Prestige Brands Holdings, Inc.
Form 10-Q
August 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2014
OR

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

For the transition period from ____ to _____
Commission File Number: 001-32433

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

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

660 White Plains Road
Tarrytown, New York 10591
(Address of principal executive offices) (Zip Code)

(914) 524-6800
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x		Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)	Smaller reporting company o

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

Yes o No x

As of August 4, 2014, there were 51,970,741 shares of common stock outstanding.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,	
(In thousands, except per share data)	2014	2013
Revenues		
Net sales	$144,541	$141,642
Other revenues	1,161	870
Total revenues	145,702	142,512
Cost of Sales		
Cost of sales (exclusive of depreciation shown below)	63,836	59,488
Gross profit	81,866	83,024
Operating Expenses		
Advertising and promotion	19,096	18,681
General and administrative	17,006	11,634
Depreciation and amortization	2,961	3,268
Total operating expenses	39,063	33,583
Operating income	42,803	49,441
Other (income) expense		
Interest income	(32)	(3)
Interest expense	14,685	15,908
Total other expense	14,653	15,905
Income before income taxes	28,150	33,536
Provision for income taxes	11,418	12,844
Net income	$16,732	$20,692
Earnings per share:		
Basic	$0.32	$0.40
Diluted	$0.32	$0.40
Weighted average shares outstanding:		
Basic	51,956	51,222
Diluted	52,533	52,040
Comprehensive income, net of tax:		
Currency translation adjustments	$2,726	$1
Total other comprehensive income	2,726	1
Comprehensive income	$19,458	$20,693

See accompanying notes.

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

(In thousands)	June 30,	March 31,
Assets	2014	2014
Current assets		
Cash and cash equivalents	$15,675	$28,331
Accounts receivable, net	58,238	65,050
Inventories	66,171	65,586
Deferred income tax assets	6,118	6,544
Prepaid expenses and other current assets	13,895	11,674
Total current assets	160,097	177,185
Property and equipment, net	10,673	9,597
Goodwill	192,632	190,911
Intangible assets, net	1,468,172	1,394,817
Other long-term assets	22,376	23,153
Total Assets	$1,853,950	$1,795,663
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$45,279	$48,286
Accrued interest payable	9,449	9,626
Other accrued liabilities	23,591	26,446
Total current liabilities	78,319	84,358
Long-term debt		
Principal amount	972,500	937,500
Less unamortized discount	(2,942)	(3,086)
Long-term debt, net of unamortized discount	969,558	934,414
Deferred income tax liabilities	219,908	213,204
Other long-term liabilities	358	327
Total Liabilities	1,268,143	1,232,303
Commitments and Contingencies — Note 16		
Stockholders' Equity		
Preferred stock - $0.01 par value		
Authorized - 5,000 shares		
Issued and outstanding - None	—	—
Common stock - $0.01 par value		
Authorized - 250,000 shares		
Issued - 52,209 shares at June 30, 2014 and 52,021 shares at March 31, 2014	522	520
Additional paid-in capital	418,488	414,387
Treasury stock, at cost - 240 shares at June 30, 2014 and 206 shares at March 31, 2014	(2,545)	(1,431)
Accumulated other comprehensive income, net of tax	3,465	739

Retained earnings	165,877	149,145
Total Stockholders' Equity	585,807	563,360
Total Liabilities and Stockholders' Equity	$1,853,950	$1,795,663

See accompanying notes.

