VECTOR GROUP LTD
Form 10-K/A
November 24, 2006

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For The Fiscal Year Ended December 31, 2005

VECTOR GROUP LTD.
(Exact name of registrant as specified in its charter)

Delaware	**1-5759**	**65-0949535**
(State or other jurisdiction of incorporation or organization)	Commission File Number	(I.R.S. Employer Identification No.)

100 S.E. Second Street, Miami, Florida	**33131**
(Address of principal executive offices)	(Zip Code)

(305) 579-8000
(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $.10 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes o No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. o Yes þ No

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, as amended (the Exchange Act), 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. þ Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
o Large accelerated filer þ Accelerated filer o Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.
o Yes þ No

The aggregate market value of the common stock held by non-affiliates of Vector Group Ltd. as of June 30, 2005 was approximately $550 million.

At March 15, 2006, Vector Group Ltd. had 49,914,537 shares of common stock outstanding.

Documents Incorporated by Reference:

Part III (Items 10, 11, 12, 13 and 14) from the definitive Proxy Statement for the 2006 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant s fiscal year covered by this report.

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Explanatory Note

This Amendment No. 2 on Form 10-K/A to Vector Group Ltd. s Annual Report on Form 10-K for the year ended December 31, 2005 is being filed to reflect the restatement of (i) our consolidated financial statements as of December 31, 2005, initially filed with the Securities and Exchange Commission (SEC) on March 17, 2006 (the Original Filing) and revised to reflect the retrospective application of the Financial Accounting Standards Board s Emerging Issues Task Force Issue No. 05-8, Income Tax Effects of Issuing Convertible Debt with a Beneficial Conversion Feature (EITF Issue No. 05-8), on June 27, 2006 (the Form 8-K), and the notes related thereto, as discussed below, included in Part II, Item 8; (ii) Selected Financial Data included in Part II, Item 6; and (iii) Management s Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7. As a result of the previous adoption of EITF Issue No. 05-8, the amounts included herein as previously reported do not agree to the Original Filing. We have not amended and do not intend to amend our previously filed Annual Report on Form 10-K for 2004 and Quarterly Reports on Form 10-Q for periods ending prior to December 31, 2005. For this reason, the consolidated financial statements, reports of independent registered certified public accounting firm and related financial information for the affected periods contained in such reports filed prior to November 14, 2006 should no longer be relied upon. We will amend our March 2006 and June 2006 Form 10-Qs.

The restatement adjustments corrected the previous amortization method used in calculating the debt discount amortization created by the embedded derivative and beneficial conversion feature associated with our 5% variable interest senior convertible notes due 2011 which were issued in the fourth quarter of 2004 and the first half of 2005. We previously amortized the debt discount on our 5% variable interest senior convertible notes due 2011 using an erroneous amortization method that did not result in a consistent yield on the convertible debt over the debt s term.

The aggregate net effect of the restatement was to increase stockholders equity by approximately $3.422 million as of December 31, 2005 and $336,000 as of December 31, 2004. The restatement also increased net income by approximately $3.290 million ($0.05 per diluted common share) and $336,000 ($0.01 per diluted common share) for the years ended December 31, 2005 and 2004, respectively.

Additionally, management has determined that a control deficiency existed related to the accuracy of the debt discount amortization. Specifically, we did not maintain effective controls to ensure that the amortization of the debt discount created by the embedded derivative and beneficial conversion feature resulted in a consistent yield on our 5% variable interest senior convertible notes due 2011 over the debt s term in accordance with generally accepted accounting principles through the application of the effective interest method. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Original Filing was previously amended to include in Part IV, Item 15, financial statements with respect to Douglas Elliman Realty, LLC and Koa Investors, LLC. In accordance with Rule 3-09 of Regulation S-X, the separate financial statements of these entities (50% or less owned persons) were filed with the SEC no later than 90 days after the end of our fiscal year covered by this report.

For the convenience of the reader, this 2005 Amendment No. 2 to Form 10-K/A sets forth the original filing in its entirety, although we are only amending and restating certain information in Items 6, 7, 8, and 15 of the Form 8-K and Items 7A and 9A of the Original Filing. The information contained in this Amendment No. 2 to Form 10-K/A has not been updated to reflect other events occurring after March 17, 2006, the date of the Original Filing, to modify or to update those disclosures affected by subsequent events, including the stock dividend effected in September 2006, except as described above for the adoption of EITF Issue No. 05-8. Information regarding subsequent periods is contained in our Quarterly Report

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on Form 10-Q for the quarter ended September 30, 2006 filed with the SEC on November 14, 2006 and in other filings with the SEC including our March 31, 2006 and June 30, 2006 Forms 10-Q/A. This filing should be read and considered in conjunction with such filings.

In addition, pursuant to the rules of the SEC, Item 15 of Part IV of the Original Filing has been amended to include a current dated consent of our independent registered certified public accounting firm and current dated certificates from our Chief Executive Officer and Chief Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The consent of our independent registered certified public accounting firm and the certifications of our Chief Executive Officer and Chief Financial Officer are attached to this Amendment No. 2 to Form 10-K/A as Exhibits 23, 31.1, 31.2, 32.1 and 32.2, respectively.

VECTOR GROUP LTD.
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PART I

ITEM 1. BUSINESS

Overview

Vector Group Ltd., a Delaware corporation, is a holding company for a number of businesses. We are engaged principally in:

- the manufacture and sale of cigarettes in the United States through our subsidiary Liggett Group LLC,

- the development and marketing of the low nicotine and nicotine-free QUEST cigarette products and the development of reduced risk cigarette products through our subsidiary Vector Tobacco Inc., and

- the real estate business through our subsidiary, New Valley LLC, which is seeking to acquire additional operating companies and real estate properties. New Valley owns 50% of Douglas Elliman Realty, LLC, which operates the largest residential brokerage company in the New York metropolitan area.

In recent years, we have undertaken a number of initiatives to streamline the cost structure of our tobacco business and improve operating efficiency and long-term earnings. During 2002, the sales and marketing functions, along with certain support functions, of our Liggett and Vector Tobacco subsidiaries were combined into a new entity, Liggett Vector Brands Inc. This company coordinates and executes the sales and marketing efforts for our tobacco operations.

Effective year-end 2003, we closed Vector Tobacco s Timberlake, North Carolina cigarette manufacturing facility in order to reduce excess cigarette production capacity and improve operating efficiencies company-wide. Production of QUEST and Vector Tobacco s other cigarette brands was transferred to Liggett s state-of-the-art manufacturing facility in Mebane, North Carolina. In July 2004, we completed the sale of the Timberlake facility and equipment.

In April 2004, we eliminated a number of positions in our tobacco operations and subleased excess office space. In October 2004, we announced a plan to restructure the operations of Liggett Vector Brands. Liggett Vector Brands has realigned its sales force and adjusted its business model to more efficiently serve its chain and independent customers nationwide. In connection with the restructuring, we eliminated approximately 330 full-time positions and 135 part-time positions as of December 15, 2004.

In December 2005, we completed an exchange offer and a subsequent short-form merger whereby we acquired the remaining 42.3% of the common shares of New Valley that we did not already own. As a result of these transactions, New Valley became our wholly-owned subsidiary and each outstanding New Valley common share was exchanged for 0.54 shares of our common stock. A total of approximately 5.05 million of our common shares were issued to the New Valley shareholders in the transactions.

Financial information relating to our business segments can be found in Note 21 to our consolidated financial statements. For the purposes of this discussion and segment reporting in this report, references to the Liggett segment encompass the manufacture and sale of conventional cigarettes and includes the former operations of The Medallion Company, Inc. acquired on April 1, 2002 (which operations are held for legal purposes as part of Vector Tobacco). References to the Vector Tobacco segment include the development and marketing of the low nicotine and nicotine-free cigarette products as well as the development of reduced risk cigarette products and, for these purposes, exclude the operations of Medallion.

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Strategy

Our strategy is to maximize shareholder value by increasing the profitability of our subsidiaries in the following ways:

Liggett

Capitalize upon Liggett s cost advantage in the U.S. cigarette market due to the favorable treatment that it receives under settlement agreements with the state attorneys general and the Master Settlement Agreement,

Focus marketing and selling efforts on the discount segment, continue to build volume and margin in core discount brands (LIGGETT SELECT, GRAND PRIX and EVE) and utilize core brand equity to selectively build distribution,

Continue product development to provide the best quality products relative to other discount products in the marketplace,

Increase efficiency by developing and adopting an organizational structure to maximize profit potential,

Selectively expand the portfolio of private and control label partner brands utilizing a pricing strategy that offers long-term list price stability for customers,

Identify, develop and launch relevant new brands to the market in the future, and

Pursue strategic acquisitions of smaller tobacco manufacturers.

Vector Tobacco

Take a measured approach to expanding the market presence of the QUEST brand,

Continue to pursue the QUEST technology as a smoking cessation aid, and

Continue to conduct appropriate studies relating the reduction of carcinogens in cigarettes to reduced risk in smoking.

New Valley

Continue to grow Douglas Elliman operations by utilizing its strong brand name recognition and pursuing strategic and financial opportunities,

Continue to leverage our expertise as direct investors by actively pursuing real estate investments in the United States and abroad which we believe will generate above-market returns,

Acquire operating companies through mergers, asset purchases, stock acquisitions or other means, and

Invest New Valley s excess funds opportunistically in situations that we believe can maximize shareholder value.

Liggett Group LLC

General. Liggett, which is the operating successor to the Liggett & Myers Tobacco Company, is currently the fifth largest manufacturer of cigarettes in the United States in terms of unit sales. Liggett s manufacturing facilities are located in Mebane, North Carolina.

Liggett manufactures and sells cigarettes in the United States. According to data from Management Science Associates, Inc., Liggett s domestic shipments of approximately 8.2 billion cigarettes during 2005 accounted for 2.2% of the total cigarettes shipped in the United States during such year. This market share percentage represents a decrease of 0.1% from 2004 and a decrease of 0.3% from 2003. Historically, Liggett produced premium cigarettes as

well as discount cigarettes (which include among others, control label, private label, branded discount

and generic cigarettes). Premium cigarettes are generally marketed under well-recognized brand names at higher retail prices to adult smokers with a strong preference for branded products, whereas discount cigarettes are marketed at lower retail prices to adult smokers who are more cost conscious. In recent years, the discounting of premium cigarettes has become far more significant in the marketplace. This has led to some brands that were traditionally considered premium brands to become more appropriately categorized as branded discount, following list price reductions. Liggett s EVE brand would fall into that category. All of Liggett s unit volume in 2005 and 2004 was in the discount segment, which Liggett s management believes has been the primary growth segment in the industry for over a decade.

Liggett produces cigarettes in approximately 270 combinations of length, style and packaging. Liggett s current brand portfolio includes:

LIGGETT SELECT the third largest brand in the deep discount category,

GRAND PRIX the fastest growing brand in the deep discount segment,

EVE a leading brand of 120 millimeter cigarettes in the branded discount category,

PYRAMID the industry s first deep discount product with a brand identity, and

USA and various Partner Brands and private label brands.

In 1980, Liggett was the first major domestic cigarette manufacturer to successfully introduce discount cigarettes as an alternative to premium cigarettes. In 1989, Liggett established a new price point within the discount market segment by introducing PYRAMID, a branded discount product which, at that time, sold for less than most other discount cigarettes. In 1999, Liggett introduced LIGGETT SELECT, one of the leading brands in the deep discount category. LIGGETT SELECT is now the largest seller in Liggett s family of brands, comprising 44.6% of Liggett s unit volume in 2005, 55.8% in 2004 and 50.9% in 2003. In September 2005, Liggett repositioned GRAND PRIX to distributors and retailers nationwide. GRAND PRIX is marketed as the lowest price fighter to specifically compete with brands which are priced at the lowest level of the deep discount segment. According to Management Science Associates data, Liggett held a share of approximately 7.5% of the overall discount market segment for 2005 compared to 7.4% for 2004 and 7.3% for 2003.

Liggett s premium cigarettes represented approximately 6.2% in 2003 of Liggett s revenues. According to Management Science Associates data, Liggett s unit share of the premium market segment was approximately 0.3% in 2003. Until May 1999, Liggett produced four premium cigarette brands: L&M, CHESTERFIELD, LARK and EVE. As part of the Philip Morris brand transaction (which is further described below) which closed in May 1999, Liggett transferred the L&M, CHESTERFIELD and LARK brands.

Effective February 1, 2004, Liggett reduced the EVE list price from the premium price level to the branded discount level. During 2003, the net list price for EVE was at the discount level after giving effect to promotional spending.

In March 2005, Liggett Vector Brands announced an agreement with Circle K Stores, Inc., which operates over 2,200 convenience stores in the United States under the Circle K and Mac s names, to supply MONTEGO, a deep discount brand, exclusively for the Circle K and Mac s stores. The MONTEGO brand was the first to be offered under Liggett Vector Brands new Partner Brands program which offers customers quality product with long-term price stability. In November 2005, Liggett Vector Brands announced an agreement with Sunoco Inc., which operates over 800 Sunoco APlus branded convenience stores in the United States, to manufacture SILVER EAGLE. SILVER EAGLE, a deep discount brand, is exclusive to Sunoco and is the second brand to be offered under Liggett Vector Brands Partner Brands program.

The source of industry data in this report is Management Science Associates, Inc., an independent third-party database management organization that collects wholesale shipment

data from various cigarette manufacturers and distributors and provides analysis of market share, unit sales volume and premium versus discount mix for individual companies and the industry as a whole. Management Science Associates information relating to unit sales volume and market share of certain of the smaller, primarily deep discount, cigarette manufacturers is based on estimates developed by Management Science Associates. Effective June 2004, Management Science Associates made three changes in the information it reports as noted below and these changes are reflected in the information presented in this report:

Management Science Associates is now reporting actual units shipped by Commonwealth Brands, Inc.

Management Science Associates has implemented a new model for estimating unit sales volume for certain of the smaller, primarily deep discount cigarette manufacturers.

Management Science Associates has restated volume and the resulting effects on share of market from January 2001 forward.

The effects of these changes are that total industry volume increased based on new smaller manufacturer estimates and actual reported volume for Commonwealth and, based on the revised industry volume number, market shares for the major tobacco companies, including Liggett, have been restated from January 2001 forward and will be lower. Under Management Science Associates new method for computing market share, Liggett and Vector Tobacco accounted for approximately 2.2% of the total cigarettes shipped in the United States during 2001, 2.4% during 2002 and 2.5% during 2003, as compared to 2.2% during 2001, 2.5% during 2002 and 2.7% during 2003 under the past method.

We believe that Liggett has gained a sustainable cost advantage over its competitors through its various settlement agreements. Under the Master Settlement Agreement reached in November 1998 with 46 states and various territories, the three largest cigarette manufacturers must make settlement payments to the states and territories based on how many cigarettes they sell annually. Liggett, however, is not required to make any payments unless its market share exceeds approximately 1.65% of the U.S. cigarette market. Additionally, as a result of the Medallion acquisition, Vector Tobacco likewise has no payment obligation unless its market share exceeds approximately 0.28% of the U.S. cigarette market.

