	$ 580,934	$ 33,154	$ 6,245	$ 620,333

(a) Amount relates to a measurement period adjustment recorded during the three months ended September 30, 2017, associated with our Fleet acquisition.

As discussed in Note 2, on January 26, 2017, we completed the acquisition of Fleet. In connection with this acquisition, we recorded goodwill of $273.1 million based on the amount by which the purchase price exceeded the fair value of the 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 28, 2017, during our annual test for goodwill impairment, there were no indicators of impairment under the analysis. Accordingly, no impairment charge was recorded in fiscal 2017. 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 28, 2017, 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, increasing competition, changing consumer preferences, technical advances, or reductions in advertising and promotion may require an impairment charge to be recorded in the future. As of December 31, 2017, no events have occurred that would indicate potential impairment of goodwill.

6. Intangible Assets, net

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

(In thousands)	Indefinite Lived Trademarks	Finite Lived Trademarks and Customer Relationships	Totals
Gross Carrying Amounts			
Balance — March 31, 2017	$2,589,155	$ 441,801	$3,030,956
Effects of foreign currency exchange rates	1,771	151	1,922
Balance — December 31, 2017	2,590,926	441,952	3,032,878
Accumulated Amortization			
Balance — March 31, 2017	—	127,343	127,343
Additions	—	17,521	17,521
Effects of foreign currency exchange rates	—	17	17
Balance — December 31, 2017	—	144,881	144,881
Intangible assets, net — December 31, 2017	$2,590,926	$ 297,071	$2,887,997

As discussed in Note 2, on January 26, 2017, we completed the acquisition of Fleet. In connection with this acquisition, we allocated $747.6 million to intangible assets based on our analysis.

Amortization expense was $5.8 million and $17.5 million for the three and nine months ended December 31, 2017, respectively, and $4.5 million and $14.4 million for the three and nine months ended December 31, 2016, respectively. Based on our amortizable intangible assets as of December 31, 2017, amortization expense is expected to be approximately $5.8 million for the remainder of fiscal 2018, $23.4 million in fiscal 2019, $23.4 million in fiscal 2020, $22.9 million in fiscal 2021, $22.5 million in fiscal 2022 and $22.5 million in fiscal 2023.

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 28, 2017, which was the date of our annual impairment 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, increasing competition, changing consumer preferences, technical advances, or reductions in advertising and promotion may require an impairment charge to be recorded in the future. As of December 31, 2017, no events have occurred that would indicate potential impairment of intangible assets.

- 10-

7. Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In thousands)	December 31, 2017	March 31, 2017
Accrued marketing costs	$ 29,501	$ 29,384
Accrued compensation costs	8,781	15,535
Accrued broker commissions	1,303	1,782
Income taxes payable	9,186	3,840
Accrued professional fees	2,403	2,412
Accrued production costs	10,212	4,580
Income tax related payable	14,859	19,000
Other accrued liabilities	7,213	7,128
	$ 83,458	$ 83,661

8. Long-Term Debt

At December 31, 2017, we had $70.0 million outstanding on the asset-based revolving credit facility entered into January 31, 2012, as amended (the "2012 ABL Revolver") and an additional borrowing capacity of $95.9 million.

Long-term debt consists of the following, as of the dates indicated:

(In thousands, except percentages)	December 31, 2017	March 31, 2017
2016 Senior Notes bearing interest at 6.375%, with interest payable on March 1 and September 1 of each year. The 2016 Senior Notes mature on March 1, 2024.	$ 350,000	$ 350,000
2013 Senior Notes bearing interest at 5.375%, with interest payable on June 15 and December 15 of each year. The 2013 Senior Notes mature on December 15, 2021.	400,000	400,000
2012 Term B-4 Loans bearing interest at our option at either LIBOR plus a margin of 2.75%, with a LIBOR floor of 0.75%, or a base rate plus a margin (with a margin step-down to 2.50%) due on January 26, 2024.	1,257,000	1,382,000
2012 ABL Revolver bearing interest at our option at either a base rate plus applicable margin or LIBOR plus applicable margin. Any unpaid balance is due on January 26, 2022.	70,000	90,000
Total long-term debt (including current portion)	2,077,000	2,222,000
Current portion of long-term debt	—	—
Long-term debt	2,077,000	2,222,000
Less: unamortized debt costs	(23,731)	(28,268)
Long-term debt, net	$ 2,053,269	$ 2,193,732