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

	Three Months Ended June 30,	
(In thousands)	2014	2013
Operating Activities		
Net income	$16,732	$20,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,961	3,268
Deferred income taxes	7,140	6,797
Amortization of deferred financing costs	851	892
Stock-based compensation costs	1,858	1,193
Amortization of debt discount	144	345
(Gain) on sale or disposal of property and equipment	—	(2)
Changes in operating assets and liabilities, net of effects from acquisitions		
Accounts receivable	6,956	11,070
Inventories	1,540	(6,716)
Prepaid expenses and other current assets	(2,203)	187
Accounts payable	(3,096)	(9,147)
Accrued liabilities	(3,212)	(5,781)
Net cash provided by operating activities	29,671	22,798
Investing Activities		
Purchases of property and equipment	(496)	(1,364)
Proceeds from the sale of property and equipment	—	2
Acquisition of the Hydralyte brand	(77,991)	—
Net cash used in investing activities	(78,487)	(1,362)
Financing Activities		
Repayments under revolving credit agreement	(30,000)	(18,000)
Borrowings under revolving credit agreement	65,000	—
Payment of deferred financing costs	(74)	(280)
Proceeds from exercise of stock options	1,294	309
Proceeds from restricted stock exercises	57	—
Excess tax benefits from share-based awards	950	452
Fair value of shares surrendered as payment of tax withholding	(1,171)	(278)
Net cash provided by (used in) financing activities	36,056	(17,797)
Effects of exchange rate changes on cash and cash equivalents	104	(3)
(Decrease) increase in cash and cash equivalents	(12,656)	3,636
Cash and cash equivalents - beginning of period	28,331	15,670
Cash and cash equivalents - end of period	$15,675	$19,306
Interest paid	$13,867	$14,826
Income taxes paid	$707	$657

See accompanying notes.

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

1. Business and Basis of Presentation

Nature of Business
Prestige Brands Holdings, Inc. (referred to herein as the "Company" or "we", which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct and indirect 100% owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter ("OTC") healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets, club, convenience, and dollar stores in the United States, Australia and Canada and in certain other international markets. Prestige Brands Holdings, Inc. is a holding company with no operations and is also the parent guarantor of the senior credit facility and the senior notes described in Note 9 to the Consolidated Financial Statements.

Basis of Presentation
The unaudited Consolidated Financial Statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. All significant intercompany transactions and balances have been eliminated in the Consolidated Financial Statements. In the opinion of management, the Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments that are considered necessary for a fair statement of our consolidated financial position, results of operations and cash flows for the interim periods presented. Our fiscal year ends on March 31st of each year. References in these Consolidated Financial Statements or related notes to a year (e.g., "2015") mean our fiscal year ending or ended on March 31st of that year. Operating results for the three months ended June 30, 2014 are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2015. These unaudited Consolidated Financial Statements and related notes should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2014.

Revision
We revised the classification of certain promotional expenses that were incurred in the prior year to correctly present the amounts as a reduction to net sales. The amounts were not material to any of the periods presented.

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on our knowledge of current events and actions that we may undertake in the future, actual results could differ materially from these estimates. As discussed below, our most significant estimates include those made in connection with the valuation of intangible assets, stock-based compensation, fair value of debt, sales returns and allowances, trade promotional allowances, inventory obsolescence, and the recognition of income taxes using an estimated annual effective tax rate.

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

cash, respectively. Substantially all of the Company's cash balances at June 30, 2014 are uninsured.

Accounts Receivable

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

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

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

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

* Leasehold improvements are amortized over the lesser of the term of the lease or the estimated useful life of the related asset.

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

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

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

Intangible Assets
Intangible assets, which are comprised primarily of trademarks, are stated at cost less accumulated amortization. For intangible assets with finite lives, amortization is computed using the straight-line method over estimated useful lives ranging from 3 to 30 years and are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their fair values and may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value. Indefinite-lived intangible assets are tested for impairment at least annually in the fourth fiscal quarter of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. If the carrying amount of the asset exceeds its fair value, an impairment loss is recognized.

Deferred Financing Costs
We have incurred debt origination costs in connection with the issuance of long-term debt. These costs are capitalized as deferred financing costs and amortized using the effective interest method over the term of the related debt.