In November 1999, Liggett acquired an industrial facility in Mebane, North Carolina. Liggett completed the relocation of its tobacco manufacturing operations from its old plant in Durham, North Carolina to the Mebane facility in October 2000. Since January 1, 2004, all of Vector Tobacco s cigarette brands have been produced at the Mebane facility.

At the present time, Liggett has no foreign operations. Liggett does not own the international rights to EVE, which is marketed by Philip Morris in foreign markets.

Business Strategy. Liggett s business strategy is to capitalize upon its cost advantage in the United States cigarette market due to the favorable treatment Liggett receives under its settlement agreements with the states and the Master Settlement Agreement. Liggett s long-term business strategy is to continue to focus its marketing and selling efforts on the discount segment of the market, to continue to build volume and margin in its core discount brands (LIGGETT SELECT, GRAND PRIX and EVE) and to utilize its core brand equity to selectively build distribution. Liggett intends to continue its product development to provide the best quality products relative to other discount products in the market place. Liggett will continue to seek to increase efficiency by developing and adapting its organizational structure to maximize profit potential. Liggett intends to expand the portfolio of its private and control label and Partner Brands utilizing a pricing strategy that offers long-term list price stability for customers. In addition, Liggett may bring niche-driven brands to the market in the future.

Sales, Marketing and Distribution. Liggett s products are distributed from a central distribution center in Mebane to 18 public warehouses located throughout the United States.

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These warehouses serve as local distribution centers for Liggett s customers. Liggett s products are transported from the central distribution centers to the warehouses via third-party trucking companies to meet pre-existing contractual obligations to its customers.

Liggett s customers are primarily tobacco and candy distributors, the military, warehouse club chains, and large grocery, drug and convenience store chains. Liggett offers its customers discount payment terms, traditional rebates and promotional incentives. Customers typically pay for purchased goods within two weeks following delivery from Liggett, and approximately 90% of customers pay more rapidly through electronic funds transfer arrangements. Liggett s largest single customer, Speedway SuperAmerica LLC, accounted for approximately 11.9% of its revenues in 2005, 13.8% of its revenues in 2004 and 16.6% of its revenues in 2003. Sales to this customer were primarily in the private label discount segment. Liggett s contract with this customer currently extends through March 31, 2009.

During 2002, the sales and marketing functions, along with certain support functions, of our Liggett and Vector Tobacco subsidiaries were combined into a new entity, Liggett Vector Brands. This company coordinates and executes the sales and marketing efforts for all of our tobacco operations.

In April 2004, we eliminated a number of positions in our tobacco operations and subleased excess office space. In October 2004, we announced a plan to restructure the operations of Liggett Vector Brands. Liggett Vector Brands has realigned its sales force and adjusted its business model to more efficiently serve its chain and independent accounts nationwide. In connection with the restructuring, we eliminated approximately 330 full-time positions and 135 part-time positions as of December 15, 2004.

Trademarks. All of the major trademarks used by Liggett are federally registered or are in the process of being registered in the United States and other markets. Trademark registrations typically have a duration of ten years and can be renewed at Liggett s option prior to their expiration date. In view of the significance of cigarette brand awareness among consumers, management believes that the protection afforded by these trademarks is material to the conduct of its business. All of Liggett s trademarks are owned by its wholly-owned subsidiary, Eve Holdings Inc., except for the JADE trademark, which is licensed on a long-term exclusive basis from a third-party for use in connection with cigarettes.

Manufacturing. Liggett purchases and maintains leaf tobacco inventory to support its cigarette manufacturing requirements. Liggett believes that there is a sufficient supply of tobacco within the worldwide tobacco market to satisfy its current production requirements. Liggett stores its leaf tobacco inventory in warehouses in North Carolina and Virginia. There are several different types of tobacco, including flue-cured leaf, burley leaf, Maryland leaf, oriental leaf, cut stems and reconstituted sheet. Leaf components of American-style cigarettes are generally the flue-cured and burley tobaccos. While premium and discount brands use many of the same tobacco products, input ratios of tobacco products may vary between premium and discount products. Foreign flue-cured and burley tobaccos, some of which are used in the manufacture of Liggett s cigarettes, have historically been 30% to 35% less expensive than comparable domestic tobaccos. Liggett normally purchases all of its tobacco requirements from domestic and foreign leaf tobacco dealers, much of it under long-term purchase commitments. As of December 31, 2005, virtually all of Liggett s commitments were for the purchase of foreign tobacco.

Liggett s cigarette manufacturing facilities in Mebane, North Carolina were designed for the execution of short production runs in a cost-effective manner, which enable Liggett to manufacture and market a wide variety of cigarette brand styles. Liggett produces cigarettes in approximately 270 different brand styles under Eve s trademarks and brand names as well as private labels for other companies, typically retail or wholesale distributors who supply supermarkets and convenience stores.

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The Mebane facility currently produces approximately 8.5 billion cigarettes per year, but maintains the capacity to produce approximately 16 billion cigarettes per year. Vector Tobacco has contracted with Liggett to produce its cigarettes and has transferred production from the Timberlake facility, which has been sold, to the manufacturing facility in Mebane. All production ceased at Timberlake by December 31, 2003. As part of the transition, approximately 150 manufacturing and administrative positions were eliminated.

While Liggett pursues product development, its total expenditures for research and development on new products have not been financially material over the past three years.

Competition. Liggett s competition is now divided into two segments. The first segment is made up of the three largest manufacturers of cigarettes in the United States: Philip Morris USA Inc., Reynolds American Inc. (following the combination of RJR Tobacco and Brown & Williamson s United States tobacco businesses in July 2004) and Lorillard Tobacco Company. The three largest manufacturers, while primarily premium cigarette based companies, also produce and sell discount cigarettes. The second segment of competition is comprised of a group of smaller manufacturers and importers, most of which sell lower quality, deep discount cigarettes.

Historically, there have been substantial barriers to entry into the cigarette business, including extensive distribution organizations, large capital outlays for sophisticated production equipment, substantial inventory investment, costly promotional spending, regulated advertising and, for premium brands, strong brand loyalty. However, in recent years, a number of these smaller companies have been able to overcome these competitive barriers due to excess production capacity in the industry and the cost advantage for certain manufacturers and importers resulting from the Master Settlement Agreement.

Many smaller manufacturers and importers that are not parties to the Master Settlement Agreement have only recently started to be impacted by the statutes enacted pursuant to the Master Settlement Agreement and to see a resultant decrease in volume after years of growth. Liggett s management believes, while these companies still have significant market share through competitive discounting in this segment, they are losing their cost advantage as their payment obligations under these statutes increase and are more effectively enforced by the states, through implementation of allocable share legislation.

In the cigarette business, Liggett competes on a dual front. The three major manufacturers compete among themselves for premium brand market share, and compete with Liggett and others for discount market share, on the basis of brand loyalty, advertising and promotional activities, and trade rebates and incentives. These three competitors all have substantially greater financial resources and most of their brands have greater sales and consumer recognition than Liggett s products. Liggett s discount brands must also compete in the marketplace with the smaller manufacturers and importers deep discount brands.

According to Management Science Associates data, the unit sales of Philip Morris, Reynolds American and Lorillard accounted in the aggregate for approximately 86.1% of the domestic cigarette market in 2005. Liggett s domestic shipments of approximately 8.2 billion cigarettes during 2005 accounted for 2.2% of the approximately 381 billion cigarettes shipped in the United States during that year, compared to 9 billion cigarettes in 2004 (2.3%) and 9.8 billion cigarettes (2.4%) during 2003.

Industry-wide shipments of cigarettes in the United States have been generally declining for a number of years, with Management Science Associates data indicating that domestic industry-wide shipments decreased by approximately 3.4% (13 billion units) in 2005. Liggett s management believes that industry-wide shipments of cigarettes in the United States will generally continue to decline as a result of numerous factors. These factors include health considerations, diminishing social acceptance of smoking, and a wide variety of federal, state and

local laws limiting smoking in restaurants, bars and other public places, as well as federal and state excise tax increases and settlement-related expenses which have contributed to high cigarette price levels in recent years.

Historically, because of their dominant market share, Philip Morris and RJR Tobacco (which is now part of Reynolds American), the two largest cigarette manufacturers, have been able to determine cigarette prices for the various pricing tiers within the industry. Market pressures have historically caused the other cigarette manufacturers to bring their prices in line with the levels established by these two major manufacturers. Off-list price discounting and similar promotional activity by manufacturers, however, has substantially affected the average price differential at retail, which can be significantly less than the manufacturers list price gap. Recent discounting by manufacturers has been far greater than historical levels, and the actual price gap between premium and deep-discount cigarettes has changed accordingly. This has led to shifts in price segment performance depending upon the actual price gaps of products at retail.

In July 2004, RJR Tobacco and Brown & Williamson, the second and third largest cigarette manufacturers, completed the combination of their United States tobacco businesses to create Reynolds American. This transaction will further consolidate the dominance of the domestic cigarette market by Philip Morris and the newly created Reynolds American, who had a combined market share of approximately 76.9% at December 31, 2005. This concentration of United States market share could make it more difficult for Liggett and Vector Tobacco to compete for shelf space in retail outlets and could impact price competition in the market, either of which could have a material adverse affect on their sales volume, operating income and cash flows.

Acquisition of Medallion. In April 2002, a subsidiary of ours acquired the stock of The Medallion Company, Inc., and related assets from Gary L. Hall, Medallion s principal stockholder. The total purchase price consisted of $50 million in cash and $60 million in notes, with the notes guaranteed by us and Liggett. Medallion is a discount cigarette manufacturer selling product in the deep discount category, primarily under the USA brand name. Medallion is a participating manufacturer under the Master Settlement Agreement. Medallion has no payment obligations under the Master Settlement Agreement unless its market share exceeds approximately 0.28% of total cigarettes sold in the United States (approximately 1.1 billion cigarettes in 2005).

Following the purchase of the Medallion stock, Vector Tobacco merged into Medallion and Medallion changed its name to Vector Tobacco Inc. For purposes of this discussion and segment reporting in this report, references to the Liggett segment encompass the manufacture and sale of conventional cigarettes and include the former operations of Medallion (which operations are held for legal purposes as part of Vector Tobacco).

Philip Morris Brand Transaction. In November 1998, we and Liggett granted Philip Morris options to purchase interests in Trademarks LLC which holds three domestic cigarette brands, L&M, CHESTERFIELD and LARK, formerly held by Liggett s subsidiary, Eve.

Under the terms of the Philip Morris agreements, Eve contributed the three brands to Trademarks, a newly-formed limited liability company, in exchange for 100% of two classes of Trademarks interests, the Class A Voting Interest and the Class B Redeemable Nonvoting Interest. Philip Morris acquired two options to purchase the interests from Eve. In December 1998, Philip Morris paid Eve a total of $150 million for the options, $5 million for the option for the Class A interest and $145 million for the option for the Class B interest.

The Class A option entitled Philip Morris to purchase the Class A interest for $10.1 million. On March 19, 1999, Philip Morris exercised the Class A option, and the closing occurred on May 24, 1999.

The Class B option entitles Philip Morris to purchase the Class B interest for $139.9 million. The Class B option will be exercisable during the 90-day period beginning on December 2, 2008,

with Philip Morris being entitled to extend the 90-day period for up to an additional six months under certain circumstances. The Class B interest will also be redeemable by Trademarks for $139.9 million during the same period the Class B option may be exercised.

On May 24, 1999, Trademarks borrowed $134.9 million from a lending institution. The loan is guaranteed by Eve and is collateralized by a pledge by Trademarks of the three brands and Trademarks interest in the trademark license agreement (discussed below) and by a pledge by Eve of its Class B interest. In connection with the closing of the Class A option, Trademarks distributed the loan proceeds to Eve as the holder of the Class B interest. The cash exercise price of the Class B option and Trademarks redemption price were reduced by the amount distributed to Eve. Upon Philip Morris exercise of the Class B option or Trademarks exercise of its redemption right, Philip Morris or Trademarks, as relevant, will be required to obtain Eve s release from its guaranty. The Class B interest will be entitled to a guaranteed payment of $0.5 million each year with the Class A interest allocated all remaining income or loss of Trademarks.

Trademarks has granted Philip Morris an exclusive license of the three brands for an 11-year term expiring May 24, 2010 at an annual royalty based on sales of cigarettes under the brands, subject to a minimum annual royalty payment of not less than the annual debt service obligation on the loan plus $1 million.

If Philip Morris fails to exercise the Class B option, Eve will have an option to put its Class B interest to Philip Morris, or Philip Morris designees, at a put price that is $5 million less than the exercise price of the Class B option (and includes Philip Morris obtaining Eve s release from its loan guaranty). The Eve put option is exercisable at any time during the 90-day period beginning March 2, 2010.

If the Class B option, Trademarks redemption right and the Eve put option expire unexercised, the holder of the Class B interest will be entitled to convert the Class B interest, at its election, into a Class A interest with the same rights to share in future profits and losses, the same voting power and the same claim to capital as the entire existing outstanding Class A interest, i.e., a 50% interest in Trademarks.

Upon the closing of the exercise of the Class A option and the distribution of the loan proceeds on May 24, 1999, Philip Morris obtained control of Trademarks, and we recognized a pre-tax gain of $294.1 million in our consolidated financial statements and established a deferred tax liability of $103.01 million relating to the gain. As discussed in Note 11 to our consolidated financial statements, the Internal Revenue Service has issued to us a notice of proposed adjustment asserting, for tax purposes, that the entire gain should have been recognized by the Company in 1998 and 1999.

Vector Tobacco Inc.

Vector Tobacco, a wholly-owned subsidiary of VGR Holding, is engaged in the development and marketing of the low nicotine and nicotine-free QUEST cigarette products and the development of reduced risk cigarette products.

QUEST. In January 2003, Vector Tobacco introduced QUEST, its brand of low nicotine and nicotine-free cigarette products. QUEST is designed for adult smokers who are interested in reducing their levels of nicotine intake and is available in both menthol and non-menthol styles. Each QUEST style (regular and menthol) offers three different packagings, with decreasing amounts of nicotine QUEST 1, 2 and 3. QUEST 1, the low nicotine variety, contains 0.6 milligrams of nicotine. QUEST 2, the extra-low nicotine variety, contains 0.3 milligrams of nicotine. QUEST 3, the nicotine-free variety, contains only trace levels of nicotine no more than 0.05 milligrams of nicotine per cigarette. QUEST cigarettes utilize proprietary, patented and patent pending processes and materials that enable the production of cigarettes with nicotine-free tobacco that tastes and smokes like tobacco in conventional cigarettes. All six QUEST varieties are being sold in box style packs and are priced comparably to other premium brands.

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QUEST was initially available in New York, New Jersey, Pennsylvania, Ohio, Indiana, Illinois and Michigan. These seven states account for approximately 30% of all cigarette sales in the United States. A multi-million dollar advertising and marketing campaign, with advertisements running in magazines and regional newspapers, supported the product launch. The brand continues to be supported by point-of-purchase awareness campaigns. Vector Tobacco has established a website, www.questcigs.com, to provide adult smokers with additional information about QUEST.