As of December 31, 2017, aggregate future principal payments required in accordance with the terms of the 2012 Term B-4 Loans, 2012 ABL Revolver and the indentures governing the 6.375% senior unsecured notes due 2024 (the "2016 Senior Notes") and the 5.375% senior unsecured notes due 2021 (the "2013 Senior Notes") are as follows:

(In thousands) Year Ending March 31,	Amount

2018 (remaining three months ending March 31, 2018)	$ —
2019	—
2020	—
2021	—
2022	470,000
Thereafter	1,607,000
	$ 2,077,000

- 11-

9. 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.

FASB ASC 820, Fair Value Measurements, 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. ASC 820 established market (observable inputs) as the preferred source of fair value, to be followed by the Company's assumptions of fair value based on hypothetical transactions (unobservable inputs) in the absence of observable market inputs. Based upon the above, the following fair value hierarchy was created:

Level 1 - Quoted market prices for identical instruments in active markets;

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

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

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 2012 Term B-4 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 December 31, 2017 and March 31, 2017).

	December 31, 2017		March 31, 2017	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
2016 Senior Notes	$350,000	$363,125	$350,000	$367,500
2013 Senior Notes	400,000	406,500	400,000	409,000
2012 Term B-4 Loans	1,257,000	1,266,428	1,382,000	1,395,820
2012 ABL Revolver	70,000	70,000	90,000	90,000

At December 31, 2017 and March 31, 2017, we did not have any assets or liabilities measured in Level 1 or 3.

In accordance with ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), investments that are measured at fair value using net asset value ("NAV") per share as a practical expedient have not been classified in the fair value hierarchy.

10. Stockholders' Equity

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

Each share of common stock has the right to one vote on all matters submitted to a vote of stockholders. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all classes of outstanding stock having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through December 31, 2017.

During the three months ended December 31, 2017 and 2016, we repurchased 0 shares and 780 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 December 31, 2016 were at an average price of $45.83. During the nine months ended December 31, 2017 and 2016, we repurchased 20,549 shares and 25,768 shares, respectively, of restricted common stock from our employees pursuant to the provisions of various employee restricted stock awards. The repurchases for the nine months ended December 31, 2017 and 2016 were at an average price of $52.33 and $55.51, respectively. All of the repurchased shares have been recorded as treasury stock.

11. 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.

AOCI consisted of the following at December 31, 2017 and March 31, 2017:

(In thousands)	December 31, 2017	March 31, 2017
Components of Accumulated Other Comprehensive Loss		
Cumulative translation adjustment	$ (17,773)	$(26,100)
Unrecognized net loss on pension plans	(251)	(252)
Accumulated other comprehensive loss, net of tax	$ (18,024)	$(26,352)

As of December 31, 2017 and March 31, 2017, no amounts were reclassified from accumulated other comprehensive income into earnings.

12. 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 December 31,		Nine Months Ended December 31,	
(In thousands, except per share data)	2017	2016	2017	2016
Numerator				
Net income	$314,793	$31,641	$379,257	$58,305
Denominator				
Denominator for basic earnings per share — weighted average shares outstanding	53,129	52,999	53,089	52,960
Dilutive effect of unvested restricted stock units and options issued to employees and directors	414	360	442	379
Denominator for diluted earnings per share	53,543	53,359	53,531	53,339
Earnings per Common Share:				
Basic net earnings per share	$5.93	$0.60	$7.14	$1.10
Diluted net earnings per share	$5.88	$0.59	$7.08	$1.09

For the three months ended December 31, 2017 and 2016, there were 0.5 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. For the nine months ended December 31, 2017 and 2016, there were 0.4 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.

