**U. S. SECURITIES AND EXCHANGE COMMISSION**
**Washington, DC 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2006**

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

**For the transition period from ____ to _____**

**PRESTIGE BRANDS HOLDINGS, INC.**

| **Delaware** | **20-1297589** | **001-32433** |
|---|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) | (Commission File Number) |

**PRESTIGE BRANDS INTERNATIONAL, LLC**

| **Delaware** | **20-0941337** | **333-117152-18** |
|---|---|---|
| (State of Incorporation) | (I.R.S. Employer Identification No.) | (Commission File Number) |

(Exact name of Registrants as specified in their charters)

| **90 North Broadway**<br>**Irvington, New York 10533**<br>(Address of Registrants' Principal Executive Offices) | **(914) 524-6810**<br>(Registrants' telephone number, including area code) |
|---|---|

This Quarterly Report on Form 10-Q is a combined quarterly report being filed separately by Prestige Brands Holdings, Inc. ("PBH") and Prestige Brands International, LLC ("PBI"). PBI, an indirect wholly-owned subsidiary of PBH, is an indirect parent company of Prestige Brands, Inc., the issuer of our 9¼% senior subordinated notes due 2012, and the parent guarantor of such notes. As the indirect holding company of PBI, PBH does not conduct ongoing business operations. As a result, the financial information for PBH and PBI are identical for the purposes of the discussion of operating results in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Unless otherwise indicated, we have presented information throughout this Form 10-Q for PBH and its consolidated subsidiaries, including PBI. The information contained herein relating to each individual Registrant is filed by such Registrant on its own behalf. Neither Registrant makes any representation as to information relating to the other Registrant. PBI meets the conditions set forth in general instructions (H)(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format.

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Prestige Brands Holdings, Inc. Yes [ ] No x
Prestige Brands International, LLC Yes [x] No [ ]

Indicate by check mark whether the Registrants (1) have 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 Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether each Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

| | **Large Accelerated Filer** | **Accelerated Filer** | **Non Accelerated Filer** |
|---|---|---|---|
| Prestige Brands Holdings, Inc. | | X | |
| Prestige Brands International, LLC | | | X |

Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12 b-2 of the Exchange Act).
Yes [ ] No x

As of November 8, 2006, PBH had 50,007,589 shares of common stock outstanding. As of such date, Prestige International Holdings, LLC, a wholly-owned subsidiary of PBH, owned 100% of the uncertificated ownership interests of PBI.

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**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

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

| *(In thousands, except per share data)* | Three Months Ended September 30 | | Six Months Ended September 30 | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Revenues** | | | | |
| Net sales | $ 84,033 | $ 73,320 | $ 159,600 | $ 136,748 |
| Other revenues | 518 | 25 | 874 | 50 |
| Total revenues | 84,551 | 73,345 | 160,474 | 136,798 |
| **Cost of Sales** | | | | |
| Costs of sales | 41,259 | 35,549 | 77,584 | 64,498 |
| Gross profit | 43,292 | 37,796 | 82,890 | 72,300 |
| **Operating Expenses** | | | | |
| Advertising and promotion | 9,455 | 10,217 | 16,857 | 18,922 |
| General and administrative | 7,259 | 4,117 | 13,693 | 9,023 |
| Depreciation | 219 | 487 | 439 | 975 |
| Amortization of intangible assets | 2,193 | 2,148 | 4,386 | 4,296 |
| Total operating expenses | 19,126 | 16,969 | 35,375 | 33,216 |
| Operating income | 24,166 | 20,827 | 47,515 | 39,084 |
| **Other income (expense)** | | | | |
| Interest income | 403 | 226 | 588 | 307 |
| Interest expense | (10,146) | (8,897) | (20,123) | (17,488) |
| Total other income (expense) | (9,743) | (8,671) | (19,535) | (17,181) |
| Income before provision for income taxes | 14,423 | 12,156 | 27,980 | 21,903 |
| Provision for income taxes | 5,639 | 4,782 | 10,940 | 8,600 |
| Net income | $ 8,784 | $ 7,374 | $ 17,040 | $ 13,303 |
| Basic earnings per share | $ 0.18 | $ 0.15 | $ 0.35 | $ 0.27 |
| Diluted earnings per share | $ 0.18 | $ 0.15 | $ 0.34 | $ 0.27 |
| Weighted average shares outstanding: | | | | |
| Basic | 49,451 | 48,791 | 49,389 | 48,757 |
| Diluted | 49,994 | 49,949 | 49,991 | 49,932 |

*See accompanying notes.*

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

| *(In thousands)* | September 30, 2006 | March 31, 2006 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 10,508 | $ 8,200 |
| Accounts receivable | 37,447 | 40,042 |
| Inventories | 29,272 | 33,841 |
| Deferred income tax assets | 2,405 | 3,227 |
| Prepaid expenses and other current assets | 1,748 | 701 |
| Total current assets | 81,380 | 86,011 |
| Property and equipment | 1,527 | 1,653 |
| Goodwill | 302,786 | 297,935 |
| Intangible assets | 662,411 | 637,197 |
| Other long-term assets | 13,694 | 15,849 |
| Total Assets | $ 1,061,798 | $ 1,038,645 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 22,584 | $ 18,065 |
| Accrued interest payable | 7,773 | 7,563 |
| Income taxes payable | 64 | 1,795 |
| Other accrued liabilities | 8,714 | 4,582 |
| Current portion of long-term debt | 3,730 | 3,730 |
| Total current liabilities | 42,865 | 35,735 |
| Long-term debt | 486,035 | 494,900 |
| Other accrued liabilities | 2,801 | -- |
| Deferred income tax liabilities | 103,954 | 98,603 |
| Total Liabilities | 635,655 | 629,238 |
| **Commitments and Contingencies - Note 14** | | |
| **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 at September 30, 2006 and 50,056 shares at March 31, 2006 | 501 | 501 |
| Additional paid-in capital | 378,794 | 378,570 |
| Treasury stock, at cost - 52 shares at September 30, 2006 and 18 shares at March 31, 2006 | (36) | (30) |
| Accumulated other comprehensive income | 587 | 1,109 |
| Retained earnings | 46,297 | 29,257 |
| Total stockholders' equity | 426,143 | 409,407 |
| Total Liabilities and Stockholders' Equity | $ 1,061,798 | $ 1,038,645 |

*See accompanying notes.*

**Prestige Brands Holdings, Inc.**
**Consolidated Statement of Changes in Stockholders' Equity**
**and Comprehensive Income**
**Six Months Ended September 30, 2006**
***(Unaudited)***

| | Common Stock | | Additional | Treasury Stock | | Accumulated Other | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Par Value | Paid-in Capital | Shares | Amount | Comprehensive Income | Retained Earnings | Totals |
| ***(In thousands)*** | | | | | | | | |
| Balances - March 31, 2006 | 50,056 | $ 501 | $ 378,570 | 18 | $ (30) | $ 1,109 | $ 29,257 | $ 409,407 |
| Stock-based compensation | 4 | | 224 | | | | | 224 |
| Purchase of common stock for treasury | | | | 34 | (6) | | | (6) |
| Components of comprehensive income | | | | | | | | |
| Net income | | | | | | | 17,040 | 17,040 |
| Amortization of interest rate caps | | | | | | 535 | | 535 |
| Unrealized loss on interest rate caps, net of income tax benefit of $423 | | | | | | (1,057) | | (1,057) |
| Total comprehensive income | | | | | | | | 16,518 |
| Balances - September 30, 2006 | 50,060 | $ 501 | $ 378,794 | 52 | $ (36) | $ 587 | $ 46,297 | $ 426,143 |

*See accompanying notes.*

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

| *(In thousands)* | Six Months Ended September 30 2006 | 2005 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 17,040 | $ 13,303 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,825 | 5,271 |
| Deferred income taxes | 6,197 | 7,961 |
| Amortization of deferred financing costs | 1,609 | 1,136 |
| Stock-based compensation | 224 | 110 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 2,595 | 3,366 |
| Inventories | 5,202 | (8,054) |
| Prepaid expenses and other current assets | (1,047) | (104) |
| Accounts payable | 4,494 | 1,020 |
| Income taxes payable | (1,731) | -- |
| Accrued liabilities | 3,326 | 521 |
| Net cash provided by operating activities | 42,734 | 24,530 |
| | | |
| **Investing Activities** | | |
| Purchases of equipment | (313) | (297) |
| Purchase of business | (31,242) | -- |
| Net cash used for investing activities | (31,555) | (297) |
| | | |
| **Financing Activities** | | |
| Repayment of long-term debt | (8,865) | (1,865) |
| Payment of deferred financing costs | -- | (33) |
| Purchase of common stock for treasury | (6) | (21) |
| Additional costs associated with initial public offering | -- | (63) |
| Net cash used for financing activities | (8,871) | (1,982) |
| | | |
| Increase in cash | 2,308 | 22,251 |
| Cash - beginning of period | 8,200 | 5,334 |
| | | |
| Cash - end of period | $ 10,508 | $ 27,585 |
| | | |
| **Supplemental Cash Flow Information** | | |
| Fair value of assets acquired | $ 35,068 | $ -- |
| Fair value of liabilities assumed | (3,826) | -- |
| Cash paid to purchase business | $ 31,242 | $ -- |
| | | |
| Interest paid | $ 18,306 | $ 16,408 |
| Income taxes paid | $ 6,287 | $ 565 |

*See accompanying notes.*

## 1. Business and Basis of Presentation

***Nature of Business***

Prestige Brands Holdings, Inc. and its subsidiaries (the "Company") are engaged in the marketing, sales and distribution of over-the-counter drug, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States and Canada.

***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 generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include all adjustments, consisting of normal recurring adjustments that are considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods. Operating results for the three and six month periods ended September 30, 2006 are not necessarily indicative of results that may be expected for the year ending March 31, 2007. 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, 2006.

***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 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 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 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 30 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 effective interest method over the term of the related debt.

***Revenue Recognition***

Revenues are recognized in accordance with Securities and Exchange Commission 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 generally occurs when product is received by the customer and, accordingly, recognizes revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on the Company's historical experience.

As is customary in the consumer products industry, the Company participates in the promotional programs of its customers to enhance the sale of its products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. 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 $6.5 million and $6.7 million for the three month periods ended September 30, 2006 and 2005, respectively, and $12.2 million for each of the six month periods ended September 30, 2006 and 2005.