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

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These promotional programs consist of direct-to-consumer incentives, such as coupons and temporary price reductions, as well as incentives to our customers, such as allowances for new distribution, including slotting fees, and cooperative advertising. Estimates of the costs of these promotional programs are based on (i) historical sales experience, (ii) the current promotional offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. We recognize the cost of such sales incentives by recording an estimate of such cost as a reduction of revenue, at the later of (a) the date the related revenue is recognized, or (b) the date when a particular sales incentive is offered. At the completion of a promotional program, the estimated amounts are adjusted to actual results.

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

Cost of Sales
Cost of sales includes product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Shipping, warehousing and handling costs were $7.7 million for the three months ended June 30, 2014 and $6.6 million for the three months ended June 30, 2013.

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

Stock-based Compensation
We recognize stock-based compensation by measuring the cost of services to be rendered based on the grant-date fair value of the equity award. Compensation expense is recognized over the period a grantee is required to provide service in exchange for the award, generally referred to as the requisite service period.

Income Taxes
Deferred tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is established when necessary to reduce deferred tax assets to the amounts expected to be realized.

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

We are subject to taxation in the United States and various state and foreign jurisdictions.

We classify penalties and interest related to unrecognized tax benefits as income tax expense in the Consolidated Statements of Income and Comprehensive Income.

Earnings Per Share
Basic earnings per share is calculated based on income available to common stockholders and the weighted-average number of shares outstanding during the reporting period. Diluted earnings per share is calculated based on income available to common stockholders and the weighted-average number of common and potential common shares

outstanding during the reporting period. Potential common shares, composed of the incremental common shares issuable upon the exercise of outstanding stock options, stock appreciation rights and unvested restricted shares, are included in the earnings per share calculation to the extent that they are dilutive.

Recently Issued Accounting Standards

In June 2014, the FASB issued Accounting Standards Update ("ASU") 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide Provide that a Performance Target Could Be Achieved after the Requisite Service Period, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the new guidance does not allow for a performance target that affects vesting to be reflected in estimating the fair value of the award at the grant date. The amendments to this update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this update either prospectively to all awards granted or modified after the effective date or retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. We currently do not have any outstanding share-based payments with a performance target. The adoption of ASU 2014-12 is not expected to have a material impact on our Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers - Topic 606, which supersedes the revenue recognition requirements in FASB ASC 605. The new guidance primarily states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The amendments in this update are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We are evaluating the impact of adopting this prospective guidance on our consolidated results of operations and financial condition.

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The amendments in this update must be applied prospectively to all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning on or after December 15, 2014, and interim periods within those years. The adoption of ASU 2014-08 is not expected to have a material impact on our 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 our consolidated financial position, results of operations or cash flows.

2. Acquisitions

Acquisition of Insight Pharmaceuticals
On April 25, 2014, we announced that we had entered into a definitive agreement for the acquisition of Insight Pharmaceuticals Corporation, a marketer and distributor of feminine care and other OTC healthcare products for $750.0 million in cash. As of the date of this filing, we have not yet completed the acquisition. We anticipate closing on this transaction during the second quarter of fiscal 2015, subject to customary closing conditions, including clearance under the Hart-Scott Rodino Antitrust Improvements Act of 1976. Financing for the transaction is expected to come from a combination of cash on the balance sheet, use of our existing revolving credit facility, and an amendment to our existing term loan facility.

Acquisition of the Hydralyte brand
On April 30, 2014, we completed the acquisition of the Hydralyte brand in Australia and New Zealand from The Hydration Pharmaceuticals Trust of Victoria, Australia, which was funded through a combination of cash on the balance sheet and our existing senior secured credit facility.

Hydralyte is the leading OTC brand in oral rehydration in Australia, and is marketed and sold through our Care Pharmaceuticals Pty Ltd. subsidiary. Hydralyte is available in pharmacies in multiple forms and is indicated for oral rehydration following diarrhea, vomiting, fever, heat and other ailments. Hydralyte is included in our International

OTC Healthcare segment.