The premium segment of the tobacco industry continues to experience intense competitive activity, with significant discounting of premium brands at all levels of retail. Given these marketplace conditions, and the results that we have seen to date with QUEST, we have taken a measured approach to expanding the market presence of the brand. In November 2003, Vector Tobacco introduced three menthol varieties of QUEST in the seven state market. In January 2004, QUEST and QUEST Menthol were introduced into an expansion market in Arizona, which accounts for approximately 2% of the industry volume nationwide.

During the second quarter 2004, based on an analysis of the market data obtained since the introduction of the QUEST product, we determined to postpone indefinitely the national launch of QUEST. Any determination as to future expansion of the market presence of QUEST will be based on the ongoing and projected demand for the product, market conditions in the premium segment and the prevailing regulatory environment, including any restrictions on the advertising of the product.

During the second quarter of 2004, we recognized a non-cash charge of $37 million to adjust the carrying value of excess leaf tobacco inventory for the QUEST product, based on estimates of future demand and market conditions. If actual demand for the product or market conditions are less favorable than those estimated, additional inventory write-downs may be required.

QUEST brand cigarettes are currently marketed to permit adult smokers, who wish to continue smoking, to gradually reduce their intake of nicotine. The products are not labeled or advertised for smoking cessation and Vector Tobacco makes no claims that QUEST is safer than other cigarette products.

In October 2003, we announced that Jed E. Rose, Ph.D., Director of Duke University Medical Center s Nicotine Research Program and co-inventor of the nicotine patch, had conducted a study at Duke University Medical Center to provide preliminary evaluation of the use of the QUEST technology as a smoking cessation aid. In the preliminary study on QUEST, 33% of QUEST 3 smokers were able to achieve four-week continuous abstinence, a standard threshold for smoking cessation. Management believes these results show real promise for the QUEST technology as a smoking cessation aid. We have received guidance from the Food and Drug Administration as to the additional clinical research and regulatory filings necessary to market QUEST as a smoking cessation product. We are currently conducting a multi-centered clinical trial with QUEST cigarettes, which should be completed by the end of the first quarter of 2006. Management believes that obtaining the Food and Drug Administration s approval to market QUEST as a smoking cessation product will be an important factor in the long-term commercial success of the QUEST brand. No assurance can be given that such approval can be obtained or as to the timing of any such approval if received.

The nicotine-free tobacco in QUEST cigarettes is produced by genetically modifying nicotine-producing tobacco plants, using a combination of patented and patent pending processes and materials to produce tobacco plants which are essentially nicotine-free. Management believes that, based on testing at Vector Tobacco s research facility, the QUEST 3 product will contain trace levels of nicotine that have no discernible physiological impact on the smoker, and that, consistent with other products bearing free claims, QUEST 3 may be labeled as nicotine-free

with an appropriate disclosure of the trace levels. The QUEST 3 product is similarly referred to in this report as nicotine-free . As the process genetically blocks formation of nicotine in the root of the plant, the tobacco leaf taste is not affected.

OMNI. In November 2001, Vector Tobacco launched OMNI nationwide, the first reduced carcinogen cigarette that smokes, tastes and burns like other premium cigarettes. In comparison to comparable styles of the leading U.S. cigarette brand, OMNI cigarettes produce significantly lower levels of many of the recognized carcinogens and toxins that the medical community has identified as major contributors to lung cancer and other diseases in smokers. While OMNI has not been proven to reduce health risks, management believes that the significant reduction of carcinogens is a step in the right direction. The data show lower levels in OMNI of the main carcinogens and toxins in both mainstream and sidestream tobacco smoke, including polycyclic aromatic hydrocarbons (PAHs), tobacco specific nitrosamines (TSNAs), catechols and organics, with somewhat increased levels of nitric oxide and formaldehyde. Mainstream smoke is what the smoker directly inhales and sidestream smoke, which is the major component of environmental tobacco smoke, is released from the burning end of a cigarette.

During 2002, acceptance of OMNI in the marketplace was limited, with revenues of approximately $5.1 million on sales of 70.7 million units. During 2003, OMNI sales activity was minimal as Vector Tobacco was not actively marketing the OMNI product, and the product is not currently being distributed. Vector Tobacco was unable to achieve the anticipated breadth of distribution and sales of the OMNI product due, in part, to the lack of success of its advertising and marketing efforts in differentiating OMNI with consumers through the reduced carcinogen message. Over the next several years, our in-house research program, together with third-party collaborators, plans to conduct appropriate studies relating OMNI s reduction of carcinogens to reduced risk in smokers and, based on these studies, management will review the marketing and positioning of the OMNI brand in order to formulate a strategy for its long-term success.

OMNI cigarettes are produced using a patented technology developed by Vector Tobacco. Traditional tobacco is treated with a complex catalytic system that significantly reduces the levels of certain carcinogens and other toxins. Additionally, OMNI employs the use of an innovative carbon filter, which reduces a wide range of harmful compounds in smoke, yet has no impact on OMNI s premium taste. Vector Tobacco is committed to continuing its research to find new, innovative ways to further reduce carcinogens as well as other identified substances that may play a role in smoking-related diseases.

The relationship between smoking and disease occurrence is exceedingly complex. Vector Tobacco has begun the process of devising and funding studies of the health impact of the OMNI product. Vector Tobacco does not presently have any objective evidence that OMNI cigarettes will reduce the known health risks of cigarette smoking to the smoker or nonsmoking bystander, and no health claims are being made by Vector Tobacco.

Manufacturing and Marketing. The QUEST brands are priced as premium cigarettes and marketed by the sales representatives of Liggett Vector Brands, which coordinates and executes the sales and marketing efforts for all our tobacco operations. In the fourth quarter of 2002, Vector Tobacco began production of QUEST at a facility it had purchased in Timberlake, North Carolina, and converted into a modern cigarette manufacturing plant. In October 2003, we announced that we would close Vector Tobacco s Timberlake facility in order to reduce excess cigarette production capacity and improve operating efficiencies company-wide. As of January 1, 2004, production of QUEST and Vector Tobacco s other cigarette brands was moved to Liggett s state-of-the-art manufacturing facility in Mebane, North Carolina.

The Mebane facility currently produces approximately 8.5 billion cigarettes per year, but maintains the capacity to produce approximately 16 billion cigarettes per year. Vector Tobacco has contracted with Liggett to produce its cigarettes and has transferred production from Timberlake to Mebane. All production ceased at Timberlake by December 31, 2003. As part of the transition, approximately 150 manufacturing and administrative positions were eliminated.

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As a result of these actions, we recognized pre-tax restructuring and impairment charges of $21.3 million in 2003, and additional charges of $0.4 million were recognized in 2004. Approximately $2.2 million relate to employee severance and benefit costs, $0.7 million to contract termination and exit and moving costs, and $18.8 million to non-cash asset impairment charges. Machinery and equipment to be disposed of was reduced to fair value less costs to sell during 2003.

In July 2004, a wholly-owned subsidiary of Vector Tobacco completed the sale of the Timberlake, North Carolina manufacturing facility along with all equipment to an affiliate of the Flue-Cured Tobacco Cooperative Stabilization Corporation for $25.8 million. In connection with the closing, the subsidiary of Vector Tobacco entered into a consulting agreement to provide certain services to the buyer for $0.4 million, all of which was recognized by the Company in 2004. Approximately $5.2 million of the proceeds from the sale were used at closing to retire debt secured by the Timberlake property.

We decreased the asset impairment accrual as of June 30, 2004 to reflect the actual amounts to be realized from the Timberlake sale and to reduce the values of other excess Vector Tobacco machinery and equipment in accordance with SFAS No. 144. We also adjusted the previously recorded restructuring accrual as of June 30, 2004 to reflect additional employee severance and benefits, contract termination and associated costs resulting from the Timberlake sale. No charge to operations resulted from these adjustments as there was no change to the total impairment and restructuring charges previously recognized.

Liggett Vector Brands, as part of the continuing effort to adjust the cost structure of our tobacco business and improve operating efficiency, eliminated 83 positions during April 2004, sublet its New York office space in July 2004 and relocated several employees. As a result of these actions, we recognized additional pre-tax restructuring charges of $2.7 million in 2004, including $0.8 million relating to employee severance and benefit costs and $1.9 million for contract termination and other associated costs. Approximately $0.5 million of these charges represent non-cash items.

Annual cost savings related to the Timberlake restructuring and impairment charges and the actions taken at Liggett Vector Brands in the first half of 2004 were estimated to be at least $23 million beginning in 2004. Management believes that the anticipated annual cost savings have been achieved beginning in 2004.

On October 6, 2004, we announced an additional plan to restructure the operations of Liggett Vector Brands, our sales, marketing and distribution agent for our Liggett and Vector Tobacco subsidiaries. Liggett Vector Brands has realigned its sales force and adjusted its business model to more efficiently serve its chain and independent accounts nationwide. In connection with the restructuring, we eliminated approximately 330 full-time positions and 135 part-time positions as of December 15, 2004.

As a result of the actions announced in October 2004, management believes we have realized annual cost savings of approximately $30 million beginning in 2005. We recognized pre-tax restructuring charges of $10.6 million in 2004. Approximately $5.7 million of the charges related to employee severance and benefit costs and approximately $4.9 million to contract termination and other associated costs. Approximately $2.5 million of these charges represented non-cash items. Additionally, we incurred other charges in 2004 for various compensation and related payments to employees which were related to the restructuring. These charges of $1.7 million were included in operating, selling, administrative and general expenses. Management will continue to review opportunities for additional cost savings in our tobacco business.

The OMNI product used traditional tobaccos, and the QUEST 3 product uses genetically modified tobacco grown specifically for Vector Tobacco. The Quest 1 and 2 products use a mixture of genetically modified tobacco and traditional tobaccos.

The introduction of the QUEST and OMNI brands required the expenditure of substantial sums for advertising and sales promotion. The advertising media used included age appropriate magazines, newspapers, direct mail and point-of-sale display materials. Sales promotion activities were conducted by distribution of store coupons, point-of-sale display and advertising, advertising in print media, and personal contact with distributors, retailers and consumers.

Expenditures by Vector Tobacco for research and development activities were $9.0 million in 2005, $8.1 million in 2004 and $9.8 million in 2003.

Competition. Vector Tobacco s competitors generally have substantially greater resources than it, including financial, marketing and personnel resources. Other major tobacco companies have stated that they are working on reduced risk cigarette products and have made publicly available at this time only limited additional information concerning their activities. Philip Morris has announced that it is developing products that potentially reduce smokers exposure to harmful compounds in cigarette smoke and have been pursuing patents for its technology. RJR Tobacco has disclosed that a primary focus for its research and development activity is the development of potentially reduced exposure products, which may ultimately be recognized as products that present reduced risks to health. RJR Tobacco has stated that it continues to sell in limited distribution throughout the country a brand of cigarettes that primarily heats rather than burns tobacco, which it claims reduces the toxicity of its smoke. There is a substantial likelihood that other major tobacco companies will continue to introduce new products that are designed to compete directly with the low nicotine, nicotine-free and reduced risk products that Vector Tobacco currently markets or may develop.

Intellectual Property. Vector Tobacco is the exclusive sublicensee of technology for reducing or eliminating nicotine in tobacco through certain genetic engineering techniques. Patents encompassing this technology have been issued in the United States and more than 70 countries. Patent applications encompassing this technology remain pending in the United States and various other countries around the world.

Vector Tobacco has filed patent applications in the United States, Europe, Japan and Hong Kong relating to the use of palladium and other compounds to reduce the presence of carcinogens and other toxins. Patents encompassing this technology have been issued in the United States.

Research related to the biological basis of tobacco-related disease is being conducted at Vector Tobacco and together with third-party collaborators. This research is being directed by Dr. Anthony P. Albino, Vector Tobacco s Senior Vice President of Public Health Affairs. Vector Tobacco believes that as this research progresses, it may generate additional intellectual property. Vector Tobacco has filed international patent applications directed to technology arising from this research.

Risks. Vector Tobacco s new product initiatives are subject to substantial risks, uncertainties and contingencies which include, without limitation, the challenges inherent in new product development initiatives, the ability to raise capital and manage the growth of its business, recovery of costs of inventory, the need to obtain Food and Drug Administration approval to market QUEST as a smoking cessation product, potential disputes concerning Vector Tobacco s intellectual property, intellectual property of third parties, potential extensive government regulation or prohibition, third party allegations that Vector Tobacco products are unlawful or bear deceptive or unsubstantiated product claims, potential delays in obtaining tobacco, other raw materials and any technology needed to produce Vector Tobacco s products, market acceptance of Vector Tobacco s products, competition from companies with greater resources and the dependence on key employees. See Item 1A. Risk Factors .

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Legislation, Regulation and Litigation

Reports with respect to the alleged harmful physical effects of cigarette smoking have been publicized for many years and, in the opinion of Liggett s management, have had and may continue to have an adverse effect on cigarette sales. Since 1964, the Surgeon General of the United States and the Secretary of Health and Human Services have released a number of reports which state that cigarette smoking is a causative factor with respect to a variety of health hazards, including cancer, heart disease and lung disease, and have recommended various government actions to reduce the incidence of smoking. In 1997, Liggett publicly acknowledged that, as the Surgeon General and respected medical researchers have found, smoking causes health problems, including lung cancer, heart and vascular disease, and emphysema.

Since 1966, federal law has required that cigarettes manufactured, packaged or imported for sale or distribution in the United States include specific health warnings on their packaging. Since 1972, Liggett and the other cigarette manufacturers have included the federally required warning statements in print advertising and on certain categories of point-of-sale display materials relating to cigarettes. The Federal Cigarette Labeling and Advertising Act requires that packages of cigarettes distributed in the United States and cigarette advertisements in the United States bear one of the following four warning statements: SURGEON GENERAL S WARNING: Smoking Causes Lung Cancer, Heart Disease, Emphysema, and May Complicate Pregnancy ; SURGEON GENERAL S WARNING: Quitting Smoking Now Greatly Reduces Serious Risks to Your Health ; SURGEON GENERAL S WARNING: Smoking by Pregnant Women May Result in Fetal Injury, Premature Birth, and Low Birth Weight ; and SURGEON GENERAL S WARNING: Cigarette Smoke Contains Carbon Monoxide . The law also requires that each person who manufactures, packages or imports cigarettes annually provide to the Secretary of Health and Human Services a list of ingredients added to tobacco in the manufacture of cigarettes. Annual reports to the United States Congress are also required from the Secretary of Health and Human Services as to current information on the health consequences of smoking and from the Federal Trade Commission on the effectiveness of cigarette labeling and current practices and methods of cigarette advertising and promotion. Both federal agencies are also required annually to make such recommendations as they deem appropriate with regard to further legislation. In addition, since 1997, Liggett has included the warning Smoking is Addictive on its cigarette packages.