***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***

The Company adopted FASB, Statement No. 123(R), "Share-Based Payment" ("Statement No. 123(R)"), effective April 1, 2005, 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 non-cash compensation expense of $233,000 during the three month period ended September 30, 2006, and net non-cash compensation expense of $224,000 for the six months ended September 30, 2006. During the three month period ended June 30, 2006, the Company recorded a net non-cash compensation 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. The Company recorded non-cash compensation expense of $110,000 during the three and six month periods ended September 30, 2005.

***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.

***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 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 September 30, 2006 and March 31, 2006 approximates fair value due to the short-term nature of these instruments. The carrying value of long-term debt at September 30, 2006 and March 31, 2006 approximates fair value based on interest rates for instruments with similar terms and maturities.

***Recently Issued Accounting Standards***

In November 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs” (“Statement No. 151”). Statement No. 151 amended the guidance in Accounting Research Bulletin No. 43, Chapter 4, “Inventory Pricing”, and requires the exclusion of certain costs, such as abnormal amounts of freight, handling costs and manufacturing overhead, from inventories. Additionally, Statement No. 151 requires the allocation of fixed production overhead to inventory based on normal capacity of the production facilities. The provisions of Statement No. 151 are effective for costs incurred during fiscal years beginning after September 15, 2005. The adoption of Statement No. 151 did not have a material impact on the Company’s financial condition, results of operations or cash flows for the three and six month periods ended September 30, 2006.

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 FASB Statement 109. FIN 48 is effective for fiscal years beginning after December 15, 2006, and 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. While the Company has not completed a comprehensive analysis of FIN 48, the adoption of FIN 48 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 pronouncement that could have a material impact on our consolidated financial position, results of operations or cash flows.

**2. Acquisition of Wartner USA B.V.**

On September 21, 2006, the Company completed the acquisition of the ownership interests of Wartner USA B.V. ("Wartner"), the owner and marketer of the Wartner® brand of over-the-counter wart treatment products. The Company expects that the Wartner brand, which is the #3 brand in the US over-the-counter wart treatment category, will enhance the Company's leadership in the category. Additionally, the Company believes that the brand will benefit from a targeted advertising and marketing program, as well as the Company's business model of outsourcing manufacturing and the elimination of redundant operations. The results from operations of the Wartner® brand were included within the Company's consolidated financial statements as a component of the over-the-counter segment commencing September 21, 2006.

The purchase price of the ownership interests was approximately $35.1 million, including fees and expenses of the acquisition of $216,000 and the assumption of approximately $5.0 million of contingent payments, with an estimated fair value of $3.8 million, owed to the former owner of Wartner through 2011. The Company funded the cash acquisition price from operating cash flows.

The following table summarizes the estimated fair values of the assets acquired at the date of acquisition. The Company has obtained independent valuations of certain tangible and intangible assets; however, the final purchase price will not be determined until all preliminary valuations have been finalized. Consequently, the allocation of the purchase price is subject to refinement.

The preliminary fair values assigned to the net assets and liabilities acquired consist of the following:

| ***(In thousands)*** | |
|---|---|
| Inventory | $ 769 |
| Intangible assets | 29,600 |
| Goodwill | 4,699 |
| Accrued liabilities | (3,826) |
| | $ 31,242 |

The amount allocated to intangible assets of $29.6 million includes $17.8 million related to the Wartner® brand trademark which the Company estimates to have a useful life of 20 years, as well as $11.8 million related to a patent estimated to have a useful life of 14 years. Goodwill resulting from this transaction was $4.7 million. As discussed above, this recorded amount is subject to change as additional information becomes available; however, it is estimated that such amount will be fully deductible for income tax purposes.

The following table sets forth the unaudited results of the Company's operations on a pro forma basis as if the acquisition of Wartner had been completed on April 1, 2005. The pro forma amounts for the three and six month periods ended September 30, 2005 include the pro forma results from operations of Dental Concepts, LLC, which was acquired in November 2005, as if the acquisition of Dental Concepts had been completed on April 1, 2005. The pro forma financial information is not necessarily indicative of the operating results that the combined entities would have achieved had the acquisition been consummated on April 1, 2005, nor is it necessarily

indicative of the operating results that may be expected for the year ending March 31, 2007.

| *(In thousands, except per share data)* | Three Months Ended September 30 | | Six Months Ended September | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| Revenues | $ 88,096 | $ 80,463 | $ 167,943 | $ 150,585 |
| Income before provision for income taxes | $ 14,866 | $ 12,300 | $ 28,143 | $ 22,000 |
| Net income | $ 9,055 | $ 7,442 | $ 17,140 | $ 13,362 |
| Basic earnings per share | $ 0.18 | $ 0.15 | $ 0.35 | $ 0.27 |
| Diluted earnings per share | $ 0.18 | $ 0.15 | $ 0.34 | $ 0.27 |
| Weighted average shares outstanding: | | | | |
| Basic | 49,451 | 48,791 | 49,389 | 48,757 |
| Diluted | 49,994 | 49,949 | 49,991 | 49,932 |

**3. Accounts Receivable**

Accounts receivable consist of the following (in thousands):

| | **September 30, 2006** | **March 31, 2006** |
|---|---|---|
| Accounts receivable | $ 37,539 | $ 40,140 |
| Other receivables | 1,553 | 1,870 |
| | 39,092 | 42,010 |
| Less allowances for discounts, returns and uncollectible accounts | (1,645) | (1,968) |
| | $ 37,447 | $ 40,042 |

**4. Inventories**

Inventories consist of the following (in thousands):

| | **September 30, 2006** | **March 31, 2006** |
|---|---|---|
| Packaging and raw materials | $ 2,842 | $ 3,278 |
| Finished goods | 26,430 | 30,563 |
| | $ 29,272 | $ 33,841 |

Inventories are shown net of allowances for obsolete and slow moving inventory of $1.5 million and $1.0 million at September 30, 2006 and March 31, 2006, respectively.

**5. Property and Equipment**

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

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| Machinery | $ 3,942 | $ 3,722 |
| Computer equipment | 852 | 987 |
| Furniture and fixtures | 267 | 303 |
| Leasehold improvements | 340 | 340 |
| | 5,401 | 5,352 |
| Accumulated depreciation | (3,874) | (3,699) |
| | $ 1,527 | $ 1,653 |

**6. Goodwill**

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

| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
|---|---|---|---|---|
| Balance - March 31, 2006 | $ 222,635 | $ 72,549 | $ 2,751 | $ 297,935 |
| Additions | 4,851 | -- | -- | 4,851 |
| Balance - September 30, 2006 | $ 227,486 | $ 72,549 | $ 2,751 | $ 302,786 |

At September 30, 2006, approximately $33.1 million of the Company's goodwill is deductible for income tax purposes.

**7. Intangible Assets**

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

| | Indefinite Lived Intangibles | Finite Lived Intangibles | Total |
|---|---|---|---|
| ***Carrying Amounts*** | | | |
| Balance - March 31, 2006 | $ 544,963 | $ 110,066 | $ 655,029 |
| Additions | -- | 29,600 | 29,600 |
| Balance - September 30, 2006 | $ 544,963 | $ 139,666 | $ 684,629 |
| ***Accumulated Amortization*** | | | |
| Balance - March 31, 2006 | $ -- | $ 17,832 | $ 17,832 |
| Amortization | -- | 4,386 | 4,386 |
| Balance - September 30, 2006 | $ -- | $ 22,218 | $ 22,218 |

At September 30, 2006, intangible assets are expected to be amortized over a period of five to 30 years as follows (in thousands):

| Year Ending September 30 | |
|---|---|
| 2007 | $ 10,507 |
| 2008 | 10,507 |
| 2009 | 10,502 |
| 2010 | 9,086 |
| 2011 | 9,071 |
| Thereafter | 67,775 |
| | $ 117,448 |

**8. Other Accrued Liabilities**

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

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| Accrued marketing costs | $ 4,989 | $ 2,513 |
| Accrued payroll | 1,835 | 813 |
| Accrued commissions | 275 | 248 |
| Other | 1,615 | 1,008 |
| | $ 8,714 | $ 4,582 |

**9. Long-Term Debt**

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

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| 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 September 30, 2006, 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 September 30, 2006, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets. | $ -- | $ 7,000 |
| Senior secured term loan facility ("Tranche B Term Loan 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 September 30, 2006, the weighted average applicable interest rate on the Tranche B Term Loan Facility was 7.26%. Principal payments of $933,000 and interest are payable quarterly. In February 2005, the Tranche B Term Loan Facility was amended to increase the additional amount available thereunder by $50.0 million to $200.0 million, all of which is available at September 30, 2006. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while amounts borrowed pursuant to the amendment will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets. | 363,765 | 365,630 |
| Senior Subordinated Notes ("Senior Notes") that bear interest at 9.25% which is payable on April 15th and October 15th of each year. The Senior Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior 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 Notes. The Senior Notes are unconditionally guaranteed by Prestige Brands International, LLC ("Prestige International"), a wholly-owned subsidiary of Prestige Brands Holdings, Inc., and Prestige International's 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 |
| | 489,765 | 498,630 |
| Current portion of long-term debt | (3,730) | (3,730) |
| | $ 486,035 | $ 494,900 |

The Revolving Credit Facility and the Tranche B Term Loan Facility (together the "Senior Credit Facility") contain 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 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 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. The Company was in compliance with its applicable financial and restrictive covenants under the Senior Credit Facility and the indenture governing the Senior Notes at September 30, 2006.

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

| **Year Ending September 30,** | |
|---|---|
| 2007 | $ 3,730 |
| 2008 | 3,730 |
| 2009 | 3,730 |
| 2010 | 3,730 |
| 2011 | 348,845 |
| Thereafter | 126,000 |
| | $ 489,765 |

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. The remaining agreements terminate on May 30, 2007 and 2008 as to notional amounts of $80.0 million and $50.0 million, respectively. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair value of the interest rate cap agreements, which is included in other long-term assets, was $2.2 million and $3.3 million at September 30, 2006 and March 31, 2006, respectively.

**10. Stockholders' Equity**

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

Each share of common stock has the right to one vote on all matters submitted to a vote of stockholders. The holders of common stock are also entitled to receive dividends whenever funds are legally available and when declared by the Board of Directors, subject to prior rights of holders of all classes of stock outstanding having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through September 30, 2006.