13. 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 ("RSUs") and other equity-based awards. In June 2014, the Board of Directors approved, and in July 2014, our stockholders ratified, an increase of an additional 1.8 million shares of our common stock for issuance under the Plan, an increase of the maximum number of shares subject to stock options that may be awarded to any one participant under the Plan during any fiscal 12-month period from 1.0 million to 2.5 million shares, and an extension of 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 and nine months ended December 31, 2017, pre-tax share-based compensation costs charged against income were $2.2 million and $6.9 million, respectively, and the related income tax recognized was an expense of $0.1 million and a benefit of $1.4 million, respectively. During the three and nine months ended December 31, 2016, pre-tax share-based compensation costs charged against income were $2.4 million and $6.3 million, respectively, and the related income tax benefit recognized was $1.3 million and $2.5 million, respectively.

At December 31, 2017, there were $8.5 million of unrecognized compensation costs related to unvested share-based compensation arrangements under the Plan, based on management's estimate of the shares that will ultimately vest. We expect to recognize such costs over a weighted-average period of 1.0 year. The total fair value of options and RSUs vested during the nine months ended December 31, 2017 and 2016 was $6.8 million and $6.0 million, respectively. For the nine months ended December 31, 2017 and 2016, we received cash from the exercise of stock options of $1.5 million and $3.4 million, respectively. For the nine months ended December 31, 2017 and 2016, we realized $1.1 million and $1.8 million, respectively, in tax benefits from the tax deductions resulting from RSU issuances and stock option exercises. At December 31, 2017, there were 2.2 million shares available for issuance under the Plan.

On May 8, 2017, the Compensation and Talent Management Committee of our Board of Directors granted 35,593 performance units, 54,773 RSUs and stock options to acquire 182,823 shares of our common stock to certain executive officers and employees under the Plan. The stock options were granted at an exercise price of $56.11 per share, which was equal to the closing price for our common stock on the date of the grant.
Pursuant to the Plan, each of the independent members of the Board of Directors received a grant of 2,564 RSUs on August 1, 2017. The RSUs are fully vested upon receipt of the award and will be settled by delivery to the director of one share of common stock of the Company for each vested RSU 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.

Restricted Stock Units

RSUs granted to employees under the Plan generally vest in three years, primarily upon the attainment of certain time vesting thresholds, and, in the case of performance share units, 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 RSUs provide for accelerated vesting if there is a change of control, as defined in the Plan. The RSUs granted to employees generally vest either ratably over three years or in their entirety on the three-year anniversary of the date of the grant. Upon vesting, the units will be settled in shares of our common stock. Termination of employment prior to vesting will result in forfeiture of the RSUs, unless otherwise accelerated by the Compensation and Talent Management Committee or, in the case of RSUs granted in May 2017, subject to pro-rata vesting in the event of death, disability or retirement. The RSUs granted to directors vest immediately upon grant, and will be settled by delivery to the director of one share of common stock of the Company for each vested RSU 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 RSUs is determined using the closing price of our common stock on the date of the grant. The weighted-average grant-date fair value of RSUs granted during the nine months ended December 31, 2017 and 2016 was $55.61 and $55.44, respectively.

A summary of the Company's RSUs granted under the Plan is presented below:

RSUs	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nine Months Ended December 31, 2016		
Vested and nonvested at March 31, 2016	467.8	$ 35.22
Granted	68.4	55.44
Vested and issued	(94.7)	28.51
Forfeited	(91.4)	41.71
Vested and nonvested at December 31, 2016	350.1	39.29
Vested at December 31, 2016	63.4	20.12
Nine Months Ended December 31, 2017		
Vested and nonvested at March 31, 2017	350.1	$ 39.29
Granted	105.8	55.61
Vested and issued	(53.3)	34.30
Forfeited	(8.8)	48.49
Vested and nonvested at December 31, 2017	393.8	44.14
Vested at December 31, 2017	90.5	29.88

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. Except in the case of death, disability or retirement, 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 nine months ended December 31, 2017 and 2016 were $21.20 and $21.75, respectively.