In August 1996, the Food and Drug Administration filed in the Federal Register a final rule classifying tobacco as a drug or medical device , asserting jurisdiction over the manufacture and marketing of tobacco products and imposing restrictions on the sale, advertising and promotion of tobacco products. Litigation was commenced challenging the legal authority of the FDA to assert such jurisdiction, as well as challenging the constitutionality of the rules. In March 2000, the United States Supreme Court ruled that the FDA does not have the power to regulate tobacco. Liggett supported the FDA rule and began to phase in compliance with certain of the proposed FDA regulations.

Since the Supreme Court decision, various proposals and recommendations have been made for additional federal and state legislation to regulate cigarette manufacturers. Congressional advocates of FDA regulation have introduced legislation that would give the FDA authority to regulate the manufacture, sale, distribution and labeling of tobacco products to protect public health, thereby allowing the FDA to reinstate its prior regulations or adopt new or additional regulations. In October 2004, the Senate passed a bill, which did not become law, providing for FDA regulation of tobacco products. A substantially similar bill was reintroduced in Congress in March 2005. The ultimate outcome of these proposals cannot be predicted, but FDA regulation of tobacco products could have a material adverse effect on us.

In October 2004, federal legislation was enacted which abolished the federal tobacco quota and price support program. Pursuant to the legislation, manufacturers of tobacco products will be assessed $10.1 billion over a ten year period to compensate tobacco growers and quota holders for the elimination of their quota rights. Cigarette manufacturers will initially be responsible for

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96.3% of the assessment (subject to adjustment in the future), which will be allocated based on relative unit volume of domestic cigarette shipments. Liggett s assessment was approximately $25 million for the first year of the program which began January 1, 2005, including a special federal quota stock liquidation assessment of $5.2 million. The relative cost of the legislation to the three largest cigarette manufacturers will likely be less than the cost to smaller manufacturers, including Liggett and Vector Tobacco, because one effect of the legislation is that the three largest manufacturers will no longer be obligated to make certain contractual payments, commonly known as Phase II payments, they agreed in 1999 to make to tobacco-producing states. The ultimate impact of this legislation cannot be determined, but there is a risk that smaller manufacturers, such as Liggett and Vector Tobacco, will be disproportionately affected by the legislation, which could have a material adverse effect on us.

In August 1996, Massachusetts enacted legislation requiring tobacco companies to publish information regarding the ingredients in cigarettes and other tobacco products sold in that state. In December 2002, the United States Court of Appeals for the First Circuit ruled that the ingredients disclosure provisions violated the constitutional prohibition against unlawful seizure of property by forcing firms to reveal trade secrets. The decision was not appealed by the state. Liggett began voluntarily complying with this legislation in December 1997 by providing ingredient information to the Massachusetts Department of Public Health and, notwithstanding the appellate court s ruling, has continued to provide ingredient disclosure. Liggett also provides ingredient information annually, as required by law, to the states of Texas and Minnesota. Several other states are considering ingredient disclosure legislation, and the Senate bill providing for FDA regulation also calls for, among other things, ingredient disclosure.

In February 1996, the United States Trade Representative issued an advance notice of proposed rule making concerning how tobacco imported under a previously established tobacco tariff rate quota should be allocated. Currently, tobacco imported under the quota is allocated on a first-come, first-served basis, meaning that entry is allowed on an open basis to those first requesting entry in the quota year. Others in the cigarette industry have suggested an end-user licensing system under which the right to import tobacco under the quota would be initially assigned on the basis of domestic market share. Such an approach, if adopted, could have a material adverse effect on us.

A wide variety of federal, state and local laws limit the advertising, sale and use of cigarettes, and these laws have proliferated in recent years. For example, many local laws prohibit smoking in restaurants and other public places, and many employers have initiated programs restricting or eliminating smoking in the workplace. There are various other legislative efforts pending on the federal and state level which seek to, among other things, eliminate smoking in public places, further restrict displays and advertising of cigarettes, require additional warnings, including graphic warnings, on cigarette packaging and advertising, ban vending machine sales and curtail affirmative defenses of tobacco companies in product liability litigation. This trend has had, and is likely to continue to have, an adverse effect on us.

Cigarettes are subject to substantial and increasing federal, state and local excise taxes. The federal excise tax on cigarettes is currently $0.39 per pack. State and local sales and excise taxes vary considerably and, when combined with the current federal excise tax, may currently exceed $4.00 per pack. In 2005, nine states enacted increases in excise taxes. Further increases from other states are expected. Congress has considered significant increases in the federal excise tax or other payments from tobacco manufacturers, and various states and other jurisdictions have currently under consideration or pending legislation proposing further state excise tax increases. We believe that increases in excise and similar taxes have had an adverse effect on sales of cigarettes.

Various state governments have adopted or are considering adopting legislation establishing ignition propensity standards for cigarettes. Compliance with this legislation could be burdensome and costly. In June 2000, the New York State legislature passed legislation charging the state s Office of Fire Prevention and Control, referred to as the OFPC, with developing standards for

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self-extinguishing or reduced ignition propensity cigarettes. All cigarettes manufactured for sale in New York state must be manufactured to specific reduced ignition propensity standards set forth in the regulations. Liggett and Vector Tobacco are in compliance with the New York reduced ignition propensity regulatory requirements. Since the passage of the New York law, the states of Vermont and California have passed similar laws utilizing the same technical standards, to become effective on May 1, 2006 and June 1, 2007, respectively. Similar legislation is being considered by other state governments and at the federal level. Compliance with such legislation could harm the business of Liggett and Vector Tobacco, particularly if there are varying standards from state to state.

Federal or state regulators may object to Vector Tobacco s low nicotine and nicotine-free cigarette products and reduced risk cigarette products it may develop as unlawful or allege they bear deceptive or unsubstantiated product claims, and seek the removal of the products from the marketplace, or significant changes to advertising. Various concerns regarding Vector Tobacco s advertising practices have been expressed to Vector Tobacco by certain state attorneys general. Vector Tobacco has engaged in discussions in an effort to resolve these concerns and Vector Tobacco has, in the interim, suspended all print advertising for its QUEST brand. If Vector Tobacco is unable to advertise its QUEST brand, it could have a material adverse effect on sales of QUEST. Allegations by federal or state regulators, public health organizations and other tobacco manufacturers that Vector Tobacco s products are unlawful, or that its public statements or advertising contain misleading or unsubstantiated health claims or product comparisons, may result in litigation or governmental proceedings. Vector Tobacco s business may become subject to extensive domestic and international government regulation. Various proposals have been made for federal, state and international legislation to regulate cigarette manufacturers generally, and reduced constituent cigarettes specifically. It is possible that laws and regulations may be adopted covering matters such as the manufacture, sale, distribution and labeling of tobacco products as well as any express or implied health claims associated with reduced risk, low nicotine and nicotine-free cigarette products and the use of genetically modified tobacco. A system of regulation by agencies such as the FDA, the Federal Trade Commission and the United States Department of Agriculture may be established. In addition, a group of public health organizations submitted a petition to the FDA, alleging that the marketing of the OMNI product is subject to regulation by the FDA under existing law. Vector Tobacco has filed a response in opposition to the petition. The FTC has expressed interest in the regulation of tobacco products made by tobacco manufacturers, including Vector Tobacco, which bear reduced carcinogen claims. The outcome of any of the foregoing cannot be predicted, but any of the foregoing could have a material adverse effect on Vector Tobacco s business, operating results and prospects.

The cigarette industry continues to be challenged on numerous fronts. The industry is facing increased pressure from anti-smoking groups and continued smoking and health litigation, including private class action litigation and health care cost recovery actions brought by governmental entities and other third parties, the effects of which, at this time, we are unable to evaluate. As of December 31, 2005, there were approximately 268 individual suits, approximately 11 purported class actions or actions where class certification has been sought and approximately eight governmental and other third-party payor health care recovery actions pending in the United States in which Liggett was a named defendant. In addition to these cases, in 2000, an action against cigarette manufacturers involving approximately 1,000 named individual plaintiffs was consolidated for trial on some common related issues before a single West Virginia state court. Liggett is a defendant in most of the cases pending in West Virginia. In January 2002, the court severed Liggett from the trial of the consolidated action. There are five individual actions where Liggett is the only tobacco company defendant. In April 2004, in one of these cases, a jury in a Florida state court action awarded compensatory damages of $0.5 million against Liggett. In addition, plaintiff s counsel was awarded legal fees of $0.8 million. Liggett has appealed the verdict. The plaintiffs allegations of liability in those cases in which individuals seek recovery for injuries allegedly caused by cigarette smoking are based on various theories of recovery, including negligence, gross negligence, breach of special duty, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of express and implied warranties, conspiracy, aiding and abetting, concert of action, unjust enrichment, common law public

nuisance, property damage, invasion of privacy, mental anguish, emotional distress, disability, shock, indemnity and violations of deceptive trade practice laws, the federal Racketeer Influenced and Corrupt Organizations Act (RICO), state racketeering statutes and antitrust statutes. In many of these cases, in addition to compensatory damages, plaintiffs also seek other forms of relief including treble/multiple damages, medical monitoring, disgorgement of profits and punitive damages. Defenses raised by defendants in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, lack of design defect, statutes of limitations, equitable defenses such as unclean hands and lack of benefit, failure to state a claim and federal preemption.

The claims asserted in the health care cost recovery actions vary. In most of these cases, plaintiffs assert the equitable claim that the tobacco industry was unjustly enriched by plaintiffs payment of health care costs allegedly attributable to smoking and seek reimbursement of those costs. Other claims made by some but not all plaintiffs include the equitable claim of indemnity, common law claims of negligence, strict liability, breach of express and implied warranty, breach of special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under state and federal statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under RICO.

In September 1999, the United States government commenced litigation against Liggett and the other major tobacco companies in the United States District Court for the District of Columbia. The action seeks to recover an unspecified amount of health care costs paid for and furnished, and to be paid for and furnished, by the federal government for lung cancer, heart disease, emphysema and other smoking-related illnesses allegedly caused by the fraudulent and tortious conduct of defendants, to restrain defendants and co-conspirators from engaging in fraud and other unlawful conduct in the future, and to compel defendants to disgorge the proceeds of their unlawful conduct. The complaint alleges that such costs total more than $20 billion annually. The action asserted claims under three federal statutes: the Medical Care Recovery Act, the Medicare Secondary Payer provisions of the Social Security Act and RICO. In September 2000, the court dismissed the government s claims based on the Medical Care Recovery Act and the Medicare Secondary Payor provisions, reaffirming its decision in July 2001. In the September 2000 ruling, the court also determined not to dismiss the government s RICO claims, under which the government continues to seek court relief to restrain the defendant tobacco companies from allegedly engaging in fraud and other unlawful conduct and to compel disgorgement. In a January 2003 filing with the court, the government alleged that disgorgement by defendants of approximately $289 billion is an appropriate remedy in the case. In February 2005, the United States Court of Appeals for the District of Columbia upheld the defendants motion for summary judgment to dismiss the government s disgorgement claim, ruling that disgorgement is not an available remedy in a civil RICO action. In April 2005, the appellate court denied the government s request that the disgorgement ruling be reconsidered by the full court. In October 2005, the United States Supreme Court declined to review this decision, although the government could again seek review of this issue following a verdict.

Trial of the case concluded on June 15, 2005. On June 27, 2005, the government sought to restructure its potential remedies and filed a proposed Final Judgment and Order. The relief can be grouped into four categories: (1) $14 billion for a cessation and counter marketing program; (2) so-called corrective statements; (3) disclosures; and (4) enjoined activities. Post-trial briefing was completed in October 2005.

Approximately 38 purported state and federal class action complaints were filed against the cigarette manufacturers, including Liggett, for alleged antitrust violations. The actions allege that the cigarette manufacturers have engaged in a nationwide and international conspiracy to fix the price of cigarettes in violation of state and federal antitrust laws. Plaintiffs allege that defendants price-fixing conspiracy raised the price of cigarettes above a competitive level. Plaintiffs in the 31 state actions purport to represent classes of indirect purchasers of cigarettes in 16 states; plaintiffs in the seven federal actions purport to represent a nationwide class of wholesalers who purchased cigarettes directly from the defendants. The federal class actions were consolidated

and, in July 2000, plaintiffs filed a single consolidated complaint that did not name Liggett as a defendant, although Liggett complied with discovery requests. In July 2002, the court granted defendants motion for summary judgment in the consolidated federal cases, which decision was affirmed on appeal by the United States Court of Appeals for the Eleventh Circuit. All state court cases on behalf of indirect purchasers have been dismissed, except for two cases pending in Kansas and New Mexico. The Kansas state court, in the case of *Smith v. Philip Morris Companies Inc., et al.*, granted class certification in November 2001. In April 2003, plaintiffs motion for class certification was granted in *Romero v. Philip Morris Companies Inc.*, the case pending in New Mexico state court. In February 2005, the New Mexico Supreme Court affirmed the trial court s certification order. Liggett is a defendant in both the Kansas and New Mexico cases.

In 1996, 1997 and 1998, Liggett entered into settlements of smoking-related litigation with the Attorneys General of 45 states and territories. The settlements released Liggett from all smoking-related claims within those states and territories, including claims for health care cost reimbursement and claims concerning sales of cigarettes to minors.

In November 1998, Philip Morris, RJR Tobacco, Brown & Williamson, Lorillard and Liggett entered into the Master Settlement Agreement with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Mariana Islands to settle the asserted and unasserted health care cost recovery and certain other claims of those settling jurisdictions. As described above, Liggett had previous settlements with a number of these settling states. The Master Settlement Agreement received final judicial approval in each settling jurisdiction.

Liggett has no payment obligations under the Master Settlement Agreement unless its market share exceeds a base share of 125% of its 1997 market share, or approximately 1.65% of total cigarettes sold in the United States. As a result of the Medallion acquisition in April 2002, Vector Tobacco has no payment obligations under the Master Settlement Agreement except to the extent its market share exceeds a base amount of approximately 0.28% of total cigarettes sold in the United States. During 1999 and 2000, Liggett s market share did not exceed the base amount. According to Management Science Associates data, domestic shipments by Liggett and Vector Tobacco accounted for 2.2% of the total cigarettes shipped in the United States during 2001, 2.4% during 2002, 2.5% during 2003, 2.3% during 2004 and 2.2% during 2005. On April 15 of any year following a year in which Liggett s and/or Vector Tobacco s market shares exceed their respective base shares, Liggett and/or Vector Tobacco will pay on each excess unit an amount equal (on a per-unit basis) to that paid during such following year by the original participating manufacturers under the payment provisions of the Master Settlement Agreement, subject to applicable adjustments, offsets and reductions. In March and April 2002, Liggett and Vector Tobacco paid a total of $31.1 million for their 2001 Master Settlement Agreement obligations. In March and April 2003, Liggett and Vector Tobacco paid a total of $37.5 million for their 2002 Master Settlement Agreement obligations. At that time, funds were held back based on Liggett s and Vector Tobacco s belief that their Master Settlement Agreement payments for 2002 should be reduced as a result of market share loss to non-participating manufacturers. In June 2003, Liggett and Vector Tobacco reached a settlement with the jurisdictions party to the Master Settlement Agreement whereby Liggett and Vector Tobacco agreed to pay $2.5 million in April 2004 to resolve these claims. In April 2004, Liggett and Vector Tobacco paid a total of $50.3 million for their 2003 Master Settlement Agreement obligations. In April 2005, Liggett and Vector Tobacco paid a total of $20,982 for their 2004 Master Settlement Agreement obligations. Liggett and Vector Tobacco have expensed $14,924 for their estimated Master Settlement Agreement obligations for 2005 as part of cost of goods sold. As of December 31, 2005, Liggett and Vector Tobacco have disputed assessments under the Master Settlement Agreement related to failure to receive credit for market share loss to non-participating manufacturers of $6.5 million for 2003, $3.7 million for 2004 and approximately $0.8 million for 2005. These disputed amounts have not been accrued in the accompanying consolidated financial statements.