**11. Earnings Per Share**

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

| | Three Months Ended September 30 | | Six Months Ended September 30 | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| **Numerator** | | | | |
| Net income | $ 8,784 | $ 7,374 | $ 17,040 | $ 13,303 |
| **Denominator** | | | | |
| Denominator for basic earnings per share - weighted average shares | 49,451 | 48,791 | 49,389 | 48,757 |
| Dilutive effect of unvested restricted common stock | 543 | 1,158 | 602 | 1,175 |
| Denominator for diluted earnings per share | 49,994 | 49,949 | 49,991 | 49,932 |
| **Earnings per Common Share:** | | | | |
| Basic | $ 0.18 | $ 0.15 | $ 0.35 | $ 0.27 |
| Diluted | $ 0.18 | $ 0.15 | $ 0.34 | $ 0.27 |

At September 30, 2006, 522,000 shares of restricted stock issued to officers, directors and employees were unvested, and were therefore, excluded from the calculation of basic earnings per share for the period ended September 30, 2006. However, such shares are included in the calculation of diluted earnings per share. An additional 278,000 shares of restricted stock granted to officers 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 which have not been met as of September 30, 2006. At September 30, 2005, 1.1 million shares of restricted stock issued to officers, were unvested and were therefore, excluded from the calculation of basic earnings per share for the period ended September 30, 2005.

**12. Stock-Based Compensation**

In connection with the Company's February 2005 initial public offering, the Board of Directors adopted the Plan which provides for the grant, up to a maximum of 5.0 million shares, of stock options, restricted stock, 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.

**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. 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. During the three month period ended September 30, 2006, the Company granted awards aggregating 156,500 shares of restricted stock with an estimated fair value of $1.3 million.

**Performance Shares**
On the vesting date, the recipient of performance shares will receive the difference between the closing price of the Company's common stock on such date and the grant date price, times the number of performance shares underlying the grant. These awards may be settled in cash, common stock or some combination thereof at the option of the Company. During the three month period ended September 30, 2006, the Company granted awards aggregating 16,100 performance shares with an estimated fair value of $60,000.

**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. There were no option awards during the three and six month periods ended September 30, 2006.

The fair value of option and performance share awards is estimated on the date of grant using the Black-Scholes Option Pricing Model. As of September 30, 2006, there was approximately $1.8 million of total unrecognized compensation cost 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 4.0 years. However, the restricted shares vest upon the attainment of Company performance goals; if such goals are not met, no compensation cost would ultimately be recognized and any previously recognized compensation cost would be reversed. At September 30, 2006, there were 4.7 million shares available for issuance under the Plan.

## 13. 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 rates used in the calculation of income taxes were 39.1% for three and six month periods ended September 30, 2006, and 39.3% for the three and six month periods ended September 30, 2005.

## 14. Commitments and Contingencies

The Company and certain of its officers and directors are defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Southern District of New York (the "Consolidated Action"). The first of the six consolidated cases was filed on August 3, 2005. Plaintiffs purport to represent a class of stockholders of the Company who purchased shares between February 9, 2005 through November 15, 2005. Plaintiffs also name as defendants the underwriters in the Company's initial public offering and a private equity fund that was a selling stockholder in the offering. The District Court has appointed a Lead Plaintiff. On December 23, 2005, the Lead Plaintiff filed a Consolidated Class Action Complaint, which asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934. The Lead Plaintiff generally alleged that the Company issued a series of materially false and misleading statements in connection with its initial public offering and thereafter in regard to the following areas: the accounting issues described in the Company's press release issued on or about November 15, 2005; and the alleged failure to disclose that demand for certain of the Company's products was declining and that the Company was planning to withdraw several products from the market. Plaintiffs seek an unspecified amount of damages. The Company filed a motion to dismiss the Consolidated Class Action Complaint in February 2006. On July 10, 2006, the Court dismissed all claims against the Company and the individual defendants arising under the Securities Exchange Act of 1934. The Company's management believes the remaining claims are legally deficient and subject to meritorious defenses. The Company intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 6, 2005, another putative securities class action lawsuit substantially similar to the initially-filed complaints in the Consolidated Action described above was filed against the same defendants in the Circuit Court of Cook County, Illinois (the “Chicago Action”). In light of the first-filed Consolidated Action, proceedings in the Chicago Action were stayed until a ruling on defendants’ anticipated motions to dismiss the consolidated complaint in the Consolidated Action. Subsequent to the Court's decision on the motions to dismiss in the Consolidated Action, on August 11, 2006, the Plaintiffs in the Chicago Action agreed to dismiss the Chicago Action.

On May 23, 2006, Similasan Corporation filed a lawsuit against the Company in the United States District Court for the District of Colorado in which Similasan alleged false designation of origin, trademark and trade dress infringement, and deceptive trade practices by the Company related to *Murine* for Allergy Eye Relief, *Murine* for Tired Eye Relief and *Murine* for Earache Relief, as applicable. Similasan has requested injunctive relief, an accounting of profits and damages and litigation costs and attorneys’ fees. The Company has filed an answer to the complaint with a potentially dispositive motion. In addition to the lawsuit filed by Similasan in the U.S. District Court for the District of Colorado, the Company also received a cease and desist letter from Swiss legal counsel to Similasan and its parent company, Similasan AG, a Swiss company. In the cease and desist letter, Similasan and Similasan AG have alleged a breach of the Secrecy Agreement executed by the Company and demanded that the Company cease and desist from (i) using confidential information covered by the Secrecy Agreement; and (ii) manufacturing, distributing, marketing or selling certain of its homeopathic products. The complaint in the Colorado action has now been amended to include allegations relating to the breach of confidentiality’ and the Company has filed an answer responsive thereto. The Company’s management believes the allegations to be without merit and intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 28, 2006, OraSure Technologies, Inc. moved in the Supreme Court of the State of New York for a preliminary injunction prohibiting the Company from selling cryogenic wart removal products under the Wartner® brand, which the Company acquired on September 21, 2006. OraSure Technologies is a supplier to the Company for the Company’s Compound W Freeze Off® business. The distribution agreement in place calls for mediation of contract disputes, followed by arbitration, if necessary. The contract in question is of five years duration ending in December 2007. On October 30, 2006, the Court denied OraSure Technologies’ motion for a preliminary injunction. To the extent the contract dispute is not resolved through mediation, the Company intends to seek resolution of the matter through arbitration.

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 of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter 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 July 2009.

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

| Year Ending September 30 | Facilities | Equipment | Total |
|---|---|---|---|
| 2007 | $ 535 | $ 121 | $ 656 |
| 2008 | 499 | 120 | 619 |
| 2009 | 324 | 96 | 420 |
| 2010 | -- | 71 | 71 |
| | $ 1,358 | $ 408 | $ 1,766 |

**15. Concentrations of Risk**

The Company's sales are concentrated in the areas of over-the-counter pharmaceutical products, personal care products and household cleaning products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During the three and six month periods ended September 30, 2006 approximately 61.1% and 60.2%, respectively, of the Company's total sales were derived from its four major brands, while during the three and six month periods ended September 30, 2005, approximately 65.0% and 63.4%, respectively, of the Company's total sales were derived from these four major brands. During the three month periods ended September 30, 2006 and 2005, approximately 24.1% and 24.6%, respectively, of the Company's sales were made to one customer, while during the three and six month periods ended September 30, 2005, 22.3% and 23.2% of sales were to this customer. At September 30, 2006, approximately 19.6% 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 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 effect 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 the six month period ended September 30, 2006. The Company does not have long-term contracts with 3 of these manufacturers and certain manufacturers of various smaller brands, which collectively, represent approximately 32% of the Company's gross sales. 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.

**16. 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 Drugs, (ii) Personal Care and (iii) Household Cleaning.

There were no inter-segment sales or transfers during the three and six month periods ended September 30, 2006 and 2005. The Company evaluates the performance of its operating segments and allocates resources to them based primarily on contribution margin. The table below summarizes information about the Company's operating

and reportable segments (in thousands).

| | Three Months Ended September 30, 2006 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 46,255 | $ 30,732 | $ 7,046 | $ 84,033 |
| Other revenues | -- | 518 | -- | 518 |
| Total revenues | 46,255 | 31,250 | 7,046 | 84,551 |
| Cost of sales | 18,001 | 18,941 | 4,317 | 41,259 |
| Gross profit | 28,254 | 12,309 | 2,729 | 43,292 |
| Advertising and promotion | 7,058 | 2,020 | 377 | 9,455 |
| Contribution margin | $ 21,196 | $ 10,289 | $ 2,352 | 33,837 |
| Other operating expenses | | | | 9,671 |
| Operating income | | | | 24,166 |
| Other (income) expense | | | | 9,743 |
| Provision for income taxes | | | | 5,639 |
| Net income | | | | $ 8,784 |

| | Six Months Ended September 30, 2006 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 85,853 | $ 60,470 | $ 13,277 | $ 159,600 |
| Other revenues | -- | 874 | -- | 874 |
| Total revenues | 85,853 | 61,344 | 13,277 | 160,474 |
| Cost of sales | 32,398 | 37,095 | 8,091 | 77,584 |
| Gross profit | 53,455 | 24,249 | 5,186 | 82,890 |
| Advertising and promotion | 12,483 | 3,710 | 664 | 16,857 |
| Contribution margin | $ 40,972 | $ 20,539 | $ 4,522 | 66,033 |
| Other operating expenses | | | | 18,518 |
| Operating income | | | | 47,515 |
| Other (income) expense | | | | 19,535 |
| Provision for income taxes | | | | 10,940 |
| Net income | | | | $ 17,040 |

| | Three Months Ended September 30, 2005 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 40,759 | $ 25,229 | $ 7,332 | $ 73,320 |
| Other revenues | -- | 25 | -- | 25 |
| Total revenues | 40,759 | 25,254 | 7,332 | 73,345 |
| Cost of sales | 15,558 | 15,535 | 4,456 | 35,549 |
| Gross profit | 25,201 | 9,719 | 2,876 | 37,796 |
| Advertising and promotion | 7,127 | 1,740 | 1,350 | 10,217 |
| Contribution margin | $ 18,074 | $ 7,979 | $ 1,526 | 27,579 |
| Other operating expenses | | | | 6,752 |
| Operating income | | | | 20,827 |
| Other (income) expense | | | | 8,671 |
| Provision for income taxes | | | | 4,782 |
| Net income | | | | $ 7,374 |

| | Six Months Ended September 30, 2005 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 74,148 | $ 48,012 | $ 14,588 | $ 136,748 |
| Other revenues | | 50 | -- | 50 |
| Total revenues | 74,148 | 48,062 | 14,588 | 136,798 |
| Cost of sales | 27,223 | 28,922 | 8,353 | 64,498 |
| Gross profit | 46,925 | 19,140 | 6,235 | 72,300 |
| Advertising and promotion | 13,266 | 3,510 | 2,146 | 18,922 |
| Contribution margin | $ 33,659 | $ 15,630 | $ 4,089 | 53,378 |
| Other operating expenses | | | | 14,294 |
| Operating income | | | | 39,084 |
| Other (income) expense | | | | 17,181 |
| Provision for income taxes | | | | 8,600 |
| Net income | | | | $ 13,303 |