The Hydralyte acquisition was accounted for in accordance with the Business Combinations topic of the FASB ASC 805, which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

We prepared an analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our preliminary allocation of the assets acquired and liabilities assumed as of the April 30, 2014 acquisition date.

(In thousands)	April 30, 2014
Inventories	$ 1,970
Property, plant and equipment, net	1,267
Goodwill	1,224
Intangible assets, net	73,580
Total assets acquired	78,041
Accrued expenses	38
Other long term liabilities	12
Total liabilities assumed	50
Net assets acquired	$ 77,991

Based on this analysis, we allocated $73.6 million to non-amortizable intangible assets and no allocation was made to amortizable intangible assets.

We also recorded goodwill of $1.2 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. The full amount of goodwill is not deductible for income tax purposes.

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

Acquisition of Care Pharmaceuticals Pty Ltd.
On July 1, 2013, we completed the acquisition of Care Pharmaceuticals Pty Ltd. ("Care Pharma"), which was funded through a combination of our existing senior secured credit facility and cash on hand.

The Care Pharma brands include the Fess line of cold/allergy and saline nasal health products, which is the leading saline spray for both adults and children in Australia. Other key brands include Painstop analgesic, Rectogesic for rectal discomfort, and the Fab line of nutritional supplements. Care Pharma also includes a line of brands for children including Little Allergies, Little Eyes, and Little Coughs. The brands acquired are complementary to our OTC Healthcare portfolio and are included in our International OTC Healthcare segment.

The Care Pharma acquisition was accounted for in accordance with the Business Combinations topic of the FASB ASC 805, which requires that the total cost of an acquisition be allocated to the tangible and intangible assets acquired and liabilities assumed based upon their respective fair values at the date of acquisition.

We prepared an analysis of the fair values of the assets acquired and liabilities assumed as of the date of acquisition. The following table summarizes our allocation of the assets acquired and liabilities assumed as of the July 1, 2013 acquisition date.

(In thousands)	July 1, 2013
Cash acquired	$ 1,546
Accounts receivable	1,658
Inventories	2,465
Deferred income taxes	283
Prepaids and other current assets	647
Property, plant and equipment	163
Goodwill	23,122
Intangible assets	31,502
Total assets acquired	61,386
Accounts payable	1,537
Accrued expenses	2,788
Other long term liabilities	300
Total liabilities assumed	4,625
Net assets acquired	$ 56,761

Based on this analysis, we allocated $29.8 million to non-amortizable intangible assets and $1.7 million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average useful life of 15.1 years. The weighted average remaining life for amortizable intangible assets at June 30, 2014 was 14.5 years.

We also recorded goodwill of $23.1 million based on the amount by which the purchase price exceeded the fair value of the net assets acquired. The full amount of goodwill is deductible for income tax purposes.

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

3. Accounts Receivable

Accounts receivable consist of the following:

(In thousands)	June 30, 2014	March 31, 2014
Components of Accounts Receivable		
Trade accounts receivable	$ 65,044	$ 73,632
Other receivables	1,470	1,360
	66,514	74,992
Less allowances for discounts, returns and uncollectible accounts	(8,276)	(9,942)
Accounts receivable, net	$ 58,238	$ 65,050

4. Inventories

Inventories consist of the following:

(In thousands)	June 30, 2014	March 31, 2014
Components of Inventories		
Packaging and raw materials	$ 1,973	$ 3,099
Work in process	93	—
Finished goods	64,105	62,487

Inventories	$66,171	$65,586

Inventories are carried at the lower of cost or market, which includes a reduction in inventory values of $1.6 million and $1.1 million at June 30, 2014 and March 31, 2014, respectively, related to obsolete and slow-moving inventory. As part of the acquisition of the Hydralyte brand on April 30, 2014, we manufacture certain of the Hydralyte products in Australia.