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Under the payment provisions of the Master Settlement Agreement, participating manufacturers are required to pay the following base annual amounts (subject to applicable adjustments, offsets and reductions):

Year	Amount
2006 2007	$8.0 billion
2008 and each year thereafter	$9.0 billion

These annual payments will be allocated based on relative unit volume of domestic cigarette shipments. The payment obligations under the Master Settlement Agreement are the several, and not joint, obligations of each participating manufacturer and are not the responsibility of any parent or affiliate of a participating manufacturer.

In October 2004, Liggett was notified that all participating manufacturers payment obligations under the Master Settlement Agreement, dating from the agreement s execution in late 1998, have been recalculated utilizing net unit amounts, rather than gross unit amounts (which have been utilized since 1999). The change in the method of calculation could, among other things, require additional payments by Liggett under the Master Settlement Agreement of approximately $9.4 million for the periods 2001 through 2004, and require Liggett to pay an additional amount of approximately $2.8 million in 2005 and in future periods by lowering Liggett s market share exemption under the Master Settlement Agreement.

Liggett has objected to this retroactive change, and has disputed the change in methodology. Liggett contends that the retroactive change from utilizing gross unit amounts to net unit amounts is impermissible for several reasons, including that:

- utilization of net unit amounts is not required by the Master Settlement Agreement (as reflected by, among other things, the utilization of gross unit amounts for the past six years),

- such a change is not authorized without the consent of affected parties to the Master Settlement Agreement,

- the Master Settlement Agreement provides for four-year time limitation

periods for revisiting calculations and determinations, which precludes recalculating Liggett s 1997 Market Share (and thus, Liggett s market share exemption), and

Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	$	16,392	$	19,303
Accrued interest payable		4,609		7,552
Income taxes payable		1,144		--
Other accrued liabilities		9,146		10,505
Current portion of long-term debt		3,550		3,550
Total current liabilities		34,841		40,910
Long-term debt		443,913		459,800
Other long-term liabilities		2,801		2,801
Deferred income tax liabilities		117,126		114,571
Total Liabilities		598,681		618,082
Commitments and Contingencies – Note 13				
Stockholders' Equity				
Preferred stock - $0.01 par value				
Authorized – 5,000 shares				
Issued and outstanding – None		--		--
Common stock - $0.01 par value				
Authorized – 250,000 shares				
Issued – 50,060 shares		501		501
Additional paid-in capital		379,685		379,225
Treasury stock, at cost – 57 shares at June 30, 2007 and 55 shares at March 31, 2007		(44)		(40)
Accumulated other comprehensive income		199		313
Retained earnings		73,655		65,335
Total stockholders' equity		453,996		445,334
Total Liabilities and Stockholders' Equity	$	1,052,677	$	1,063,416

See accompanying notes.

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Prestige Brands Holdings, Inc.
Consolidated Statement of Changes in Stockholders' Equity
and Comprehensive Income
Three Months Ended June 30, 2007
(Unaudited)

	Common Stock			Treasury Stock				
	Shares	Par Value	Additional Paid-in Capital	Shares	Amount	Accumulated Other Compre-hensive Income	Retained Earnings	Totals
(In thousands)								
Balances - March 31, 2007	50,060	$ 501	$ 379,225	55	$ (40)	$ 313	$ 65,335	$ 445,334
Stock-based compensation	--	--	460	--	--	--	--	460
Purchase of common stock for treasury	--	--	--	2	(4)	--	--	(4)
Components of comprehensive income								
Net income	--	--	--	--	--	--	8,320	8,320
Amortization of interest rate caps reclassified into earnings, net of income tax expense of $94	--	--	--	--	--	149	--	149
Unrealized loss on interest rate caps, net of income tax benefit of $166	--	--	--	--	--	(263)	--	(263)
Total comprehensive income	--	--	--	--	--	--	--	8,206
Balances – June 30, 2007	50,060	$ 501	$ 379,685	57	$ (44)	$ 199	$ 73,655	$ 453,996

See accompanying notes.

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

	Three Months Ended June 30	
(In thousands)	**2007**	**2006**
Operating Activities		
Net income	$ 8,320	$ 8,256
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,751	2,413
Deferred income taxes	2,934	2,657
Amortization of deferred financing costs	780	825
Stock-based compensation	460	(9)
Changes in operating assets and liabilities		
Accounts receivable	(1,948)	5,841
Inventories	1,663	2,471
Prepaid expenses and other current assets	(483)	(2,181)
Accounts payable	(2,911)	(13)
Income taxes payable	1,144	(17)
Accrued liabilities	(4,302)	1,252
Net cash provided by operating activities	8,408	21,495
Investing Activities		
Purchases of equipment	(111)	(297)
Net cash used for investing activities	(111)	(297)
Financing Activities		
Repayment of long-term debt	(15,887)	(7,932)
Purchase of common stock for treasury	(4)	(6)
Net cash (used for) financing activities	(15,891)	(7,938)
Increase (decrease) in cash	(7,594)	13,260
Cash - beginning of period	13,758	8,200
Cash - end of period	$ 6,164	$ 21,460
Interest paid	$ 12,036	$ 11,961
Income taxes paid	$ 551	$ 2,609

See accompanying notes.

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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" which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct or indirect wholly-owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter healthcare, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States, Canada and certain international markets. Prestige Brands Holdings, Inc. is a holding company with no assets or operations and is also the parent guarantor of the senior revolving credit facility, senior secured term loan facility and the senior subordinated notes more fully described in Note 8 to the consolidated financial statements.

Basis of Presentation
The unaudited consolidated financial statements presented herein have been prepared in accordance with generally accepted accounting principles for interim financial reporting and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles ("GAAP") for complete financial statements. All significant intercompany transactions and balances have been eliminated. In the opinion of management, the financial statements include all adjustments, consisting of normal recurring adjustments that are considered necessary for a fair presentation of the Company's consolidated financial position, results of operations and cash flows for the interim periods. Operating results for the three month period ended June 30, 2007 are not necessarily indicative of results that may be expected for the year ending March 31, 2008. This financial information should be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended March 31, 2007. References in these financial statements or notes thereto to a year (e.g. "2007") means the Company's fiscal quarter ended on June 30th of that year.

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

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

Accounts Receivable
The Company extends non-interest bearing trade credit to its customers in the ordinary course of business. The Company maintains an allowance for doubtful accounts receivable based upon historical collection experience and

expected collectibility of the accounts receivable. In an effort to reduce credit risk, the Company (i) has established credit limits for all of its customer relationships, (ii) performs ongoing credit evaluations of

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customers' financial condition, (iii) monitors the payment history and aging of customers' receivables, and (iv) monitors open orders against an individual customer's outstanding receivable balance.

Inventories

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

Property and Equipment

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

	Years
Machinery	5
Computer equipment	3
Furniture and fixtures	7
Leasehold improvements	5

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

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

Goodwill

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

Intangible Assets

Intangible assets, which are composed primarily of trademarks, are stated at cost less accumulated amortization. For intangible assets with finite lives, amortization is computed on the straight-line method over estimated useful lives ranging from five to 20 years.

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

Deferred Financing Costs

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

Revenue Recognition

Revenues are recognized in accordance with Securities and Exchange Commission ("SEC") Staff Accounting Bulletin 104, "Revenue Recognition," when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. The Company has determined that the transfer of risk of loss occurs when product is received by the customer and, accordingly, recognizes revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on the Company's historical experience.

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

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

Costs of Sales

Costs of sales include product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were $5.6 million and $5.7 million for 2007 and 2006, respectively.

Advertising and Promotion Costs

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

Stock-based Compensation

During fiscal 2006, the Company adopted FASB, Statement No. 123(R), "Share-Based Payment" ("Statement No. 123(R)") with the grants of restricted stock and options to purchase common stock to employees and directors in accordance with the provisions of the Company's 2005 Long-Term Equity Incentive Plan (the "Plan"). Statement No. 123(R) requires the Company to measure the cost of services to be rendered based on the grant-date fair value of the equity award. Compensation expense is to be recognized over the period an employee is required to provide service in exchange for the award, generally referred to as the requisite service period. The Company recorded stock-based compensation charges of $460,000 during 2007, while during 2006, the Company recorded a net non-cash compensation credit of $9,000 due to the reversal of compensation charges in the amount of $142,000 associated with the departure of a former member of management.

Income Taxes

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

In June 2006, the FASB issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes--an interpretation of FASB Statement 109” (“FIN 48”), which clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with Statement No. 109. FIN 48 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result, the Company has applied a more-likely-than-not recognition threshold for all tax uncertainties. FIN 48 only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the various taxing authorities. The adoption of FIN 48, effective April 1, 2007, did not result in a cumulative effect adjustment to the opening balance of retained earnings or adjustment to any of the components of assets, liabilities or equity in the consolidated balance sheet.

The Company is subject to taxation in the US, various state and foreign jurisdictions. The Company remains subject to examination by tax authorities for years after 2003.

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

Derivative Instruments

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

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

Earnings Per Share

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

Fair Value of Financial Instruments

The carrying value of cash, accounts receivable and accounts payable at both June 30, 2007 and March 31, 2007 approximates fair value due to the short-term nature of these instruments. The carrying value of long-term debt at both June 30, 2007 and March 31, 2007 approximates fair value based on interest rates for instruments with similar terms and maturities.

Recently Issued Accounting Standards

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115” (“Statement No. 159”). Statement No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent

reporting date. Statement No. 159 is effective for the Company's interim financial statements issued after April 1, 2008. The Company is evaluating the impact that the adoption of Statement No. 159 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("Statement No. 157") to address inconsistencies in the definition and determination of fair value pursuant to GAAP. Statement No. 157 provides a single definition of fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements in an effort to increase comparability related to the recognition of market-based assets and liabilities and their impact on earnings. Statement No. 157 is effective for the Company's interim financial statements issued after April 1, 2008. The Company is evaluating the impact that the adoption of Statement No. 157 will have on its consolidated financial statements.

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

2. Accounts Receivable

Accounts receivable consist of the following (in thousands):

	June 30, 2007	March 31, 2007
Accounts receivable	$ 37,645	$ 35,274
Other receivables	1,170	1,681
	38,815	36,955
Less allowances for discounts, returns and uncollectible accounts	(1,700)	(1,788)
	$ 37,115	$ 35,167

3. Inventories

Inventories consist of the following (in thousands):

	June 30, 2007	March 31, 2007
Packaging and raw materials	$ 2,931	$ 2,842
Finished goods	25,579	27,331
	$ 28,510	$ 30,173

Inventories are shown net of allowances for obsolete and slow moving inventory of $710,000 and $1.8 million at June 30, 2007 and March 31, 2007, respectively.

4. Property and Equipment

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

	June 30, 2007	March 31, 2007
Machinery	$ 1,572	$ 1,480
Computer equipment	585	566
Furniture and fixtures	247	247
Leasehold improvements	372	372
	2,776	2,665
Accumulated depreciation	(1,339)	(1,216)
	$ 1,437	$ 1,449

5. Goodwill

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

	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Balance – March 31, 2007	$ 235,647	$ 72,549	$ 2,751	$ 310,947
Additions	--	--	--	--
Balance – June 30, 2007	$ 235,647	$ 72,549	$ 2,751	$ 310,947

6. Intangible Assets

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

	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Carrying Amounts				
Balance – March 31, 2007	$ 544,963	$ 139,470	$ 196	$ 684,629
Additions	--	--	--	--
Balance – June 30, 2007	$ 544,963	$ 139,470	$ 196	$ 684,629
Accumulated Amortization				
Balance – March 31, 2007	$ --	$ 27,375	$ 97	$ 27,472
Additions	--	2,616	11	2,627

Balance – June 30, 2007	$ --	$ 29,991	$ 108	$ 30,099

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At June 30, 2007, intangible assets are expected to be amortized over a period of five to 30 years as follows (in thousands):

Year Ending June 30	
2008	$ 10,507
2009	10,150
2010	9,078
2011	9,071
2012	9,071
Thereafter	61,690
	$ 109,567

7. Other Accrued Liabilities

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

	June 30, 2007	March 31, 2007
Accrued marketing costs	$ 5,830	$ 5,687
Accrued payroll	2,147	3,721
Accrued commissions	397	335
Other	772	762
	$ 9,146	$ 10,505

8. Long-Term Debt

Long-term debt consists of the following (in thousands):

	June 30, 2007	March 31, 2007
Senior revolving credit facility ("Revolving Credit Facility"), which expires on April 6, 2009 and is available for maximum borrowings of up to $60.0 million. The Revolving Credit Facility bears interest at the Company's option at either the prime rate plus a variable margin or LIBOR plus a variable margin. The variable margins range from 0.75% to 2.50% and at June 30, 2007, the interest rate on the Revolving Credit Facility was 9.5% per annum. The Company is also required to pay a variable commitment fee on the unused portion of the Revolving Credit Facility. At June 30, 2007, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets.	$ --	$ --
Senior secured term loan facility ("Tranche B Term Loan Facility" and together with the Revolving Credit Facility, the "Senior Credit Facility") that bears interest at the Company's option at either the prime rate plus a margin of 1.25% or LIBOR plus a margin of 2.25%. At June 30, 2007, the applicable interest rate on the Tranche B Term Loan Facility was 7.63%. Principal payments of $887,500 plus accrued interest are payable quarterly. At June 30, 2007, the Company may borrow up to a maximum amount of $200.0 million under the Tranche B Term Loan Facility. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while any additional amounts borrowed will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets.	321,463	337,350
Senior Subordinated Notes that bear interest at 9.25% which is payable on April 15th and October 15th of each year. The Senior Subordinated Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior Subordinated Notes on or prior to April 15, 2008 at a redemption price equal to 100% plus a make-whole premium, and after April 15, 2008, at redemption prices set forth in the Indenture governing the Senior Subordinated Notes. The Senior Subordinated Notes are unconditionally guaranteed by Prestige Brands Holdings, Inc., and its domestic wholly-owned subsidiaries other than Prestige Brands, Inc., the issuer. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries.	126,000	126,000
	447,463	463,350
Current portion of long-term debt	(3,550)	(3,550)

$	443,913	$	459,800

Effective as of December 19, 2006: (i) a Second Supplemental Indenture (“Second Supplemental Indenture”), and (ii) a Guaranty Supplement (“Indenture Guaranty Supplement”) were entered into with the trustee for the holders

of the Senior Subordinated Notes. The Second Supplemental Indenture supplements and amends the Indenture, dated as of April 6, 2004, as supplemented on October 6, 2004 ("Indenture"). Pursuant to the terms of the Second Supplemental Indenture and the Indenture Guaranty Supplement, the Company agreed to guaranty all of the obligations of Prestige Brands, Inc., an indirect wholly-owned subsidiary of the Company ("PBI"), set forth in the Indenture governing PBI's Senior Subordinated Notes. The Second Supplemental Indenture also amended the covenant requiring Prestige Brands International, LLC ("Prestige Brands International"), an indirect wholly-owned subsidiary of the Company, to file periodic reports with the SEC pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"). So long as the Company or any other guarantor is required to file periodic reports under Section 13 or 15(d) of the Exchange Act that are substantially the same as the periodic reports that Prestige Brands International would otherwise be required to file with the SEC pursuant to the Indenture, Prestige Brands International is not required to file such reports.