During the three month periods ended September 30, 2006 and 2005, approximately 96.4% and 97.6%, respectively, of the Company's sales were made to customers in the United States and Canada, while during the six month periods ended September 30, 2006 and 2005, approximately 96.2% and 97.7%, respectively, of sales were made to customers in the United States and Canada. At September 30, 2006 and March 31, 2006, 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 Drug | Household Cleaning | Personal Care | Consolidated |
|---|---|---|---|---|
| Goodwill | $ 227,486 | $ 72,549 | $ 2,751 | $ 302,786 |
| Intangible assets | | | | |
| Indefinite lived | 374,070 | 170,893 | -- | 544,963 |
| Finite lived | 98,566 | 27 | 18,855 | 117,448 |
| | 472,636 | 170,920 | 18,855 | 662,411 |
| | $ 700,122 | $ 243,469 | $ 21,606 | $ 965,197 |

# Prestige Brands International, LLC

**Unaudited Financial Statements**

**September 30, 2006**

**Prestige Brands International, LLC**
**Consolidated Statements of Operations**
***(Unaudited)***

| *(In thousands)* | Three Months Ended September 30 | | Six Months Ended September 30 | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2004** |
| **Revenues** | | | | |
| Net sales | $ 84,033 | $ 73,320 | $ 159,600 | $ 136,748 |
| Other revenues | 518 | 25 | 874 | 50 |
| Total revenues | 84,551 | 73,345 | 160,474 | 136,798 |
| **Cost of Sales** | | | | |
| Costs of sales | 41,259 | 35,549 | 77,584 | 64,498 |
| Gross profit | 43,292 | 37,796 | 82,890 | 72,300 |
| **Operating Expenses** | | | | |
| Advertising and promotion | 9,455 | 10,217 | 16,857 | 18,922 |
| General and administrative | 7,259 | 4,117 | 13,693 | 9,023 |
| Depreciation | 219 | 487 | 439 | 975 |
| Amortization of intangible assets | 2,193 | 2,148 | 4,386 | 4,296 |
| Total operating expenses | 19,126 | 16,969 | 35,375 | 33,216 |
| Operating income | 24,166 | 20,827 | 47,515 | 39,084 |
| **Other income (expense)** | | | | |
| Interest income | 403 | 226 | 588 | 307 |
| Interest expense | (10,146) | (8,897) | (20,123) | (17,488) |
| Total other income (expense) | (9,743) | (8,671) | (19,535) | (17,181) |
| Income before provision for income taxes | 14,423 | 12,156 | 27,980 | 21,903 |
| Provision for income taxes | 5,639 | 4,782 | 10,940 | 8,600 |
| Net income | $ 8,784 | 7,374 | $ 17,040 | 13,303 |

*See accompanying notes.*

**Prestige Brands International, LLC**
**Consolidated Balance Sheets**
***(Unaudited)***

***(In thousands)***

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 10,508 | $ 8,200 |
| Accounts receivable | 37,447 | 40,042 |
| Inventories | 29,272 | 33,841 |
| Deferred income tax assets | 2,405 | 3,227 |
| Prepaid expenses and other current assets | 1,748 | 701 |
| Total current assets | 81,380 | 86,011 |
| | | |
| Property and equipment | 1,527 | 1,653 |
| Goodwill | 302,786 | 297,935 |
| Intangible assets | 662,411 | 637,197 |
| Other long-term assets | 13,694 | 15,849 |
| | | |
| Total Assets | $ 1,061,798 | $ 1,038,645 |
| | | |
| **Liabilities and Members' Equity** | | |
| Current liabilities | | |
| Accounts payable | $ 22,584 | $ 18,065 |
| Accrued interest payable | 7,773 | 7,563 |
| Income taxes payable | 64 | 1,795 |
| Other accrued liabilities | 8,714 | 4,582 |
| Current portion of long-term debt | 3,730 | 3,730 |
| Total current liabilities | 42,865 | 35,735 |
| | | |
| Long-term debt | 486,035 | 494,900 |
| Other accrued liabilities | 2,801 | -- |
| Deferred income tax liabilities | 103,954 | 98,603 |
| | | |
| Total Liabilities | 635,655 | 629,238 |
| | | |
| **Commitments and Contingencies - Note 12** | | |
| | | |
| **Members' Equity** | | |
| Contributed capital - Prestige Holdings | 370,790 | 370,572 |
| Accumulated other comprehensive income | 587 | 1,109 |
| Retained earnings | 54,766 | 37,726 |
| Total members' equity | 426,143 | 409,407 |
| | | |
| Total liabilities and members' equity | $ 1,061,798 | $ 1,038,645 |

*See accompanying notes.*

**Prestige Brands International, LLC**
**Consolidated Statement of Changes in Members' Equity**
**and Comprehensive Income**
**Six Months Ended September 30, 2006**
***(Unaudited)***

| ***(In thousands)*** | **Contributed Capital Prestige Holdings** | **Accumulated Other Comprehensive Income** | **Retained Earnings** | **Totals** |
|---|---|---|---|---|
| Balances - March 31, 2006 | $ 370,572 | $ 1,109 | $ 37,726 | $ 409,407 |
| Stock-based compensation | 224 | | | 224 |
| Distribution to Prestige Holdings for the purchase of common stock for treasury | (6) | | | (6) |
| Components of comprehensive income | | | | |
| Net income | | | 17,040 | 17,040 |
| Amortization of interest rate caps | | 535 | | 535 |
| Unrealized loss on interest rate caps, net of tax benefit of $423 | | (1,057) | | (1,057) |
| Total comprehensive income | | | | 16,518 |
| Balances - September 30, 2006 | $ 370,790 | $ 587 | $ 54,766 | $ 426,143 |

*See accompanying notes.*

**Prestige Brands International, LLC**
**Consolidated Statements of Cash Flows**
***(Unaudited)***

| *(In thousands)* | Six Months Ended September 30 | |
|---|---|---|
| | **2006** | **2005** |
| **Operating Activities** | | |
| Net income | $ 17,040 | $ 13,303 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,825 | 5,271 |
| Deferred income taxes | 6,197 | 7,961 |
| Amortization of deferred financing costs | 1,609 | 1,136 |
| Stock-based compensation | 224 | 110 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 2,595 | 3,366 |
| Inventories | 5,202 | (8,054) |
| Prepaid expenses and other current assets | (1,047) | (104) |
| Accounts payable | 4,494 | 1,020 |
| Income taxes payable | (1,731) | |
| Accrued liabilities | 3,326 | 521 |
| Net cash provided by operating activities | 42,734 | 24,530 |
| | | |
| **Investing Activities** | | |
| Purchases of equipment | (313) | (297) |
| Purchase of business | (31,242) | -- |
| Net cash used for investing activities | (31,555) | (297) |
| | | |
| **Financing Activities** | | |
| Repayment of long-term debt | (8,865) | (1,865) |
| Distribution to Prestige Holdings for the purchase of common stock for treasury | (6) | (21) |
| Payment of deferred financing costs | -- | (33) |
| Additional costs associated with initial public offering | -- | (63) |
| Net cash used for financing activities | (8,871) | (1,982) |
| | | |
| Increase in cash | 2,308 | 22,251 |
| Cash - beginning of period | 8,200 | 5,334 |
| | | |
| Cash - end of period | $ 10,508 | $ 27,585 |
| | | |
| **Supplemental Cash Flow Information** | | |
| Fair value of assets acquired | $ 35,068 | $ -- |
| Fair value of liabilities assumed | (3,826) | -- |
| Cash paid to purchase business | $ 31,242 | $ -- |
| | | |
| Interest paid | $ 18,306 | $ 16,408 |
| Income taxes paid | $ 6,287 | $ 565 |

*See accompanying notes.*

## 1. Business and Basis of Presentation

***Nature of Business***

Prestige Brands International, LLC ("PBI" or the "Company") is an indirect wholly-owned subsidiary of Prestige Brands Holdings, Inc. ("PBH") and the indirect parent company of Prestige Brands, Inc., the issuer of the 9.25% senior subordinated notes due 2012 ("Senior Notes") and the borrower under the senior credit facility consisting of a Revolving Credit Facility and a Tranche B Term Loan Facility (together the "Senior Credit Facility"). PBI is a holding company with no assets or operations and is also the parent guarantor of the Senior Notes and Senior Credit Facility. PBH through its subsidiaries, is engaged in the marketing, sales and distribution of over-the-counter drug, personal care and household cleaning brands to mass merchandisers, drug stores, supermarkets and club stores primarily in the United States and Canada.

***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 generally accepted accounting principles for complete financial statements. In the opinion of management, the financial statements include all adjustments, consisting of normal recurring adjustments that are considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows for the interim periods. Operating results for the three and six month periods ended September 30, 2006 are not necessarily indicative of results that may be expected for the year ending March 31, 2007. 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, 2006.

***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 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 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 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 30 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 effective interest method over the term of the related debt.

***Revenue Recognition***
Revenues are recognized in accordance with Securities and Exchange Commission 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 generally occurs when product is received by the customer and, accordingly, recognizes revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on the Company’s historical experience.

As is customary in the consumer products industry, the Company participates in the promotional programs of its customers to enhance the sale of its products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. 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 $6.5 million and $6.7 million for the three month periods ended September 30, 2006 and 2005, respectively, and $12.2 million for each of the six month periods ended September 30, 2006 and 2005.

***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***

In connection with PBH's IPO, the Board of Directors of PBH adopted the 2005 Long-Term Equity Incentive Plan (the "Plan"). The Plan provides for grants of stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards. Directors, officers and other employees of PBH and its subsidiaries, as well as others performing services for PBH or its subsidiaries, are eligible for grants under the Plan. At September 30, 2006, there were 4.8 million shares available for issuance under the Plan.