5. Property and Equipment

Property and equipment consist of the following:

(In thousands)	June 30, 2014	March 31, 2014
Components of Property and Equipment		
Machinery	$3,241	$1,927
Computer equipment and software	9,310	8,923
Furniture and fixtures	1,957	1,858
Leasehold improvements	4,734	4,734
	19,242	17,442
Accumulated depreciation	(8,569)	(7,845)
Property and equipment, net	$10,673	$9,597

We recorded depreciation expense of $0.7 million and $0.6 million for the three months ended June 30, 2014 and June 30, 2013, respectively.

6. Goodwill

As described in Note 18 to the Consolidated Financial Statements, we have realigned our reportable segments with how we currently operate, review and evaluate the results of our business. A reconciliation of the activity affecting goodwill by reportable segment is as follows:

(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Balance — March 31, 2014	$160,157	23,365	$7,389	$190,911
Additions	—	1,224	—	1,224
Effects of foreign currency exchange rates	—	497	—	497
Balance — June 30, 2014	$160,157	$25,086	$7,389	$192,632

As discussed in Note 2, on April 30, 2014, we completed the acquisition of the Hydralyte brand. In connection with this acquisition, we recorded goodwill of $1.2 million reflecting the amount by which the purchase price exceeded the preliminary estimate of fair value of the net assets acquired.

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

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

At March 31, 2014, during our annual test for goodwill impairment, there were no indicators of impairment under the analysis. Accordingly, no impairment charge was recorded in fiscal 2014. As of June 30, 2014, there have been no triggering events that would indicate potential impairment of goodwill.

The discounted cash flow methodology is a widely-accepted valuation technique to estimate fair value utilized by market participants in the transaction evaluation process and has been applied consistently. We also considered our market capitalization at March 31, 2014, as compared to the aggregate fair values of our reporting units, to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. The estimates and assumptions made in assessing the fair value of our reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties. Consequently, changing rates of interest and inflation, declining sales or margins, increases in competition, changing consumer preferences, technical advances, or reductions in advertising and promotion may require an impairment charge to be recorded in the future.

7. Intangible Assets

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

(In thousands)	Indefinite Lived Trademarks	Finite Lived Trademarks	Totals
Gross Carrying Amounts			
Balance — March 31, 2014	$1,273,878	$204,740	$1,478,618
Additions	73,580	—	73,580
Reductions	—	—	—
Effects of foreign currency exchange rates	1,981	29	2,010
Balance — June 30, 2014	1,349,439	204,769	1,554,208
Accumulated Amortization			
Balance — March 31, 2014	—	83,801	83,801
Additions	—	2,237	2,237
Reductions	—	—	—
Effects of foreign currency exchange rates	—	(2)	(2)
Balance — June 30, 2014	—	86,036	86,036
Intangible assets, net - June 30, 2014	$1,349,439	$118,733	$1,468,172
Intangible Assets, net by Reportable Segment:			
North American OTC Healthcare	$1,123,898	$91,407	$1,215,305
International OTC Healthcare	105,721	1,596	107,317
Household Cleaning	119,820	25,730	145,550
Intangible assets, net - June 30, 2014	$1,349,439	$118,733	$1,468,172

As discussed in Note 2, on April 30, 2014, we completed the acquisition of the Hydralyte brand. In connection with this acquisition, we allocated $73.6 million to intangible assets based on our preliminary analysis.

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

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

In a manner similar to goodwill, we completed our annual test for impairment of our indefinite-lived intangible assets during the three months ended March 31, 2014. We did not record an impairment charge, as facts and circumstances indicated that the fair values of the intangible assets for our brands exceeded their carrying values. Additionally, for the indefinite-lived intangible assets, an evaluation of the facts and circumstances as of June 30, 2014 continues to support an indefinite useful life for these assets. Therefore, no impairment charge was recorded for the three months ended June 30, 2014.