Also effective as of December 19, 2006, a Joinder Agreement ("Joinder Agreement") and a Guaranty Supplement ("Credit Agreement Guaranty Supplement") were entered into with the administrative agent for the lenders under the Senior Credit Facility. Pursuant to the terms of the Joinder Agreement and the Credit Agreement Guaranty Supplement, the Company agreed to become a party to the Pledge and Security Agreement ("Security Agreement") and the Guaranty ("Credit Agreement Guaranty"), each dated as of April 6, 2004, by PBI and certain of its affiliates in favor of the lenders. The Security Agreement and the Credit Agreement Guaranty secure the performance by PBI of its obligations under the Credit Agreement, dated as of April 6, 2004, as amended ("Credit Agreement"), by granting security interests to PBI's lenders in collateral owned by the Company and certain of its subsidiaries and providing guaranties of such obligations by certain of PBI's affiliates.

The Senior Credit Facility contains various financial covenants, including provisions that require the Company to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios. The Senior Credit Facility and the Senior Subordinated Notes also contain provisions that restrict the Company from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchase of common shares outstanding, changes of control, incurrence of indebtedness, creation of liens, making of loans and transactions with affiliates. Additionally, the Senior Credit Facility and the Senior Subordinated Notes contain cross-default provisions whereby a default pursuant to the terms and conditions of either indebtedness will cause a default on the remaining indebtedness. At June 30, 2007, the Company was in compliance with its applicable financial and other covenants under the Senior Credit Facility and the Indenture.

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

Year Ending June 30		
2008	$	3,550
2009		3,550
2010		3,550
2011		3,550
2012		307,263
Thereafter		126,000
	$	447,463

In an effort to mitigate the impact of changing interest rates, the Company entered into interest rate cap agreements with various financial institutions. In June 2004, the Company purchased a 5% interest rate cap with a notional amount of $20.0 million which expired in June 2006. In March 2005, the Company purchased interest rate cap agreements with a total notional amount of $180.0 million and cap rates ranging from 3.25% to 3.75%. On May 31, 2006, an interest rate cap agreement with a notional amount of $50.0 million and a 3.25% cap rate expired. Additionally, an interest rate cap agreement with a notional amount of $80.0 million and a 3.50% cap rate

expired on May 30, 2007. The remaining agreement, with a notional amount of $50.0 million and a cap rate of 3.75%, terminates on May 30, 2008. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair values of the interest rate cap agreements, which are included in other long-term assets, were $767,000 and $1.2 million at June 30, 2007 and March 31, 2007, respectively.

9. 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 stock outstanding having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through June 30, 2007.

10. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands):

	Three Months Ended June 30	
	2007	**2006**
Numerator		
Net income	$ 8,320	$ 8,256
Denominator		
Denominator for basic earnings per share – weighted average shares	49,660	49,372
Dilutive effect of unvested restricted common stock, options and stock appreciation rights issued to employees and directors	378	633
Denominator for diluted earnings per share	50,038	50,005
Earnings per Common Share:		
Basic	$ 0.17	$ 0.17
Diluted	$ 0.17	$ 0.17

At June 30, 2007, 287,000 shares of restricted stock issued to management and employees are unvested and excluded from the calculation of basic earnings per share; however, such shares are included in the calculation of diluted earnings per share. At June 30, 2007, 159,000 shares of restricted stock granted to management and employees, subject only to time vesting requirements, have been excluded from basic earnings per share; however, such shares are included in the calculation of diluted earnings per share. Additionally, 382,000 shares of restricted stock granted to management and employees, as well as 16,000 stock appreciation rights have been excluded from the calculation of both basic and diluted earnings per share since vesting of such shares is subject to contingencies, while options to purchase 255,000 shares of common stock have been excluded from diluted earnings per shares because their inclusion would be anti-dilutive.

At June 30, 2006, 570,000 shares of restricted stock issued to management and employees were unvested and excluded from the calculation of basic earnings per share; however, such shares are included in the calculation of diluted earnings per share. Additionally, at June 30, 2006, 146,000 shares of restricted stock granted to management and employees have been excluded from the calculation of both basic and diluted earnings per share since vesting of such shares is subject to contingencies.

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11. Share-Based Compensation

In connection with the Company's initial public offering, the Board of Directors adopted the 2005 Long-Term Equity Incentive Plan ("Plan") which provides for the grant, to a maximum of 5.0 million shares, of stock options, restricted stock units, deferred stock units and other equity-based awards. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing services for the Company, are eligible for grants under the Plan. The Company believes that such awards better align the interests of its employees with those of its stockholders.

During 2006, the Company adopted Statement No. 123(R) with the initial grants of restricted stock and options to purchase common stock to employees and directors in accordance with the provisions of the Plan. During 2007, the Company recorded compensation costs and related tax benefits of $460,000 and $175,000, respectively, while during 2006, the Company recorded a credit to income of $9,000 due to the reversal of compensation costs in connection with the departure of a former member of management. No restricted shares were issued in 2006.

Restricted Shares
Restricted shares granted under the plan generally vest in 3 to 5 years, contingent on attainment of Company performance goals, including both revenue and earnings per share growth targets or time vesting as determined by the Compensation Committee of the Board of Directors. Certain restricted share awards provide for accelerated vesting if there is a change of control. The fair value of nonvested restricted shares is determined as the closing price of the Company's common stock on the day preceding the grant date. The weighted-average grant-date fair values during 2007 were $12.52.

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

Restricted Shares	Shares (000)		Weighted-Average Grant-Date Fair Value
Nonvested at March 31, 2006	198.0	$	12.32
Granted	--		--
Vested	--		--
Forfeited	(34.5)		12.89
Nonvested at June 30, 2006	163.5	$	12.20
Nonvested at March 31, 2007	294.4	$	11.05
Granted	264.0		12.52
Vested	--		--
Forfeited	(17.2)		11.19
Nonvested at June 30, 2007	541.2	$	11.76

Options
The Plan provides that the exercise price of the option granted shall be no less than the fair market value of the Company's common stock on the date the option is granted. Options granted have a term of no greater than 10 years from the date of grant and vest in accordance with a schedule determined at the time the option is granted, generally 3 to 5 years. Certain option awards provide for accelerated vesting if there is a change in control.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model ("Black-Scholes Model") that uses the assumptions noted in the following table. Expected volatilities are based on the

historical volatility of the Company's common stock and other factors, including the historical volatilities of comparable companies. The Company uses 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

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options granted are derived from management's estimates and information derived from the public filings of companies similar to the Company 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 option. The weighted-average grant-date fair value of the options granted during 2007 was $12.86. There were no options granted during 2006.

	2007	2006
Expected volatility	33.2%	--
Expected dividends	--	--
Expected term in years	6.0	--
Risk-free rate	4.5%	--

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

Options	Shares (000)		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at March 31, 2006	61.8	$	12.95	4.3
Granted	--		--	--
Exercised	--		--	--
Forfeited or expired	(61.8)		12.95	--
Outstanding at June 30, 2006	--	$	--	--
Outstanding at March 31, 2007	--	$	--	--
Granted	255.1		12.86	10.0
Exercised	--		--	--
Forfeited or expired	--		--	--
Outstanding at June 30, 2007	255.1	$	12.86	10.0
Exercisable at June 30, 2007	--	$	--	--

Stock Appreciation Rights ("SARS")

The Plan provides that the issuance price of a SAR shall be no less than the market price of the Company's common stock on the date the SAR is granted. SARS may be granted with a term of no greater than 10 years from the date of grant and will vest in accordance with a schedule determined at the time the SAR is granted, generally 3 to 5 years. The Board of Directors, in its sole discretion, may settle the Company's obligation to the executive in shares of the Company's common stock, cash, other securities of the Company or any combination thereof. The weighted-average grant date fair value of the SARS granted during 2007 was $3.68. The fair value of each SAR award was estimated on the date of grant using the Black-Scholes Model using the assumptions noted in the following table.

	2007	2006
Expected volatility	--	50.0%
Expected dividends	--	--
Expected term in years	--	2.8
Risk-free rate	--	5.0%

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

SARS	Shares (000)	Grant Date Stock Price	Weighted-Average Remaining Contractual Term
Outstanding at March 31, 2007	16.1	$ 9.97	2.0
Granted	--	--	--
Forfeited or expired	--	--	--
Outstanding at June 30, 2007	16.1	$ 9.97	1.75
Exercisable at June 30, 2007	--	$ --	--

At June 30, 2007 and March 31, 2007, there were $5.2 million and $1.4 million, respectively, 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. The Company expects to recognize such costs over the next 3.0 years. However, certain of the restricted shares vest upon the attainment of Company performance goals and if such goals are not met, no compensation costs would ultimately be recognized and any previously recognized compensation cost would be reversed. At June 30, 2007, there were 4.2 million shares available for issuance under the Plan.

12. Income Taxes

Income taxes are recorded in the Company's quarterly financial statements based on the Company's estimated annual effective income tax rate. The effective tax rates used in the calculation of income taxes were 38.0% and 39.1% for 2007 and 2006, respectively. The reduction in the income tax rates results from the implementation of initiatives to obtain operational, as well as tax, efficiencies during the fiscal year ended March 31, 2007.

At June 30, 2007, Medtech Products Inc., a wholly-owned subsidiary of the Company, had a net operating loss carryforward of approximately $2.6 million which may be used to offset future taxable income of the consolidated group and which begins to expire in 2020. The net operating loss carryforward is subject to an annual limitation as to usage under Internal Revenue Code Section 382 of approximately $240,000.

13. Commitments and Contingencies

The legal proceedings in which we are involved have been disclosed previously in our Annual Report on Form 10-K for the fiscal year ended March 31, 2007. The following disclosure contains recent developments in our pending legal proceedings and should be read in conjunction with the legal proceedings disclosure contained in Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007.

OraSure Technologies Litigation

On July 12, 2007, the Appellate Division of the Supreme Court of the State of New York issued an Order affirming the Order of the Supreme Court of the State of New York which denied OraSure Technologies' petition for a preliminary injunction that would have prohibited the Company from selling cryogenic wart removal products under the Wartner® brand. In addition, the Appellate Division dismissed OraSure Technologies' appeal from the Supreme Court's Order which denied OraSure Technologies' motion for reargument. Based on the foregoing, the Appellate

Division held that a preliminary injunction was not an appropriate remedy in the action and recalled and vacated its Order dated May 17, 2007, which granted a preliminary injunction. An arbitration hearing is scheduled to be held in August 2007.

The Company is also involved from time to time in other routine legal matters and other claims incidental to its business. The Company reviews outstanding claims and proceedings internally and with external counsel as necessary to assess probability and amount of 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 generally accepted accounting principles 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). The Company believes the resolution of routine matters and other incidental claims, taking into account reserves and insurance, will not have a material adverse effect on its business, financial condition or results from operations.

Lease Commitments

The Company has operating leases for office facilities and equipment in New York, New Jersey and Wyoming, which expire at various dates through 2011.

The following summarizes future minimum lease payments for the Company's operating leases (in thousands):

	Facilities	Equipment	Total
Year Ending June 30,			
2008	$ 650	$ 122	$ 772
2009	514	106	620
2010	11	87	98
2011	--	6	6
	$ 1,175	$ 321	$ 1,496

Rent expense for 2007 and 2006 was $152,000 and $138,700, respectively.

14. Concentrations of Risk

The Company's sales are concentrated in the areas of over-the-counter healthcare, household cleaning and personal care products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During 2007 and 2006, approximately 56.5%, and 59.2%, respectively, of the Company's total sales were derived from its four major brands. During 2007 and 2006, approximately 24.9% and 25.2%, respectively, of the Company's net sales were made to one customer. At June 30, 2007, approximately 21.9% of accounts receivable were owed by the same customer.

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

The Company has relationships with over 40 third-party manufacturers. Of those, the top 10 manufacturers produced items that accounted for approximately 78% of the Company's gross sales for 2007. The Company does not have long-term contracts with 3 of these manufacturers and certain manufacturers of various smaller brands, which collectively, represented approximately 35% of the Company's gross sales for 2007. The lack of manufacturing agreements for these products exposes the Company to the risk that a manufacturer could stop producing the Company's products at any time, for any reason or fail to provide the Company with the level of products the Company needs to meet its customers' demands. Without adequate supplies of merchandise to sell to the Company's customers, sales would decrease materially and the Company's business would suffer.

15. Business Segments

Segment information has been prepared in accordance with FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company's operating and reportable segments consist of (i) Over-the-Counter Healthcare, (ii) Household Cleaning and (iii) Personal Care.

There were no inter-segment sales or transfers during any of the periods presented. The Company evaluates the performance of its operating segments and allocates resources to them based primarily on contribution margin.
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The table below summarizes information about the Company's operating and reportable segments (in thousands).

	Three Months Ended June 30, 2007			
	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Net sales	$ 42,426	$ 29,345	$ 6,270	$ 78,041
Other revenues	--	542	28	570
Total revenues	42,426	29,887	6,298	78,611
Cost of sales	15,386	18,393	3,543	37,322
Gross profit	27,040	11,494	2,755	41,289
Advertising and promotion	5,881	1,628	277	7,786
Contribution margin	$ 21,159	$ 9,866	$ 2,478	33,503
Other operating expenses				10,397
Operating income				23,106
Other (income) expense				9,687
Provision for income taxes				5,099
Net income				$ 8,320

	Three Months Ended June 30, 2006			
	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Net sales	$ 39,598	$ 29,738	$ 6,231	$ 75,567
Other revenues		356	--	356
Total revenues	39,598	30,094	6,231	75,923
Cost of sales	14,397	18,154	3,774	36,325
Gross profit	25,201	11,940	2,457	39,598
Advertising and promotion	5,426	1,689	287	7,402
Contribution margin	$ 19,775	$ 10,251	$ 2,170	32,196
Other operating expenses				8,847
Operating income				23,349
Other (income) expense				9,792
Provision for income taxes				5,301
Net income				$ 8,256

During 2007 and 2006, approximately 95.3% and 96.1%, respectively, of the Company's sales were made to customers in the United States and Canada. At June 30, 2007, substantially all of the Company's long-term assets

were located in the United States of America and have been allocated to the operating segments as follows:

	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Goodwill	$ 235,647	$ 72,549	$ 2,751	$ 310,947
Intangible assets				
Indefinite lived	374,070	170,893	--	544,963
Finite lived	92,881	18	16,668	109,567
	466,951	170,911	16,668	654,530
	$ 702,598	$ 243,460	$ 19,419	$ 965,477

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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 our Annual Report on Form 10-K for the fiscal year ended March 31, 2007. 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, 2007, as well as those described in future reports filed with the SEC. See also "Cautionary Statements Regarding Forward Looking Statements" on page 35 of this Quarterly Report on Form 10-Q.