The Company adopted FASB, Statement No. 123(R), "Share-Based Payment" ("Statement No. 123(R)"), effective April 1, 2005, with the 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 the Company to measure the cost of services to be rendered based on the grant-date fair value of the equity award since the benefits, as well as the costs associated with these relationships were contributed to the Company. 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 non-cash compensation expense of $233,000 during the three month period ended September 30, 2006, and net non-cash compensation expense of $224,000 for the six months ended September 30, 2006. During the three month period ended June 30, 2006, the Company recorded a net non-cash compensation 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. The Company recorded non-cash compensation expense of $110,000 during the three and six month periods ended September 30, 2005.

***Income Taxes***

PBI is a limited liability company and by itself is not a taxable entity. However, PBI's operating subsidiaries are taxable entities which are included in the consolidated corporate Federal income tax return of PBH. Since PBH is not an operating entity, and by itself would not incur any income tax liability, income taxes are "pushed down" and allocated to the various operating entities.

Accordingly, income taxes are recorded by each subsidiary 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.

***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.

***Fair Value of Financial Instruments***

The carrying value of cash, accounts receivable and accounts payable at September 30, 2006 and March 31, 2006 approximates fair value due to the short-term nature of these instruments. The carrying value of long-term debt at September 30, 2006 and March 31, 2006 approximates fair value based on interest rates for instruments with similar terms and maturities.

***Recently Issued Accounting Standards***

In November 2004, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 151, “Inventory Costs” (“Statement No. 151”). Statement No. 151 amended the guidance in Accounting Research Bulletin No. 43, Chapter 4, “Inventory Pricing”, and requires the exclusion of certain costs, such as abnormal amounts of freight, handling costs and manufacturing overhead, from inventories. Additionally, Statement No. 151 requires the allocation of fixed production overhead to inventory based on normal capacity of the production facilities. The provisions of Statement No. 151 are effective for costs incurred during fiscal years beginning after June 15, 2005. The adoption of Statement No. 151 did not have a material impact on the Company’s financial condition, results of operations or cash flows for the three and six month periods ended September 30, 2006.

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 FASB Statement 109. FIN 48 is effective for fiscal years beginning after December 15, 2006, and 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. While the Company has not completed a comprehensive analysis of FIN 48, the adoption of FIN 48 is not expected to have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

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 pronouncement that could have a material impact on our consolidated financial position, results of operations or cash flows.

**2. Acquisition of Wartner USA B.V.**

On September 21, 2006, the Company completed the acquisition of the ownership interests of Wartner USA B.V. ("Wartner"), the owner and marketer of the Wartner® brand of over-the-counter wart treatment products. The Company expects that the Wartner brand, which is the #3 brand in the US over-the-counter wart treatment category, will enhance the Company's leadership in the category. Additionally, the Company believes that the brand will benefit from a targeted advertising and marketing program, as well as the Company's business model of outsourcing manufacturing and the elimination of redundant operations. The results from operations of the Wartner® brand were included within the Company's financial statements as a component of the over-the-counter segment commencing September 21, 2006.

The purchase price of the ownership interests was approximately $35.1 million, including fees and expenses of the acquisition of $216,000 and the assumption of approximately $5.0 million of contingent payments, with an estimated fair value of $3.8 million, owed to the former owner of Wartner through 2011. The Company funded the cash acquisition price from operating cash flows.

The following table summarizes the estimated fair values of the assets and liabilities acquired at the date of acquisition. The Company has obtained independent valuations of certain tangible and intangible assets; however, the final purchase price will not be determined until all preliminary valuations have been finalized. Consequently, the allocation of the purchase price is subject to refinement.

The preliminary fair values assigned to the net assets and liabilities acquired consist of the following:

| ***(In thousands)*** | |
|---|---|
| Inventory | $ 769 |
| Intangible assets | 29,600 |
| Goodwill | 4,699 |
| Accrued liabilities | (3,826) |
| | $ 31,242 |

The amount allocated to intangible assets of $29.6 million includes $17.8 million related to the Wartner® brand trademark which the Company estimates to have a useful life of 20 years, as well as $11.8 million related to a patent estimated to have a useful life of 14 years. Goodwill resulting from this transaction was $4.7 million. As discussed above, this recorded amount is subject to change as additional information becomes available; however, it is estimated that such amount will be fully deductible for income tax purposes.

The following table sets forth the unaudited results of the Company's operations on a pro forma basis as if the acquisition of Wartner had been completed on April 1, 2005. The pro forma amounts for the three and six month periods ended September 30, 2005 include the pro forma results from operations of Dental Concepts, LLC, which was acquired in November 2005, as if the acquisition of Dental Concepts had been completed on April 1, 2005. The pro forma financial information is not necessarily indicative of the operating results that the combined entities would have achieved had the acquisition been consummated on April 1, 2005, nor is it necessarily

indicative of the operating results that may be expected for the year ending March 31, 2007.

| *(In thousands)* | Three Months Ended September 30 | | Six Months Ended September | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues | $ 88,096 | $ 80,463 | $ 167,943 | $ 150,585 |
| Income before provision for income taxes | $ 14,866 | $ 12,300 | $ 28,143 | $ 22,000 |
| Net income | $ 9,055 | $ 7,442 | $ 17,140 | $ 13,362 |

**3. Accounts Receivable**

Accounts receivable consist of the following (in thousands):

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| Accounts receivable | $ 37,539 | $ 40,140 |
| Other receivables | 1,553 | 1,870 |
| | 39,092 | 42,010 |
| Less allowances for discounts, returns and uncollectible accounts | (1,645) | (1,968) |
| | $ 37,447 | $ 40,042 |

**4. Inventories**

Inventories consist of the following (in thousands):

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| Packaging and raw materials | $ 2,842 | $ 3,278 |
| Finished goods | 26,430 | 30,563 |
| | $ 29,272 | $ 33,841 |

Inventories are shown net of allowances for obsolete and slow moving inventory of $1.5 million and $1.0 million at September 30, 2006 and March 31, 2006, respectively.

**5. Property and Equipment**

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

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| Machinery | $ 3,942 | $ 3,722 |
| Computer equipment | 852 | 987 |
| Furniture and fixtures | 267 | 303 |
| Leasehold improvements | 340 | 340 |
| | 5,401 | 5,352 |
| Accumulated depreciation | (3,874) | (3,699) |
| | $ 1,527 | $ 1,653 |

**6. Goodwill**

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

| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
|---|---|---|---|---|
| Balance - March 31, 2006 | $ 222,635 | $ 72,549 | $ 2,751 | $ 297,935 |
| Additions | 4,851 | -- | -- | 4,851 |
| Balance - September 30, 2006 | $ 227,486 | $ 72,549 | $ 2,751 | $ 302,786 |

At September 30, 2006, approximately $33.1 million of the Company's goodwill is deductible for income tax purposes.

**7. Intangible Assets**

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

| | Indefinite Lived Intangibles | Finite Lived Intangibles | Total |
|---|---|---|---|
| *Carrying Amounts* | | | |
| Balance - March 31, 2006 | $ 544,963 | $ 110,066 | $ 655,029 |
| Additions | -- | 29,600 | 29,600 |
| Balance - September 30, 2006 | $ 544,963 | $ 139,666 | $ 684,629 |
| *Accumulated Amortization* | | | |
| Balance - March 31, 2006 | $ -- | $ 17,832 | $ 17,832 |
| Amortization | -- | 4,386 | 4,386 |
| Balance - September 30, 2006 | $ -- | $ 22,218 | $ 22,218 |

At September 30, 2006, intangible assets are expected to be amortized over a period of five to 30 years as follows (in thousands):

| Year Ending September 30 | |
|---|---|
| 2007 | $ 10,507 |
| 2008 | 10,507 |
| 2009 | 10,502 |
| 2010 | 9,086 |
| 2011 | 9,071 |
| Thereafter | 67,775 |
| | $ 117,448 |

**8. Other Accrued Liabilities**

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

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| Accrued marketing costs | $ 4,989 | $ 2,513 |
| Accrued payroll | 1,835 | 813 |
| Accrued commissions | 275 | 248 |
| Other | 1,615 | 1,008 |
| | $ 8,714 | $ 4,582 |

**9. Long-Term Debt**

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

| | September 30, 2006 | March 31, 2006 |
|---|---|---|
| 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 September 30, 2006, 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 September 30, 2006, the commitment fee was 0.50% of the unused line. The Revolving Credit Facility is collateralized by substantially all of the Company's assets. | $ -- | $ 7,000 |
| Senior secured term loan facility ("Tranche B Term Loan 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 September 30, 2006, the weighted average applicable interest rate on the Tranche B Term Loan Facility was 7.26%. Principal payments of $933,000 and interest are payable quarterly. In February 2005, the Tranche B Term Loan Facility was amended to increase the additional amount available thereunder by $50.0 million to $200.0 million, all of which is available at September 30, 2006. Current amounts outstanding under the Tranche B Term Loan Facility mature on April 6, 2011, while amounts borrowed pursuant to the amendment will mature on October 6, 2011. The Tranche B Term Loan Facility is collateralized by substantially all of the Company's assets. | 363,765 | 365,630 |
| Senior Subordinated Notes ("Senior Notes") that bear interest at 9.25% which is payable on April 15th and October 15th of each year. The Senior Notes mature on April 15, 2012; however, the Company may redeem some or all of the Senior 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 Notes. The Senior Notes are unconditionally guaranteed by the Company and the Company's 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 |
| | 489,765 | 498,630 |
| Current portion of long-term debt | (3,730) | (3,730) |
| | $ 486,035 | $ 494,900 |

The Revolving Credit Facility and the Tranche B Term Loan Facility (together the "Senior Credit Facility") contain 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 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 and transactions with affiliates. Additionally, the Senior Credit Facility and the Senior 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. The Company was in compliance with its applicable financial and restrictive covenants under the Senior Credit Facility and the indenture governing the Senior Notes at September 30, 2006.

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

| **Year Ending September 30,** | |
|---|---|
| 2007 | $ 3,730 |
| 2008 | 3,730 |
| 2009 | 3,730 |
| 2000 | 3,730 |
| 2011 | 348,845 |
| Thereafter | 126,000 |
| | $ 489,765 |

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 2005, 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. The remaining agreements terminate on May 30, 2007 and 2008 as to notional amounts of $80.0 million and $50.0 million, respectively. The Company is accounting for the interest rate cap agreements as cash flow hedges. The fair value of the interest rate cap agreements, which is included in other long-term assets, was $2.2 million and $3.3 million at September 30, 2006 and March 31, 2006, respectively.