The weighted average remaining life for finite-lived intangible assets at June 30, 2014 was approximately 13.3 years, and the amortization expense for the three months ended June 30, 2014 was $2.2 million. At June 30, 2014, finite-lived intangible assets are being amortized over a period of 3 to 30 years, and the associated amortization expense is expected to be as follows:

(In thousands)	
Year Ending March 31,	Amount
2015 (Remaining nine months ending March 31, 2015)	$6,715
2016	8,953
2017	8,953
2018	8,953
2019	8,953
Thereafter	76,206
	$118,733

8. Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In thousands)	June 30, 2014	March 31, 2014
Accrued marketing costs	$11,271	$11,812
Accrued compensation costs	2,552	6,232
Accrued broker commissions	799	1,019
Income taxes payable	1,653	1,854
Accrued professional fees	1,257	2,002
Deferred rent	1,168	1,258
Accrued production costs	1,635	1,506
Other accrued liabilities	3,256	763
	$23,591	$26,446

9. Long-Term Debt

2012 Senior Notes:
On January 31, 2012, Prestige Brands, Inc. (the "Borrower") issued $250.0 million of senior unsecured notes at par value, with an interest rate of 8.125% and a maturity date of February 1, 2020 (the "2012 Senior Notes"). The Borrower may earlier redeem some or all of the 2012 Senior Notes at redemption prices set forth in the indenture governing the 2012 Senior Notes. The 2012 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2012 Senior Notes offering, we incurred $12.6 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2012 Senior Notes.

2012 Term Loan and 2012 ABL Revolver:
On January 31, 2012, the Borrower also entered into a new senior secured credit facility, which consists of (i) a $660.0 million term loan facility (the “2012 Term Loan”) with a seven-year maturity and (ii) a $50.0 million asset-based revolving credit facility (the “2012 ABL Revolver”) with a five-year maturity. In subsequent years, we have utilized portions of our accordion feature to increase the amount of our borrowing capacity under the 2012 ABL Revolver by $45.0 million to $95.0 million and reduced our borrowing rate on the 2012 ABL Revolver by 0.25%. The 2012 Term Loan was issued with an original issue discount of 1.5% of the principal amount thereof, resulting in net proceeds to the Borrower of $650.1 million. In connection with these loan facilities, we incurred $20.6 million of costs, which were capitalized as deferred financing costs and are being amortized over the terms of the facilities. The 2012 Term

Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company.

On February 21, 2013, the Borrower entered into Amendment No. 1 (the "Amendment") to the 2012 Term Loan. The Amendment provided for the refinancing of all of the Borrower's existing Term B Loans with new Term B-1 Loans. The interest rate on the Term B-1 Loans is based, at the Borrower's option, on a LIBOR rate plus a margin of 2.75% per annum, with a LIBOR floor of 1.00%, or an alternate base rate plus a margin. The new Term B-1 Loans will mature on the same date as the Term B Loans' original

maturity date. In addition, the Amendment provided the Borrower with certain additional capacity to prepay subordinated debt, the 2012 Senior Notes and certain other unsecured indebtedness permitted to be incurred under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver. In connection with the Amendment, during the fourth quarter ended March 31, 2013, we recognized a $1.4 million loss on the extinguishment of debt.
The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% and (d) a floor of 2.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of 1.00%. For the three months ended June 30, 2014, the average interest rate on the 2012 Term Loan was 4.3%.
Under the 2012 Term Loan, we were originally required to make quarterly payments each equal to 0.25% of the original principal amount of the 2012 Term Loan, with the balance expected to be due on the seventh anniversary of the closing date. However, since we have previously made significant optional payments that exceeded all of our required quarterly payments, we will not be required to make a payment until the maturity date of January 31, 2019.