General

We are engaged in the marketing, sales and distribution of brand name over-the-counter healthcare, household cleaning and personal care products to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States and Canada. We operate in niche segments of these categories where we can use the strength of our brands, our established retail distribution network, a low-cost operating model and our experienced management team as a competitive advantage to grow our presence in these categories and, as a result, grow our sales and profits.

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

In October 2005, we completed the acquisition of the "Chore Boy®" brand of cleaning pads and sponges. The purchase price of this acquisition was $22.6 million, including direct costs of $400,000. We purchased the Chore Boy brand with funds generated from operations.

In November 2005, we completed the acquisition of Dental Concepts LLC, a marketer of therapeutic oral care products sold under "The Doctor's®" brand. The purchase price of the ownership interests was approximately $30.2 million, including fees and expenses of the acquisition of $1.3 million. We financed the acquisition price through the utilization of our Revolving Credit Facility in the amount of $30.0 million and cash on hand.

In September 2006, we completed the acquisition of Wartner USA B.V., a privately held Netherlands limited liability company, which owned the intellectual property associated with the "Wartner®" brand of over-the-counter wart treatment products. The purchase price of this acquisition was $31.2 million, inclusive of direct costs of the acquisition of $216,000. We purchased the Wartner brand with funds generated from operations and the assumption of approximately $5.0 million of contingent payments to the former owner of the Wartner brand.

Three Month Period Ended June 30, 2007 compared to the Three Month Period Ended June 30, 2006

Revenues

	2007 Revenues	%	2006 Revenues	%	Increase (Decrease)	%
OTC Healthcare	$ 42,426	54.0	$ 39,598	52.2	$ 2,828	7.1
Household Cleaning	29,887	38.0	30,094	39.6	(207)	(0.7)
Personal Care	6,298	8.0	6,231	8.2	67	1.1
	$ 78,611	100.0	$ 75,923	100.0	$ 2,688	3.5

Revenues for the three month period ended June 30, 2007 increased $2.7 million, or 3.5%, versus 2006, primarily as a result of the acquisition of the Wartner brand, acquired in September of 2006. Excluding the impact the Wartner acquisition, revenues were down 0.5%.

Over-the-Counter Healthcare Segment

Revenues of the Over-the-Counter Healthcare segment increased by $2.8 million, or 7.1%, for 2007 versus 2006. The increase was primarily due to the acquisition of the Wartner brand in September 2006. Excluding the impact of this acquisition, revenues were down 0.7% for the period. Revenue increases for Compound W®, Little Remedies®, Murine®, New Skin® and Dermoplast® were offset by revenue decreases for the Chloraseptic®, Clear eyes®, and The Doctor's brands. The Compound W revenue increase was primarily the result of a change in the timing of promotional shipments in the current period which shipped a quarter earlier in the previous calendar year. Little Remedies' revenue increased during the period primarily as a result of strong consumer consumption. Murine's revenue increased as a result of the launch of Earigate™, the new item that helps prevent earwax build-up with its patented reverse spray technology. New Skin's revenue increase is due to higher consumer consumption. The Dermoplast revenue increase is primarily a result of increased distribution of its Poison Ivy Treatment product. The Clear eyes sales decline is a result of strong pipeline sales of new items during the prior year period. The Doctor's brand revenue decline is a result of slowing consumer consumption of The Doctor's Nightguard™ dental protector which resulted from competitive entries into the bruxism category during the quarter.

Household Cleaning Segment

Revenues of the Household Cleaning segment declined 1% for 2007 versus the comparable period in 2006, as a result of sales declines of Chore Boy, partially offset by modest revenue increases of Comet® and Spic and Span® brands. Chore Boy revenues were below very strong prior year period sales which benefited from strong distributor purchases in advance of a price increase. Comet revenue increased as a result of Comet Spray Gel which was launched in the prior fiscal quarter. Spic and Span's revenue increase was primarily the result of new distribution of the antibacterial spray item in the second half of fiscal year 2007.

Personal Care Segment

Revenues of the Personal Care segment experienced a slight increase for 2007 versus the comparable period in 2006. The increase in revenue is attributable to the Cutex®, Denorex® and Prell® brands. Cutex revenue increased slightly as a result of the new "pump" bottle product. Denorex shipments decreased during the period, however, net revenues increased due to lower product returns from trade customers compared to the comparable period of 2006. Prell's revenue increased in line with consumer consumption.

Gross Profit

	2007 Gross Profit	%	2006 Gross Profit	%	Increase (Decrease)	%
OTC Healthcare	$ 27,040	63.7	$ 25,201	63.6	$ 1,839	7.3
Household Cleaning	11,494	38.5	11,940	39.7	(446)	(3.7)
Personal Care	2,755	43.7	2,457	39.4	298	12.1
	$ 41,289	52.5	$ 39,598	52.2	$ 1,691	4.3

Gross profit for 2007 increased by $1.7 million, or 4.3%, versus 2006. As a percent of total revenue, gross profit increased from 52.2% in 2006 to 52.5% during 2007. The increase in gross profit percentage was primarily the result of a shift in sales to the higher margin OTC Healthcare segment.

Over-the-Counter Healthcare Segment
Gross profit of the Over-the-Counter Healthcare segment increased $1.8 million, or 7.3%, for 2007 versus 2006. As a percent of OTC revenue, gross profit increased from 63.6% for 2006 to 63.7% during 2007. The slight increase in gross profit percentage was primarily the result of lower inventory obsolescence costs.

Household Cleaning Segment
Gross profit of the Household Cleaning segment decreased by $446,000, or 3.7%, for 2007 versus 2006. As a percent of household cleaning revenue, gross profit decreased from 39.7% for 2006 to 38.5% during 2007. The decrease in gross profit percentage is primarily a result of higher product costs partially offset by lower distribution costs.

Personal Care Segment
Gross profit of the Personal Care segment increased $298,000, or 12.1%, for 2007 versus 2006. As a percent of personal care revenue, gross profit increased from 39.4% for 2006 to 43.7% during 2007. The increase in gross profit percentage was primarily a result lower product returns and a reduction in promotional pricing allowances.

Contribution Margin

	2007 Contribution Margin	%	2006 Contribution Margin	%	Increase (Decrease)	%
OTC Healthcare	$ 21,159	49.9	$ 19,775	49.9	$ 1,384	7.0
Household Cleaning	9,866	33.0	10,251	34.1	(385)	(3.8)
Personal Care	2,478	39.3	2,170	34.8	308	14.2
	$ 33,503	42.6	$ 32,196	42.4	$ 1,307	4.1

Contribution margin, defined as gross profit less advertising and promotional expenses, for 2007 increased $1.3 million, or 4.1%, for 2007 versus 2006. The contribution margin increase was a result of the increase in sales and gross profit as previously discussed, partially offset by a $400,000, or 3.7% increase in advertising and promotional spending. The increase was primarily attributable to the Over-the-Counter Healthcare segment.

Over-the-Counter Healthcare Segment
Contribution margin for the Over-the-Counter Healthcare segment increased by $1.4 million, or 7.0%, for 2007 versus 2006. The contribution margin increase was a result of the increase in sales and gross profit as previously discussed,

partially offset by a $400,000, or an 8.4% increase in advertising and promotional spending. The increase in advertising and promotional spending was primarily a result of increased television media behind The Doctor's Nightguard™ and Compound W brands.

Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased by $385,000, or 3.8%, for 2007 versus 2006. The contribution margin decrease was a result of the decrease in sales and gross profit as previously discussed, partially offset by a $61,000, or a 3.6% reduction in advertising and promotional spending. The decrease was a result of a modest reduction of promotional spending behind the Chore Boy and Spic and Span brands.

Personal Care Segment

Contribution margin for the Personal Care segment was up $308,000, or 14.2%, for 2007 versus 2006. The contribution margin increase was primarily the result of the sales and gross profit increase previously discussed.

General and Administrative

General and administrative expenses were $7.6 million for 2007 versus $6.4 million for 2006. The increase was primarily related to higher stock based compensation and legal costs.

Depreciation and Amortization

Depreciation and amortization expense was $2.8 million for 2007 versus $2.4 million for 2006. The increase in amortization of intangible assets is related to the Wartner acquisition, which was partially offset by a slight reduction in depreciation expense.

Interest Expense

Net interest expense was $9.7 million for 2007 versus $9.8 million for 2006. The reduction in interest expenses was the result of a lower level of indebtedness partially offset by higher interest rates on our variable rate indebtedness. The average cost of funds increased from 7.9% for 2006 to 8.5% for 2007.

Income Taxes

The income tax provision for 2007 was $5.1 million, with an effective rate of 38.0%, compared to $5.3 million, with an effective rate of 39.1% for 2006. During the fiscal year ended March 31, 2007, the Company implemented various initiatives to obtain operational, as well as tax, efficiencies.

Liquidity and Capital Resources

Liquidity

We have financed and expect to continue to finance our operations with a combination of internally generated funds and borrowings. Pursuant to the terms of the Senior Credit Facility, we may borrow an additional $200.0 million under our Tranche B Term Loan Facility and up to a maximum of $60.0 million under our Revolving Credit Facility. Our principal uses of cash are for operating expenses, debt service, acquisitions, working capital and capital expenditures.

	Three Months Ended June 30	
(In thousands)	**2007**	**2006**
Cash provided by (used for):		
Operating Activities	$ 8,408	$ 21,495
Investing Activities	(111)	(297)
Financing Activities	(15,891)	(7,938)

Operating Activities

Net cash provided by operating activities was $8.4 million for 2007 compared to $21.5 million 2006. The $13.1 million decrease in net cash provided by operating activities was primarily the result of the following:

- An increase of net income of $64,000 from $8.2 million for 2006 to $8.3 million for 2007,
- A reduction of $14.2 million in the components of operating assets and liabilities as the Company used cash to reduce its operating liabilities in 2007, while generating cash in 2006 from the reduction of its operating assets, offset by
- An increase in non-cash expenses of $1.0 million from $5.9 million for 2006 to $6.9 million for 2007.

Investing Activities

Net cash used for investing activities was $111,000 for 2007 compared to $297,000 for 2006. The net cash used for investing activities for both 2007 and 2006 was primarily for the acquisition of machinery, computers and office equipment.

Financing Activities

Net cash used for financing activities was $15.9 million for 2007 compared to $7.9 million for 2006. During 2007, the Company repaid $15.0 million of indebtedness in excess of normal maturities with cash generated from operations. This reduced our outstanding indebtedness to $447.5 million from $463.4 million at March 31, 2007. During 2006, the Company repaid the remaining $7.0 million indebtedness related to our Revolving Credit Facility which was drawn upon in connection with the November 2005 acquisition of Dental Concepts LLC.

The Company's cash flow from operations is normally expected to exceed net income due to the substantial non-cash charges related to depreciation and amortization of intangibles, increases in deferred income tax liabilities resulting from differences in the amortization of intangible assets and goodwill for income tax and financial reporting purposes, the amortization of certain deferred financing costs and stock-based compensation.

Capital Resources

As of June 30, 2007, we had an aggregate of $447.5 million of outstanding indebtedness, which consisted of the following:

- $321.5 million of borrowings under the Tranche B Term Loan Facility, and

- $126.0 million of 9.25% Senior Subordinated Notes due 2012.

We had $60.0 million of borrowing capacity available under the Revolving Credit Facility at such time, as well as $200.0 million available under the Tranche B Term Loan Facility.

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All loans under the Senior Credit Facility bear interest at floating rates, based on either the prime rate, or at our option, the LIBOR rate, plus an applicable margin. As of June 30, 2007, an aggregate of $321.5 million was outstanding under the Senior Credit Facility at a weighted average interest rate of 7.63%.

In June 2004, we purchased a 5% interest rate cap agreement with a notional amount of $20.0 million which expired in June 2006. In March 2005, we purchased interest rate cap agreements that became effective August 30, 2005, with a total notional amount of $180.0 million and LIBOR cap rates ranging from 3.25% to 3.75%. On May 31, 2006, an interest rate cap agreement with a notional amount of $50.0 million and a 3.25% cap rate expired. Additionally, an interest rate cap agreement with a notional amount of $80.0 million and a 3.50% cap rate expired on May 30, 2007. The remaining agreement, with a notional amount of $50.0 million and a cap rate of 3.75%, terminates on May 30, 2008. The fair value of the interest rate cap agreement was $767,000 at June 30, 2007.

The Tranche B Term Loan Facility matures in October 2011. We must make quarterly principal payments on the Tranche B Term Loan Facility equal to $887,500, representing 0.25% of the initial principal amount of the term loan. The Revolving Credit Facility matures and the commitments relating to the Revolving Credit Facility terminate in April 2009.

The Senior Credit Facility contains various financial covenants, including provisions that require us to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios. In addition, the Senior Credit Facility, as well as the Indenture governing the Senior Subordinated 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 the Company's 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 5.0 to 1.0 for the quarter ended June 30, 2007, decreasing over time to 3.75 to 1.0 for the quarter ending September 30, 2010, and remaining level thereafter,

- Have an interest coverage ratio of greater than 2.75 to 1.0 for the quarter ended June 30, 2007, increasing over time to 3.25 to 1.0 for the quarter ending March 31, 2010, and

    - Have a fixed charge coverage ratio of greater than 1.5 to 1.0 for the quarter ended June 30, 2007, and for each quarter thereafter until the quarter ending March 31, 2011.

At June 30, 2007, we were in compliance with the applicable financial and restrictive covenants under the Senior Credit Facility and the Indenture governing the Senior Subordinated Notes.

Our principal sources of funds are anticipated to be cash flows from operating activities and available borrowings under the Senior Credit Facility. We believe that these funds will provide us with sufficient liquidity and capital resources for us to meet our current and future financial obligations, as well as to provide funds for working capital, capital expenditures and other needs for at least the next 12 months. As part of our growth strategy, we regularly review acquisition opportunities and other potential strategic transactions, which may require additional debt or equity financing. If additional financing is required, there are no assurances that it will be available, or if available, that it can be obtained on terms favorable to us or on a basis that is not dilutive to our stockholders.