## 10. Stock-Based Compensation

In connection with the Company's February 2005 initial public offering, the Board of Directors adopted the Plan which provides for the grant, up to a maximum of 5.0 million shares, of stock options, restricted stock, 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.

**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. 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. During the three month period ended September 30, 2006, the Company granted awards aggregating 156,500 shares of restricted stock with an estimated fair value of $1.3 million.

**Performance Shares**

On the vesting date, the recipient of performance shares will receive the difference between the closing price of the Company's common stock on such date and the grant date price, times

the number of performance shares underlying the grant. These awards may be settled in cash, common stock or some combination thereof at the option of the Company. During the three month period ended September 30, 2006, the Company granted awards aggregating 16,100 performance shares with an estimated fair value of $60,000.

**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. There were no option awards during the three and six month periods ended September 30, 2006.

The fair value of option and performance share awards is estimated on the date of grant using the Black-Scholes Option Pricing Model. As of September 30, 2006, there was approximately $1.8 million of total unrecognized compensation cost 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 4.0 years. However, the restricted shares vest upon the attainment of Company performance goals; if such goals are not met, no compensation cost would ultimately be recognized and any previously recognized compensation cost would be reversed. At September 30, 2006, there were 4.7 million shares available for issuance under the Plan.

## 11. 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 rates used in the calculation of income taxes were 39.1% for three and six month periods ended September 30, 2006, and 39.3% for the three and six month periods ended September 30, 2005.

## 12. Commitments and Contingencies

The Company and certain of its officers and directors are defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Southern District of New York (the "Consolidated Action"). The first of the six consolidated cases was filed on August 3, 2005. Plaintiffs purport to represent a class of stockholders of the Company who purchased shares between February 9, 2005 through November 15, 2005. Plaintiffs also name as defendants the underwriters in the Company's initial public offering and a private equity fund that was a selling stockholder in the offering. The District Court has appointed a Lead Plaintiff. On December 23, 2005, the Lead Plaintiff filed a Consolidated Class Action Complaint, which asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934. The Lead Plaintiff generally alleged that the Company issued a series of materially false and misleading statements in connection with its initial public offering and thereafter in regard to the following areas: the accounting issues described in the Company's press release issued on or about November 15, 2005; and the alleged failure to disclose that demand for certain of the Company's products was declining and that the Company was planning to withdraw several products from the market. Plaintiffs seek an unspecified amount of damages. The Company filed a motion to dismiss the Consolidated Class Action Complaint in February 2006. On July 10, 2006, the Court dismissed all claims against the Company and the individual defendants arising under the Securities Exchange Act of 1934. The Company's management believes the remaining claims are legally deficient and subject to meritorious defenses. The Company intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 6, 2005, another putative securities class action lawsuit substantially similar to the initially-filed complaints in the Consolidated Action described above was filed against the same defendants in the Circuit Court of Cook County, Illinois (the "Chicago Action"). In light of the first-filed Consolidated Action, proceedings in the Chicago Action were stayed until a ruling on defendants' anticipated motions to dismiss the consolidated complaint in the Consolidated Action. Subsequent to the Court's decision on the motions to dismiss in the Consolidated Action, on August 11, 2006, the Plaintiffs in the Chicago Action agreed to dismiss the Chicago Action.

On May 23, 2006, Similasan Corporation filed a lawsuit against the Company in the United States District Court for the District of Colorado in which Similasan alleged false designation of origin, trademark and trade dress infringement, and deceptive trade practices by the Company related to *Murine* for Allergy Eye Relief, *Murine* for Tired Eye Relief and *Murine* for Earache Relief, as applicable. Similasan has requested injunctive relief, an accounting of profits and damages and litigation costs and attorneys' fees. The Company has filed an answer to the complaint with a potentially dispositive motion. In addition to the lawsuit filed by Similasan in the U.S. District Court for the District of Colorado, the Company also received a cease and desist letter from Swiss legal counsel to Similasan and its parent company, Similasan AG, a Swiss company. In the cease and desist letter, Similasan and Similasan AG have alleged a breach of the Secrecy Agreement executed by the Company and demanded that the Company cease and desist from (i) using confidential information covered by the Secrecy Agreement; and (ii) manufacturing, distributing, marketing or selling certain of its homeopathic products. The complaint in the Colorado action has now been amended to include allegations relating to the breach of confidentiality' and the Company has filed an answer responsive thereto. The Company's management believes the allegations to be without merit and intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 28, 2006, OraSure Technologies, Inc. moved in the Supreme Court of the State of New York for a preliminary injunction prohibiting the Company from selling cryogenic wart removal products under the Wartner® brand, which the Company acquired on September 21, 2006. OraSure Technologies is a supplier to the Company for the Company's Compound W Freeze Off® business. The distribution agreement in place calls for mediation of contract disputes, followed by arbitration, if necessary. The contract in question is of five years duration ending in December 2007. On October 30, 2006, the Court denied OraSure Technologies' motion for a preliminary injunction. To the extent the contract dispute is not resolved through mediation, the Company intends to seek resolution of the matter through arbitration.

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 of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter 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 July 2009.

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

| Year Ending September 30 | Facilities | Equipment | Total |
|---|---|---|---|
| 2007 | $ 535 | $ 121 | $ 656 |
| 2008 | 499 | 120 | 619 |
| 2009 | 324 | 96 | 420 |
| 2010 | -- | 71 | 71 |
| | $ 1,358 | $ 408 | $ 1,766 |

**13. Concentrations of Risk**

The Company's sales are concentrated in the areas of over-the-counter pharmaceutical products, personal care products and household cleaning products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During the three and six month periods ended September 30, 2006 approximately 61.1% and 60.2%, respectively, of the Company's total sales were derived from its four major brands, while during the three and six month periods ended September 30, 2005, approximately 65.0% and 63.4%, respectively, of the Company's total sales were derived from these four major brands. During the three month periods ended September 30, 2006 and 2005, approximately 24.1% and 24.6%, respectively, of the Company's sales were made to one customer, while during the three and six month periods ended September 30, 2005, 22.3% and 23.2% of sales were to this customer. At September 30, 2006, approximately 19.6% 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 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 effect 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 the six month period ended September 30, 2006. The Company does not have long-term contracts with 3 of these manufacturers and certain manufacturers of various smaller brands, which collectively, represent approximately 32% of the Company's gross sales. 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.

**14. 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 Drugs, (ii) Personal Care and (iii) Household Cleaning.

There were no inter-segment sales or transfers during the three and six month periods ended September 30, 2006 and 2005. The Company evaluates the performance of its operating segments and allocates resources to them based primarily on contribution margin. The table below summarizes information about the Company's operating

and reportable segments (in thousands).

| | Three Months Ended September 30, 2006 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 46,255 | $ 30,732 | $ 7,046 | $ 84,033 |
| Other revenues | -- | 518 | -- | 518 |
| Total revenues | 46,255 | 31,250 | 7,046 | 84,551 |
| Cost of sales | 18,001 | 18,941 | 4,317 | 41,259 |
| Gross profit | 28,254 | 12,309 | 2,729 | 43,292 |
| Advertising and promotion | 7,058 | 2,020 | 377 | 9,455 |
| Contribution margin | $ 21,196 | $ 10,289 | $ 2,352 | 33,837 |
| Other operating expenses | | | | 9,671 |
| Operating income | | | | 24,166 |
| Other (income) expense | | | | 9,743 |
| Provision for income taxes | | | | 5,639 |
| Net income | | | | $ 8,784 |

| | Six Months Ended September 30, 2006 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 85,853 | $ 60,470 | $ 13,277 | $ 159,600 |
| Other revenues | -- | 874 | -- | 874 |
| Total revenues | 85,853 | 61,344 | 13,277 | 160,474 |
| Cost of sales | 32,398 | 37,095 | 8,091 | 77,584 |
| Gross profit | 53,455 | 24,249 | 5,186 | 82,890 |
| Advertising and promotion | 12,483 | 3,710 | 664 | 16,857 |
| Contribution margin | $ 40,972 | $ 20,539 | $ 4,522 | 66,033 |
| Other operating expenses | | | | 18,518 |
| Operating income | | | | 47,515 |
| Other (income) expense | | | | 19,535 |
| Provision for income taxes | | | | 10,940 |
| Net income | | | | $ 17,040 |

| | Three Months Ended September 30, 2005 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 40,759 | $ 25,229 | $ 7,332 | $ 73,320 |
| Other revenues | -- | 25 | -- | 25 |
| Total revenues | 40,759 | 25,254 | 7,332 | 73,345 |
| Cost of sales | 15,558 | 15,535 | 4,456 | 35,549 |
| Gross profit | 25,201 | 9,719 | 2,876 | 37,796 |
| Advertising and promotion | 7,127 | 1,740 | 1,350 | 10,217 |
| Contribution margin | $ 18,074 | $ 7,979 | $ 1,526 | 27,579 |
| Other operating expenses | | | | 6,752 |
| Operating income | | | | 20,827 |
| Other (income) expense | | | | 8,671 |
| Provision for income taxes | | | | 4,782 |
| Net income | | | | $ 7,374 |

| | Six Months Ended September 30, 2005 | | | |
|---|---|---|---|---|
| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
| Net sales | $ 74,148 | $ 48,012 | $ 14,588 | $ 136,748 |
| Other revenues | | 50 | -- | 50 |
| Total revenues | 74,148 | 48,062 | 14,588 | 136,798 |
| Cost of sales | 27,223 | 28,922 | 8,353 | 64,498 |
| Gross profit | 46,925 | 19,140 | 6,235 | 72,300 |
| Advertising and promotion | 13,266 | 3,510 | 2,146 | 18,922 |
| Contribution margin | $ 33,659 | $ 15,630 | $ 4,089 | 53,378 |
| Other operating expenses | | | | 14,294 |
| Operating income | | | | 39,084 |
| Other (income) expense | | | | 17,181 |
| Provision for income taxes | | | | 8,600 |
| Net income | | | | $ 13,303 |

During the three month periods ended September 30, 2006 and 2005, approximately 96.4% and 97.6%, respectively, of the Company's sales were made to customers in the United States and Canada, while during the six month periods ended September 30, 2006 and 2005, approximately 96.2% and 97.7%, respectively, of sales were made to customers in the United States and Canada. At September 30, 2006 and March 31, 2006, 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 Drug | Household Cleaning | Personal Care | Consolidated |
|---|---|---|---|---|
| Goodwill | $ 227,486 | $ 72,549 | $ 2,751 | $ 302,786 |
| Intangible assets | | | | |
| Indefinite lived | 374,070 | 170,893 | -- | 544,963 |
| Finite lived | 98,566 | 27 | 18,855 | 117,448 |
| | 472,636 | 170,920 | 18,855 | 662,411 |
| | $ 700,122 | $ 243,469 | $ 21,606 | $ 965,197 |

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

Prestige Brands Holdings, Inc. (the "Company"), as the indirect holding company of Prestige Brands International, LLC ("Prestige International") does not conduct ongoing business operations. As a result, the financial information for the Company and Prestige International is identical for the purposes of the discussion of operating results in Management's Discussion and Analysis of Financial Condition and Results of Operations. Prestige International is an indirect wholly owned subsidiary of the Company and an indirect parent company of Prestige Brands, Inc., the issuer of our 9.25% senior subordinated notes due 2012 ("Senior Notes") and the borrower under the senior credit facility, consisting of a Revolving Credit Facility and a Tranche B Term Loan Facility (together the "Senior Credit Facility"). Prestige International is also the parent guarantor of the Senior Notes and the Senior Credit Facility.