Borrowings under the 2012 ABL Revolver, as amended, bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs. The initial applicable margin for borrowings under the 2012 ABL Revolver is 1.75% with respect to LIBOR borrowings and 0.75% with respect to base-rate borrowings. The applicable margin for borrowings under the 2012 ABL Revolver may be increased to 2.00% or 2.25% for LIBOR borrowings and 1.00% or 1.25% for base-rate borrowings, depending on average excess availability under the 2012 ABL Revolver during the prior fiscal quarter. In addition to paying interest on outstanding principal under the 2012 ABL Revolver, we are required to pay a commitment fee to the lenders under the 2012 ABL Revolver in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate will be reduced to 0.375% per annum at any time when the average daily unused commitments for the prior quarter is less than a percentage of total commitments by an amount set forth in the credit agreement covering the 2012 ABL Revolver. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the three months ended June 30, 2014, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was 4.2%.

2013 Senior Notes:
On December 17, 2013, the Borrower issued $400.0 million of senior unsecured notes, with an interest rate of 5.375% and a maturity date of December 15, 2021 (the "2013 Senior Notes"). The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its 100% domestic owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2013 Senior Notes offering, we incurred $7.2 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2013 Senior Notes.
Redemptions and Restrictions:
At any time prior to February 1, 2016, we may redeem the 2012 Senior Notes in whole or in part at a redemption price equal to 100% of the principal amount of the notes redeemed, plus a "make-whole premium" calculated as set forth in the indenture governing the 2012 Senior Notes, together with accrued and unpaid interest, if any, to the date of redemption. On or after February 1, 2016, we may redeem the 2012 Senior Notes in whole or in part at redemption prices set forth in the indenture governing the 2012 Senior Notes. In addition, at any time prior to February 1, 2015,

we may redeem up to 35% of the aggregate principal amount of the 2012 Senior Notes at a redemption price equal to 108.125% of the principal amount, plus accrued and unpaid interest, if any, to the redemption date, with the net cash proceeds of certain equity offerings, provided that certain conditions are met. Subject to certain limitations, in the event of a change of control, as defined in the indenture governing the 2012 Senior Notes, the Borrower will be required to make an offer to purchase the 2012 Senior Notes at a price equal to 101% of the aggregate principal amount of the 2012 Senior Notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

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

The indentures governing the 2012 Senior Notes and the 2013 Senior Notes contain provisions that restrict us from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchases of common shares outstanding, changes of control, incurrences of indebtedness, issuance of equity, creation of liens, making of loans and transactions with affiliates. Additionally, the credit agreement with respect to the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2012 Senior Notes and the 2013 Senior Notes contain cross-default provisions, whereby a default pursuant to the terms and conditions of certain indebtedness will cause a default on the remaining indebtedness under the credit agreement and the indentures governing the 2012 Senior Notes and the 2013 Senior Notes. At June 30, 2014, we were in compliance with the covenants under our long-term indebtedness.

At June 30, 2014, we had an aggregate of $22.4 million of unamortized debt issuance costs and $2.9 million of unamortized debt discount, the total of which is comprised of $9.7 million related to the 2012 Senior Notes, $6.8 million related to the 2013 Senior Notes, $7.6 million related to the 2012 Term Loan, and $1.2 million related to the 2012 ABL Revolver.

During the three months ended June 30, 2014, we borrowed a net amount of $35.0 million against the 2012 ABL Revolver.

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

(In thousands, except percentages)	June 30, 2014	March 31, 2014
2013 Senior Notes bearing interest at 5.375%, with interest payable on June 15 and December 15 of each year, commencing June 15, 2014. The 2013 Senior Notes mature on December 15, 2021.	$400,000	$400,000
2012 Senior Notes bearing interest at 8.125%, with interest payable on February 1 and August 1 of each year. The 2012 Senior Notes mature on February 1, 2020.	250,000	250,000
2012 Term Loan bearing interest at the Company's option at either a base rate with a floor of 2.00% plus applicable margin or LIBOR with a floor of 1.00% plus applicable margin, due on January 31, 2019.	287,500	287,500
2012 ABL Revolver bearing interest at the Company's option at either a base rate plus applicable margin or LIBOR plus applicable margin. Any unpaid balance is due on January 31, 2017.	35,000	—
	972,500	937,500
Current portion of long-term debt	—	—
	972,500	937,500
Less: unamortized discount	(2,942)	(3,086)
Long-term debt, net of unamortized discount	$969,558	$934,414