	Nine Months Ended December 31,	
	2017	2016

Expected volatility	35.2%	37.8%
Expected dividends	$ —	$ —
Expected term in years	6.0	6.0
Risk-free rate	2.2%	1.7%

- 15-

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

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Nine Months Ended December 31, 2016				
Outstanding at March 31, 2016	727.7	$ 30.70		
Granted	264.3	55.86		
Exercised	(107.9)	31.91		
Forfeited or expired	(92.2)	42.62		
Outstanding at December 31, 2016	791.9	37.54	7.4	$ 12,543
Exercisable at December 31, 2016	387.0	25.70	6.3	$ 10,217
Nine Months Ended December 31, 2017				
Outstanding at March 31, 2017	772.3	$ 37.70		
Granted	182.8	56.11		
Exercised	(51.0)	28.76		
Forfeited or expired	(22.1)	48.15		
Outstanding at December 31, 2017	882.0	41.77	7.2	$ 7,019
Exercisable at December 31, 2017	502.9	32.50	6.1	$ 6,884

The aggregate intrinsic value of options exercised in the nine months ended December 31, 2017 was $1.2 million.

14. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act represents significant U.S. federal tax reform legislation that includes a permanent reduction to the U.S. federal corporate income tax rate. The permanent reduction to the federal corporate income tax rate resulted in a one-time gain related to the value of our deferred tax liabilities resulting in a net gain of $281.2 million. Additionally, the tax reform legislation subjects certain of our cumulative foreign earnings and profits to U.S. income taxes through a deemed repatriation which resulted in a charge of $3.0 million during the three months ended December 31, 2017.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. The U.S. Securities and Exchange Commission has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts.

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 rates used in the calculation of income taxes were (446.1)% and 37.6% for the three months ended December 31, 2017 and 2016, respectively. The effective rates used in the calculation of income taxes were (137.6)% and 36.7% for the nine months ended December 31, 2017 and 2016, respectively. The decrease in the effective tax rate for the three and nine months ended December 31, 2017 was primarily due to the effects of the Tax Act discussed above.

The balance in our uncertain tax liability was $7.7 million at December 31, 2017 and $3.7 million March 31, 2017. The increase in our uncertain tax liability was primarily related to a measurement period adjustment associated with our Fleet acquisition. 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.

15. Employee Retirement Plans

The primary components of Net Periodic Benefits consist of the following:

(In thousands)	Three Months Ended December 31, 2017	Nine Months Ended December 31, 2017
Interest cost	$ 631	$ 1,894
Expected return on assets	(725)	(2,176)
Net periodic benefit cost (income)	$ (94)	$ (282)

During the nine months ended December 31, 2017, the Company contributed $0.3 million to our non-qualified defined benefit plan and made no contributions to the qualified defined benefit plan. During the remainder of fiscal 2018, we expect to contribute an additional $0.1 million to the non-qualified plan and make no contributions to the qualified plan.

16. 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.

Purchase Commitments

We have supply agreements for the manufacture of some of our products. The following table shows the minimum amounts that we are committed to pay under these agreements:

(In thousands) Year Ending March 31,	Amount
2018 (Remaining three months ending March 31, 2018)	$ 1,417
2019	9,082

2019	[illegible]
2020	[illegible]
2021	[illegible]
Thereafter	[illegible]
	$ 41,258