**General**

We are engaged in the marketing, sales and distribution of brand name over-the-counter drug, 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.

On September 21, 2006, we completed the acquisition of the ownership interests of Wartner USA B.V., a privately held limited liability company, and the intellectual property associated with the "Wartner®" brand of over-the-counter wart treatment products. The purchase price of this acquisition was $35.1 million, inclusive of direct costs of the acquisition of $216,000, and the assumption of approximately $5.0 million of contingent payments to the former owner.

On October 28, 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.

On November 8, 2005, we completed the acquisition of the ownership interests 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 $30.5 million, including fees and expenses of the acquisition of $500,000. We financed the acquisition price through the utilization of our Revolving Credit Facility and with cash resources of $30.0 million and $500,000, respectively.

We expect that the Wartner® brand will benefit from our business model of outsourcing manufacturing and increasing awareness though targeted marketing and advertising and that both, the Chore Boy® and The Doctor's® product lines will continue to benefit from our model.

**Three Month Period Ended September 30, 2006 compared to the Three Month Period Ended September 30, 2005**

**Total Revenues**

Total revenues for the period ended September 30, 2006 were $84.6 million, compared to $73.3 million for the comparable period of 2005. This represented an increase of $11.2 million, or 15.3%, from the prior period. Excluding the impact of the Chore Boy® and The Doctor's® brands, which were acquired in October and November 2005, respectively, revenues were up 6.7%. The Over-the-Counter Drug segment had revenues of $46.3 million for the period ended September 30, 2006, an increase of $5.5 million, or 13.5%, above revenues of $40.8 million for the period ended September 30, 2005. The Household Cleaning segment had revenues of $31.3 million for the period ended September 30, 2006, an increase of $6.0 million, or 23.7%, above revenues of $25.3 million for the period ended September 30, 2005. The Personal Care segment had revenues of $7.0 million for the period ended September 30, 2006, a decrease of $286,000, or 3.9%, below revenues of $7.3 million for the period ended September 30, 2005.

***Over-the-Counter Drug Segment***

Total revenues in the Over-the-Counter Drug segment were $46.3 million for the period ended September 30, 2006 versus $40.8 million for the comparable period of 2005. This represented an increase of $5.5 million, or 13.5%, over the prior period ended September 30, 2005. The revenue increase is primarily due to strong gains for Clear eyes®, Little Remedies®, Chloraseptic®, Murine®, and Compound W®. In addition, The Doctor's® brand which was acquired with the Dental Concepts acquisition in November 2005, contributed to the revenue growth in the period. Excluding sales related to The Doctor's® brand, total revenues for this segment were up 5.0%. The Clear eyes® sales growth for the current period is a result of continued strong consumer consumption trends and the launch of Clear eyes® Triple Action. Little Remedies' revenue increased during the period primarily as a result of strong consumer consumption. The increase in Murine® revenues is due primarily to the three new homeopathic eye and ear care products that were launched during the three month period ended June 30, 2006. Chloraseptic revenue's increased during the period as a result of the launch of five new items during the current period. The increase in Compound W® revenue is a result of relatively weak shipments for the same period last year. Revenues of New Skin® continued to decline during the period primarily as a result of continued softness in the liquid bandage category.

***Household Cleaning Segment***

Total revenues of the Household Cleaning segment were $31.2 million for the period ended September 30, 2006 versus $25.3 million for the comparable period of 2005. This represented an increase of $6.0 million, or 23.7%, over the prior period. Excluding the acquisition of Chore Boy®, revenues for this segment were up 12.5% for the period. The Comet® brand revenue increased during the quarter due to strong consumer consumption, expanded distribution and royalty revenues earned from licensing agreements in Eastern Europe and for institutional sales in North America. Revenues for the Spic and Span® brand increased during the period as a result of increased consumer consumption and expanded distribution of the dilutable products and antibacterial spray.

***Personal Care Segment***

Total revenues of the Personal Care segment were $7.0 million for the period ended September 30, 2006 versus $7.3 million for the comparable period of 2005. This represented a decrease of $286,000, or 3.9%, from the prior period. The sales decrease is a result of continued declines in consumer consumption trends for the Cutex®, Denorex® and Prell® brands.

**Gross Profit**

Gross profit for the period ended September 30, 2006 was $43.3 million, compared to $37.8 million for the comparable period of 2005. This represented an increase of $5.5 million, or 14.5%, over the period ended September 30, 2005. The increase in gross profit is primarily a result of the increased sales activity. Gross profit as a percent of sales was 51.2% for the period ended September 30, 2006 versus 51.5% for the comparable period of 2005. The decrease in gross profit percentage is generally the result of increased shipments to non-North American markets which have a lower margin than our domestic markets. Revenues from markets outside of North America represented 3.6% of total revenues during the period versus 2.4% for the same period last year.

The lower margin on non-North American shipments results from our shifting the responsibility for advertising and promotional spending in these new markets to the distributor via a lower sales price. Additionally, during the three month period ended September 30, 2006, the Household Cleaning segment, which has a lower gross profit than the Over-the-Counter segment, represented 36.9% of total revenues as compared to 34.4% of total revenues during the three month period ended September 30, 2005.

***Over-the-Counter Drug Segment***

Gross profit of the Over-the-Counter segment was $28.3 million for the period ended September 30, 2006 versus $25.2 million for the comparable period of 2005. This represented an increase of $3.1 million, or 12.1%, over the prior period which was caused primarily by the increase in revenues. Gross profit as a percent of sales was 61.1% for the period ended September 30, 2006 versus 61.8% for the comparable period of 2005. The decrease in gross profit percentage is primarily the result higher allowances associated with international sales during the current period.

***Household Cleaning Segment***

Gross profit of the Household Cleaning segment was $12.3 million for the period ended September 30, 2006 versus $9.7 million for the comparable period of 2005. This represented an increase of $2.6 million, or 26.6%, over the prior period which was caused primarily by the increase in revenues. Gross profit as a percent of sales was 39.4% for the period ended September 30, 2006 versus 38.5% for the comparable period of 2005. The increase in gross profit percentage is primarily a result of an increase in royalties earned, which have no associated costs, from our international and institutional licensing arrangements with Procter & Gamble.

***Personal Care Segment***

Gross profit of the personal care segment was $2.7 million for the period ended September 30, 2006 versus $2.9 million for the comparable period of 2005. This represented a decrease of $147,000, or 5.1%, from the prior period which was caused primarily by the reduction in revenues. Gross profit as a percent of sales was 38.7% for the period ended September 30, 2006 versus 39.2% for the comparable period of 2005. The decrease in gross profit percentage is a result of increased promotional pricing allowances and product costs.

**Contribution Margin**

Contribution margin, defined as gross profit less advertising and promotional expenses, was $33.8 million for the period ended September 30, 2006 versus $27.6 million for the comparable period of 2005. This represented an increase of $6.3 million, or 22.7%, from the prior period. The contribution margin increase is a result of changes in sales and gross profit as previously discussed, and an $762,000 decrease in advertising and promotion spending versus the comparable period in 2005. The decline in advertising and promotions spending is primarily a result of lower spending in the Personal Care segment.

***Over-the-Counter Drug Segment***

Contribution margin of the Over-the-Counter drug segment was $21.2 million for the period ended September 30, 2006 versus $18.1 million for the comparable period of 2005. This represented an increase of $3.1 million, or 17.3%, over the prior period. The contribution margin increase is a result of the gross profit increase as previously discussed, as well as a $69,000 decrease in advertising and promotion spending in the period ended September 30, 2006. The slight decrease in advertising and promotion spending is primarily due to the timing of Clear eyes® advertising and promotional programs, offset by the aquisition of Dental Concepts.

***Household Cleaning Segment***

Contribution margin of the Household Cleaning segment was $10.3 million for the period ended September 30, 2006 versus $8.0 million for the comparable period of 2005. This represented an increase of $2.3 million, or 29.0%, from the prior period. The contribution margin increase is a result of the gross profit increase as previously discussed, partially offset by an increase of advertising and promotion support. The $280,000 increase in advertising and promotion spending is primarily a result of the Chore Boy® acquisition.

***Personal Care Segment***

Contribution margin of the personal care segment was $2.4 million for the period ended September 30, 2006 versus $1.5 million for the comparable period of 2005. This represented an increase of $826,000, or 54.0%, from the prior period. The contribution margin increase is primarily the result of a $973,000 reduction in advertising and promotion spending versus the comparable period in 2005, offset by the gross profit decline as previously discussed. The reduction in advertising and promotion is related to the reduction of national media support

for Cutex®, as we have shifted some of our advertising spending by increasing our promotional pricing allowances which are recorded as a reduction of sales.

**General and Administrative**
General and administrative expenses were $7.3 million for the period ended September 30, 2006 versus $4.1 million for the comparable period of 2005. The increase is primarily related to higher compensation costs as a result of additional staff added during the second half of our fiscal year ended March 31, 2006, increased stock-based compensation costs, as well as increased legal and professional fees.

**Depreciation and Amortization**
Depreciation and amortization expense was $2.4 million for the period ended September 30, 2006 versus $2.6 million for the comparable period of 2005. An increase in amortization of intangible assets related to the Dental Concepts acquisition was offset by a reduction of the carrying value of trademarks related to the Personal Care segment resulting from an asset impairment charge of $7.4 million recorded during the three month period ended March 31, 2006.