Commitments

As of June 30, 2007, we had ongoing commitments under various contractual and commercial obligations as follows:

(In Millions) Contractual Obligations	Total	Payments Due by Period Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Long-term debt	$ 447.5	$ 3.6	$ 7.1	$ 310.8	$ 126.0
Interest on long-term debt (1)	146.7	36.2	71.5	39.0	--
Operating leases	1.5	0.8	0.7	--	--
Total contractual cash obligations	$ 595.7	$ 40.6	$ 79.3	$ 349.8	$ 126.0

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(1) Represents the estimated interest obligations on the outstanding balances of the Revolving Credit Facility, Tranche B Term Loan Facility and Senior Subordinated Notes, together, assuming scheduled principal payments (based on the terms of the loan agreements) were made and assuming a weighted average interest rate of 8.09%. Estimated interest obligations would be different under different assumptions regarding interest rates or timing of principal payments. If interest rates on borrowings with variable rates increased by 1%, interest expense would increase approximately $3.2 million, in the first year. However, given the protection afforded by the interest rate cap agreements, the impact of a one percentage point increase would be limited to $2.7 million.

Off-Balance Sheet Arrangements

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

Inflation

Inflationary factors such as increases in the costs of raw materials, packaging materials, purchased product and overhead may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial condition or results from operations for the periods referred to above, a high rate of inflation in the future could have a material adverse effect on our business, financial condition or results from operations. The current volatility of the crude oil markets will continue to impact, at times favorably and at times unfavorably, our transportation costs, as well as, certain petroleum based raw materials and packaging materials. Although the Company takes efforts to minimize the impact of inflationary factors, including raising prices to our customers, a sustained rate of pricing increases associated with crude oil supplies may have an adverse effect on our operating results.

Seasonality

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

Critical Accounting Policies and Estimates
The Company's significant accounting policies are described in the notes to the unaudited 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 year ended March 31, 2007. 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 from 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 upon our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different conditions. The most critical accounting policies are as follows:

Revenue Recognition
We comply with the provisions of Securities and Exchange Commission Staff Accounting Bulletin 104 "Revenue Recognition," which states that revenue should be recognized when the following revenue recognition criteria are met: (1) persuasive evidence of an arrangement exists; (2) the product has been shipped and the customer takes ownership and assumes the risk of loss; (3) the selling price is fixed or determinable; and (4) collection of the resulting receivable is reasonably assured. We have determined that the transfer of risk of loss occurs when product is received by the customer, and, accordingly 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 is recorded in accordance with Emerging Issues Task Force 01-09, *"Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)"* as either advertising and promotional expenses or as a reduction of sales. Such costs vary from period-to-period based on the actual number of units sold during a finite period of time. We estimate the cost of such promotional programs at their inception based on historical experience and current market conditions and reduce sales by such estimates. 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 slotting fees and cooperative advertising. We do not provide incentives to customers for the acquisition of product in excess of normal inventory quantities since such incentives increase the potential for future returns, as well as reduce sales in the subsequent fiscal periods.

Estimates of costs of promotional programs are based on (i) historical sales experience, (ii) the current offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. At the completion of the promotional program, the estimated amounts are adjusted to actual results. While our promotional expense for the year ended March 31, 2007 was $16.5 million, we participated in 5,900 promotional campaigns, resulting in an average cost of $2,800 per campaign. Of such amount, only 582 payments were in excess of $5,000. We believe that the estimation methodologies employed, combined with the nature of the promotional campaigns, makes 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 three month period ended June 30, 2007, our sales and operating income would have been adversely affected by approximately $464,000.

We also periodically run coupon programs in Sunday newspaper inserts 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. During the year ended March 31, 2007, we had 17 coupon events. The amount recorded against revenues and accrued for these events during the year was $2.7 million, of which $2.3 million was redeemed during the year. During the three month period ended June 30,

2007, we had 8 coupon events. The amount recorded against revenues and accrued for these events

during the three month period ended June 30, 2007 was $476,000, of which $412,000 was redeemed during the period.

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 the recording of 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 six 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, 2007, 2006 and 2005, returns represented 3.7%, 3.5%, and 3.6%, respectively, of gross sales. At June 30, 2007 and March 31, 2007, the allowances for sales returns were $1.8 million.

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 upon the methodology described above and our actual returns' experience, management believes the likelihood of such an event is remote. As noted, over the last three years, our actual product return rate has stayed within a range of 3.5% to 3.7% of gross sales. An 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 three month period ended June 30, 2007 by approximately $90,000.

Allowances 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. At June 30, 2007 and March 31, 2007, the allowance for obsolete and slow moving inventory represented 2.4% and 5.8%, respectively, of total inventory. A 1.0% increase in our allowance for obsolescence at June 30, 2007 would have adversely affected our reported operating income for the three month period ended June 30, 2007 by approximately $292,000. During 2007, the Company recorded a credit of $289,000 to operations for obsolescence due to the settlement of a claim from a vendor, while during 2006, the Company recorded a charge to operations for inventory obsolescence costs of $619,000.

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 collectibility 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 at June 30, 2007 and March 31, 2007 amounted to 0.07% and 0.1%, respectively, of accounts receivable. For 2007 and 2006 we recorded bad debt expense of $86,000 and $54,000, respectively.

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 0.1% increase in our bad debt expense as a percentage of net sales would have resulted in a decrease in operating income for the three month period ended June 30, 2007 of approximately $79,000.

Valuation of Intangible Assets and Goodwill

Goodwill and intangible assets amounted to $965.5 million and $968.1 million at June 30, 2007 and March 31, 2007, respectively. As of June 30, 2007, goodwill and intangible assets were apportioned among our three operating segments as follows:

	Over-the-Counter Healthcare	Household Cleaning	Personal Care	Consolidated
Goodwill	$ 235,647	$ 72,549	$ 2,751	$ 310,947
Intangible assets				
Indefinite lived	374,070	170,893	--	544,963
Finite lived	92,881	18	16,668	109,567
	466,951	170,911	16,668	654,530
	$ 702,598	$ 243,460	$ 19,419	$ 965,477

Our Clear Eyes, New-Skin, Chloraseptic, Compound W and Wartner brands comprise the majority of the value of the intangible assets within the Over-The-Counter Healthcare segment. The Comet, Spic and Span and Chore Boy brands comprise substantially all of the intangible asset value within the Household Cleaning segment. Denorex, Cutex and Prell comprised substantially all of the intangible asset value within the Personal Care 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 purchase 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 the Company acquires or continues to own and promote. 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 also 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 the intangible's value and useful life based on its analysis of the requirements of Statements No. 141 and No. 142. Under Statement No. 142, goodwill and indefinite-lived intangible assets are no longer amortized, but must be tested for impairment at least annually. Intangible assets with finite lives are amortized over their respective estimated useful lives and must also be tested for impairment.

On an annual basis, 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 useful lives assigned to goodwill and intangible assets and tests for impairment.

Finite-Lived Intangible Assets

As mentioned above, management performs an annual review or more frequently if necessary, to ascertain the impact of events and circumstances on the estimated useful lives and carrying values of our trademarks and trade names. 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.

Should analysis of any of the aforementioned factors warrant 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. 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. 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.

Indefinite-Lived Intangible Assets
In a manner similar to finite-lived intangible assets, on an annual basis, or more frequently if necessary, management analyzes current events and circumstances to determine whether the indefinite life classification for a trademark or trade name continues to be valid. Should circumstance warrant a finite life, the carrying value of the intangible asset would then be amortized prospectively over the estimated remaining useful life.

In connection with this analysis, management also 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 performing this analysis, management considers the same types of information as listed above in regards to finite-lived intangible assets. Once that analysis is completed, a discount rate is applied to the cash flows to estimate fair value. 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.

Goodwill
As part of its annual test for impairment of goodwill, management estimates the discounted cash flows of each reporting unit, which is at the brand level, and one level below the operating segment level, to estimate their respective fair values. In performing this analysis, management considers the same types of information as listed above in regards to finite-lived intangible assets. In the event that the carrying amount 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 if the unit was acquired in a business combination, thereby revaluing the carrying amount of goodwill. In a manner similar to indefinite-lived assets, 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 estimating the value of trademarks and trade names, as well as goodwill, at March 31, 2007, management applied a discount rate of 9.5%, the Company's then current weighted-average cost of funds, to the estimated cash flows; however that rate, as well as future cash flows may be influenced by such factors, including (i) changes in interest rates, (ii) rates of inflation, or (iii) sales or contribution margin reductions. In the event that the carrying value exceeded the estimated fair value of either intangible assets or goodwill, we would be required to recognize an impairment charge. Additionally, continued decline of the fair value ascribed to an intangible asset or a reporting unit caused by external factors may require future impairment charges.

During the three month period ended March 31, 2006, we recorded non-cash charges related to the impairment of intangible assets and goodwill of the Personal Care segment of $7.4 million and $1.9 million, respectively, because the carrying amounts of these "branded" assets exceeded their fair market values primarily as a result of declining sales caused by product competition. Should the related fair values of goodwill and intangible assets continue to be adversely affected as a result of declining sales or margins caused by competition, technological advances or reductions in advertising and promotional expenses, the Company may be required to record additional impairment charges.

Stock-Based Compensation
During 2006, we adopted FASB Statement No. 123(R), "Share-Based Payment" ("Statement No. 123(R)") with the initial grants of restricted stock and options to purchase common stock to employees and directors in accordance with the provisions of the Plan. Statement No. 123(R) requires us to measure the cost of services to be rendered based on the

grant-date fair value of the equity award. Compensation expense is to be recognized over the period which an employee is required to provide service in exchange for the award, generally referred to

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as the requisite service period. Information utilized in the determination of fair value includes the following:

- Type of instrument (i.e.: restricted shares vs. an option, warrant or performance shares),
- Strike price of the instrument,
- Market price of the Company's common stock on the date of grant,
- Discount rates,
- Duration of the instrument, and
- Volatility of the Company's 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 uses diligent analysis 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. The Company recorded non-cash compensation expense of $655,000 and $383,000 during the fiscal years ended March 31, 2007 and 2006, respectively. During the three month period ended June 30, 2007, the Company recorded non-cash compensation expense of $460,000, while during the three month period ended June 30, 2006, the Company recorded a non-cash credit of $9,000 as a result of the reversal of compensation charges in the amount of $142,000 associated with the departure of a former member of management.

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 reasonable 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 February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("Statement No. 159"). Statement No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. Statement No. 159 is effective for interim financial statements issued during the fiscal year beginning after November 15, 2007. The Company is evaluating the impact that the adoption of Statement No. 159 will have on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("Statement No. 157") to address inconsistencies in the definition and determination of fair value pursuant to generally accepted accounting principles ("GAAP"). Statement No. 157 provides a single definition of fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements in an effort to increase comparability related to the recognition of market-based assets and liabilities and their impact on earnings. Statement No. 157 is effective for interim financial statements issued during the fiscal year beginning after November 15, 2007.

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

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 “PSLR Act”), 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 PSLR Act and with the intention of obtaining the benefits of the “safe harbor” provisions of the PSLR Act. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in our forward-looking statements.

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 have any intention 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.

Our forward-looking statements generally can be identified by the use of words or phrases such as “believe,” “anticipate,” “expect,” “estimate,” “project,” “will be,” “will continue,” “will likely result,” or other similar words phrases. Forward-looking statements and our plans and expectations are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, and our business in general is subject to such risks. 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. For more information, see “Risk Factors” contained in Part I, Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2007. In addition, our expectations or beliefs concerning future events involve risks and uncertainties, including, without limitation:

- General economic conditions affecting our products and their respective markets,
- The high level of competition in our industry and markets,
- Our dependence on a limited number of customers for a large portion of our sales,
- Disruptions in our distribution center,
- Acquisitions or other strategic transactions diverting managerial resources, or incurrence of additional liabilities or integration problems associated with such transactions,
- Changing consumer trends or pricing pressures which may cause us to lower our prices,
- Increases in supplier prices,
- Increases in transportation fees and fuel charges,
- Changes in our senior management team,
- Our ability to protect our intellectual property rights,
- Our dependency on the reputation of our brand names,
- Shortages of supply of sourced goods or interruptions in the manufacturing of our products,
- Our level of debt, and ability to service our debt,

- Any adverse judgment rendered in any pending litigation or arbitration,
- Our ability to obtain additional financing, and
- The restrictions imposed by our financing agreements on our operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in interest rates because our Senior Credit Facility is variable rate debt. Interest rate changes, therefore, generally do not affect the market value of such debt, but do impact the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. At June 30, 2007, we had variable rate debt of approximately $321.5 million related to our Tranche B term loan.

In an effort to protect the Company from the adverse impact that rising interest rates would have on our variable rate debt, we have entered into various interest rate cap agreements to hedge this exposure. In June 2004, we purchased a 5% interest rate cap agreement with a notional amount of $20.0 million which terminated in June 2006. In March 2005, we purchased interest rate cap agreements that became effective August 30, 2005, with a total notional amount of $180.0 million and LIBOR cap rates ranging from 3.25% to 3.75%. On May 31, 2006, an interest rate cap agreement with a notional amount of $50.0 million and a 3.25% cap rate expired. Additionally, an interest rate cap agreement with a notional amount of $80.0 million and a 3.5% cap rate expired on May 31, 2007. The remaining agreement, with a notional amount of $50.0 million and a cap rate of 3.75% terminates on May 31, 2008.

Holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates on our variable rate debt would have an adverse impact on pre-tax earnings and cash flows for fiscal 2008 of approximately $3.2 million. However, given the protection afforded by the interest rate cap agreements, the impact of a one percentage point increase would be limited to $2.7 million. The fair value of the interest rate cap agreement was $767,000 at June 30, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and the 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 ("Exchange Act"), as of June 30, 2007. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2007, the Company's disclosure controls and procedures were effective to ensure that material 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

There have been no changes during the quarter ended June 30, 2007 in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended March 31, 2007 is incorporated herein by reference.

OraSure Technologies Litigation

On July 12, 2007, the Appellate Division of the Supreme Court of the State of New York issued an Order affirming the Order of the Supreme Court of the State of New York which denied OraSure Technologies' petition for a preliminary injunction that would have prohibited the Company from selling cryogenic wart removal products under the Wartner® brand. In addition, the Appellate Division dismissed OraSure Technologies' appeal from the Supreme Court's Order which denied OraSure Technologies' motion for reargument. Based on the foregoing, the Appellate Division held that a preliminary injunction was not an appropriate remedy in the action and recalled and vacated its Order dated May 17, 2007, which granted a preliminary injunction. An arbitration hearing is scheduled to be held in August 2007.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended March 31, 2007, which is incorporated herein by reference.

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

The following table sets forth information with respect to purchases of shares of the Company's common stock made during the quarter ended June 30, 2007, by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
4/1/07 - 4/30/07	--	$ --	--	--
5/1/07 – 5/31/07	1,968	1.70	--	--
6/1/07 - 6/30/07	--	--	--	--
Total	1,968	$ 1.70	--	--

ITEM 6. EXHIBITS

See Exhibit Index immediately following signature page.

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. Registrant	
Date: August 9, 2007	By:	**/s/ PETER J. ANDERSON** Peter J. Anderson Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

Exhibit Index

31.1	Certification of Principal Executive Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	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.