17. Concentrations of Risk

Our revenues are concentrated in the areas of OTC Healthcare and Household Cleaning products. We sell our products to mass merchandisers and drug, food, dollar, convenience and club stores. During the three and nine months ended December 31, 2017, approximately 39.9% and 41.2%, respectively, of our total revenues were derived from our five top selling brands. During the three and nine months ended December 31, 2016, approximately 40.4% and 41.4%, respectively, of our total revenues were derived from our five top selling brands. Two customers, Walmart and Walgreens, accounted for more than 10% of our gross revenues in one or both of the periods presented. Walmart accounted for approximately 21.4% and 24.0%, respectively, of our gross revenues for the three and nine months ended December 31, 2017. Walgreens accounted for approximately 9.2% and 9.0%, respectively, of gross revenues for the three and nine months ended December 31, 2017. Walmart accounted for approximately 20.4% and 20.7%, respectively, of our gross revenues for the three and nine months ended December 31, 2016. Walgreens accounted for approximately 10.0% and 10.3%, respectively, of gross revenues for the three and nine months ended December 31, 2016. At December 31, 2017, approximately 24.1% and 9.3% 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 an earthquake, tornado, 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 December 31, 2017, we had relationships with 114 third-party manufacturers. Of those, we had long-term contracts with 46 manufacturers that produced items that accounted for approximately 74.2% of gross sales for the nine months ended December 31, 2017. At December 31, 2016, we had relationships with 112 third-party manufacturers. Of those, we had long-term contracts with 48 manufacturers that produced items that accounted for approximately 78.5% of gross sales for the nine months ended December 31, 2016. 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 of operations. Although we are in the process of negotiating long-term contracts with certain key manufacturers, we may not be able to reach a timely agreement, which could have a material adverse effect on our business and results of operations.

18. 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.

	Three Months Ended December 31, 2017			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Total segment revenues*	$225,695	$ 25,717	$ 19,203	$ 270,615
Cost of sales	95,164	10,511	17,266	122,941
Gross profit	130,531	15,206	1,937	147,674
Advertising and promotion	30,794	4,544	497	35,835
Contribution margin	$99,737	$ 10,662	$ 1,440	111,839
Other operating expenses				28,336
Operating income				83,503
Other expense				25,864
Income before income taxes				57,639
Benefit for income taxes				(257,154)
Net income				$ 314,793

* Intersegment revenues of $1.9 million were eliminated from the North America OTC Healthcare segment.

	Nine Months Ended December 31, 2017			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Total segment revenues*	$656,812	$ 67,572	$ 60,830	$ 785,214
Cost of sales	268,849	29,757	51,360	349,966
Gross profit	387,963	37,815	9,470	435,248
Advertising and promotion	98,666	11,827	1,474	111,967
Contribution margin	$289,297	$ 25,988	$ 7,996	323,281
Other operating expenses				84,592
Operating income				238,689
Other expense				79,041
Income before income taxes				159,648
Benefit for income taxes				(219,609)
Net income				$ 379,257

* Intersegment revenues of $5.6 million were eliminated from the North American OTC Healthcare segment.

(In thousands)	Three Months Ended December 31, 2016 North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Total segment revenues*	$177,273	$ 18,459	$ 21,031	$ 216,763
Cost of sales	68,378	7,678	16,160	92,216
Gross profit	108,895	10,781	4,871	124,547
Advertising and promotion	26,800	3,502	380	30,682
Contribution margin	$82,095	$ 7,279	$ 4,491	93,865
Other operating expenses**				24,578
Operating income				69,287
Other expense				18,554
Income before income taxes				50,733
Provision for income taxes				19,092
Net income				$ 31,641

* Intersegment revenues of $0.8 million were eliminated from the North American OTC Healthcare segment.
**Other operating expenses for the three months ended December 31, 2016 includes a pre-tax net gain on divestitures of $3.4 million related primarily to e.p.t and Dermoplast. The assets and corresponding contribution margin associated with the pre-tax net gain on these divestitures are included within the North American OTC Healthcare segment.

(In thousands)	Nine Months Ended December 31, 2016 North American OTC Healthcare