As of June 30, 2014, aggregate future principal payments required in accordance with the terms of the 2012 Term Loan, 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2012 Senior Notes are as follows:
(In thousands)

Year Ending March 31,	Amount
2015 (remaining nine months ending March 31, 2015)	$—
2016	—
2017	35,000
2018	—
2019	287,500
Thereafter	650,000
	$972,500

10. Fair Value Measurements

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

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

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

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

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

The market values have been determined based on market values for similar instruments adjusted for certain factors. As such, the 2012 Term Loan, the 2013 Senior Notes, the 2012 Senior Notes, and the 2012 ABL Revolver are measured in Level 2 of the above hierarchy. At June 30, 2014 and March 31, 2014, we did not have any assets or liabilities measured in Level 1 or 3. During any of the periods presented, there were no transfers of assets or liabilities between Levels 1, 2 and 3.

At June 30, 2014 and March 31, 2014, the carrying value of our 2013 Senior Notes was $400.0 million. The fair value of our 2013 Senior Notes was $409.0 million and $408.5 million at June 30, 2014 and March 31, 2014, respectively.

At June 30, 2014 and March 31, 2014, the carrying value of our 2012 Senior Notes was $250.0 million. The fair value of our 2012 Senior Notes was $277.8 million and $280.6 million at June 30, 2014 and March 31, 2014, respectively.

At June 30, 2014 and March 31, 2014, the carrying value of the 2012 Term Loan was $287.5 million. The fair value of the 2012 Term Loan was $288.2 million and $288.9 million at June 30, 2014 and March 31, 2014, respectively.

At June 30, 2014, the carrying value and fair value of the 2012 ABL Revolver was $35.0 million. There were no outstanding borrowings under the 2012 ABL Revolver at March 31, 2014.

11. 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, 2014.

During the three months ended June 30, 2014 and June 30, 2013, we repurchased 33,740 shares and 10,726 shares, respectively, of restricted common stock from our employees pursuant to the provisions of various employee restricted stock awards. The repurchases were at an average price of $33.03. All of the repurchased shares have been recorded as treasury stock.

12. Accumulated Other Comprehensive Income

The table below presents accumulated other comprehensive income ("AOCI"), which is comprised of various items that affect equity and results from recognized transactions and other economic events, other than transactions with owners in their capacity as owners.

AOCI consisted of the following at June 30, 2014 and March 31, 2014:

(In thousands)	June 30, 2014	March 31, 2014
Components of Accumulated Other Comprehensive Income		
Cumulative translation adjustment	$3,465	$739
Total accumulated other comprehensive income, net of tax	$3,465	$739

13. Earnings Per Share

Basic earnings per share is computed based on the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed based on the weighted-average number of shares of common stock outstanding plus the effect of potentially dilutive common shares outstanding during the period using the treasury stock method, which includes stock options, restricted stock awards, and restricted stock units. The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30,	
(In thousands, except per share data)	2014	2013
Numerator		
Net income	$16,732	$20,692
Denominator		
Denominator for basic earnings per share — weighted average shares outstanding	51,956	51,222
Dilutive effect of unvested restricted common stock (including restricted stock units) and options issued to employees and directors	577	818
Denominator for diluted earnings per share	52,533	52,040
Earnings per Common Share:		
Basic net earnings per share	$0.32	$0.40
Diluted net earnings per share	$0.32	$0.40

For the three months ended June 30, 2014 and 2013, there were 0.3 million