**Interest Expense**
Net interest expense was $9.7 million for the period ended September 30, 2006 versus $8.7 million for the comparable period of 2005. This represented an increase of $1.1 million, or 12.4%, from the prior period. The increase in interest expense is due to the increase in interest rates associated with our variable rate indebtedness. The average cost of funds increased from 7.0% at September 30, 2005 to 8.0% at September 30, 2006.

**Income Taxes**
The income tax provision for the period ended September 30, 2006 was $5.6 million, with an effective rate of 39.1%, compared to $4.8 million, with an effective rate of 39.3% for period ended September 30, 2005.

**Sixth Month Period Ended September 30, 2006 compared to the Six Month Period Ended September 30, 2005**

**Total Revenues**

Total revenues for the six month period ended September 30, 2006 were $160.5 million, compared to $136.8 million for the comparable period of 2005. This represented an increase of $23.7 million, or 17.3%, from the prior period. Excluding the impact of the Chore Boy® and The Doctor's® brand, which were acquired in October and November 2005, respectively, revenues were up 7.5%. The Over-the-Counter Drug segment had revenues of $85.9 million for the six month period ended September 30, 2006, an increase of $11.7 million, or 15.8%, above revenues of $74.1 million for the six month period ended September 30, 2005. The Household Cleaning segment had revenues of $61.3 million for the six month period ended September 30, 2006, an increase of $13.3 million, or 27.6%, above revenues of $48.1 million for the six month period ended September 30, 2005. The Personal Care segment had revenues of $13.3 million for the six month period ended September 30, 2006, a decrease of $1.3 million, or 9.0%, below revenues of $14.6 million for the six month period ended September 30, 2005.

***Over-the-Counter Drug Segment***

Total revenues of the Over-the-Counter Drug segment were $85.8 million for the six month period ended September 30, 2006 versus $74.1 million for the comparable period of 2005. This represented an increase of $11.7 million, or 15.8%, from the prior period ended September 30, 2005. The revenue increase is primarily due to strong gains across all major brands in the segment. In addition, The Doctor's® brand, which was acquired with the Dental Concepts acquisition in November 2005, contributed to the revenue growth in the period. Excluding sales related to The Doctor's® brand, total revenues for this segment were up 7.0%. Clear eyes® sales growth for the current period is a result of strong consumer consumption trends and the launch of Clear eyes® Triple Action. Murine® revenue increased primarily due to the launch of three homeopathic eye and ear care products during the three month period ended June 30, 2006, and increased shipments to international customers. Compound W® revenue increased due to relatively weak shipments for the same period last year. Little Remedies' revenue increased during the six month period primarily as a result of strong consumer consumption. Chloraseptic revenue increased during the six month period primarily as a result of five new items launched during the three month period ended September 30, 2006. Revenues of New Skin® were down for the six month period primarily as a result of continued softness in the liquid bandage category.

***Household Cleaning Segment***

Total revenues of the Household Cleaning segment were $61.3 million for the six month period ended September 30, 2006 versus $48.1 million for the comparable period of 2005. This represented an increase of $13.3 million, or 27.6%, from the prior period. Excluding the acquisition of Chore Boy®, revenues for this segment were up 13.3% for the six month period. The Comet® brand revenue increased during the six month period due to strong consumer consumption, expanded distribution and royalty revenues earned from licensing agreements in Eastern Europe and for institutional sales in North America. Revenues for the Spic and Span® brand increased during the six month period as a result of increased consumer consumption and expanded distribution of dilutable product and antibacterial spray.

***Personal Care Segment***

Total revenues of the Personal Care segment were $13.3 million for the six month period ended September 30, 2006 versus $14.6 million for the comparable period of 2005. This represented a decrease of $1.3 million, or 9.0%, from the prior period. The sales decrease is a result of continued declines in consumer consumption trends for the Cutex®, Denorex® and Prell® brands.

**Gross Profit**

Gross profit for the six month period ended September 30, 2006 was $82.9 million, compared to $72.3 million for the comparable period of 2005. This represented an increase of $10.6 million, or 14.7%, from the six month period ended September 30, 2005. The increase in gross profit is a result of the increased revenues. Gross profit as a percent of sales was 51.7% for the six month period ended September 30, 2006 versus 52.9% for the comparable period of 2005. The decrease in gross profit percentage is generally the result of higher product costs

and increased shipments to non-North American markets which have a lower margin than our domestic markets. Shipments to markets outside of North America represented 3.8% of total revenues during the six month period versus 2.3% for the same period last year. Additionally, during the six month period ended September 30, 2006, the Household Cleaning segment, which has a lower gross profit than the Over-the Counter segment, represented 38.2% of total revenues as compared to 35.1% of total revenues during the six month period ended September 30, 2005.

***Over-the-Counter Drug Segment***

Gross profit of the Over-the-Counter segment was $53.5 million for the six month period ended September 30, 2006 versus $46.9 million for the comparable period of 2005. This increase of $6.5 million, or 13.9%, over the prior period resulted primarily from the increase in revenues. Gross profit as a percent of sales was 62.3% for the six month period ended September 30, 2006 versus 63.3% for the comparable period of 2005. The decrease in gross profit percentage is primarily the result of higher packaging costs incurred and higher allowances associated with international sales during the current period.

***Household Cleaning Segment***

Gross profit of the Household Cleaning segment was $24.2 million for the six month period ended September 30, 2006 versus $19.1 million for the comparable period of 2005. This increase of $5.1 million, or 26.7%, over the prior period resulted primarily from the increase in revenues. Gross profit as a percent of sales was 39.5% for the six month period ended September 30, 2006 versus 39.8% for the comparable period of 2005, primarily as a result of increased product and transportation costs, partially offset by royalties earned, with no associated costs, from our international and institutional licensing arrangements with Procter & Gamble.

***Personal Care Segment***

Gross profit of the personal care segment was $5.2 million for the six month period ended September 30, 2006 versus $6.2 million for the comparable period of 2005. This decrease of $1.0 million, or 16.8%, from the prior period resulted primarily from the decrease in revenues. Gross profit as a percent of sales was 39.1% for the six month period ended September 30, 2006 versus 42.7% for the comparable period of 2005. The decrease in gross profit percentage is a result of increased promotional pricing allowances and product costs.

**Contribution Margin**

Contribution margin, defined as gross profit less advertising and promotional expenses, was $66.0 million for the six month period ended September 30, 2006 versus $53.4 million for the comparable period of 2005. This represented an increase of $12.6 million, or 23.7%, from the prior period. The contribution margin increase is a result of increases in revenues and gross profit as previously discussed and a $2.1 million decrease in advertising and promotion spending versus the comparable period in 2005. The decline in advertising and promotion spending is primarily a result of lower spending in the Over-the-Counter Drug and Personal Care segments.

***Over-the-Counter Drug Segment***

Contribution margin of the Over-the-Counter drug segment was $41.0 million for the six month period ended September 30, 2006 versus $33.7 million for the comparable period of 2005. The contribution margin increase is a result of the gross profit increase as previously discussed, as well as an $783,000 decrease in advertising and promotion spending in the six month period ended September 30, 2006. The decrease in advertising and promotion spending is primarily due to the timing of Clear eyes® advertising and promotional programs and a reduction in New Skin advertising, partially offset by spending against the Doctors's brand, which was acquired in November 2005.

***Household Cleaning Segment***

Contribution margin of the Household Cleaning segment was $20.5 million for the six month period ended September 30, 2006 versus $15.6 million for the comparable period of 2005. This represented an increase of $4.9 million, or 31.4%, from the prior period. The contribution margin increase is a result of the gross profit increase as previously discussed, partially offset by slightly higher advertising and promotion support. Advertising and promotion spending increased by $200,000 versus the comparable period of the prior year primarily due to the spending against Chore Boy®, partially offset by lower media spending for Comet®.

***Personal Care Segment***

Contribution margin of the personal care segment was $4.5 million for the six month period ended September 30, 2006 versus $4.1 million for the comparable period of 2005. This represented an increase of $433,000, or 10.6%, from the prior period. The contribution margin increase is primarily the result of the gross profit decline as previously discussed, offset by a $1.5 million reduction in advertising and promotion spending versus the comparable period in 2005. The reduction in advertising and promotion is related to the reduction of national media support for Cutex®, as we have shifted some of our advertising spending by increasing our promotional pricing allowances which are recorded as a reduction of sales.

**General and Administrative**

General and administrative expenses were $13.7 million for the six month period ended September 30, 2006 versus $9.0 million for the comparable period of 2005. The increase is primarily related to additional staff added during the second half of our fiscal year ended March 31, 2006, severance compensation related to the departure of a member of management during the three month period ended June 30, 2006, increased stock-based compensation costs, as well as increased legal and professional fees.

**Depreciation and Amortization**

Depreciation and amortization expense was $4.8 million for the six month period ended September 30, 2006 versus $5.3 million for the comparable period of 2005. An increase in amortization related to intangible assets purchased in the Dental Concepts acquisition was offset by a reduction of the carrying value of certain trademarks. During the three month period ended March 31, 2006, we recognized an asset impairment charge of approximately $7.4 million related to intangible assets in our Personal Care segment.

**Interest Expense**

Net interest expense was $19.5 million for the six month period ended September 30, 2006 versus $17.2 million for the comparable period of 2005. This represented an increase of $2.4 million, or 13.7%, from the prior period. The increase in interest expense is due to the increase in interest rates associated with our variable rate indebtedness. The average cost of funds increased from 6.9% at September 30, 2005 to 7.9% at September 30, 2006.

**Income Taxes**

The income tax provision for the six month period ended September 30, 2006 was $10.9 million, with an effective rate of 39.1%, compared to $8.6 million, with an effective rate of 39.3% for period ended September 30, 2005.

**Liquidity and Capital Resources**

We have financed and expect to continue to finance our operations with a combination of internally generated funds and borrowings. In February 2005, we completed an initial public offering that provided the Company with net proceeds of $416.8 million which were used to repay the $100.0 million outstanding under the Tranche C Facility of our Senior Credit Facility, to redeem $84.0 million in aggregate principal amount of our existing 9.25% Senior Notes, to repurchase common stock held by the GTCR funds and the TCW/Crescent funds, and to redeem all of the outstanding senior preferred units and class B preferred units held by previous investors in Prestige International Holdings, LLC, the predecessor-in-interest to Prestige Brands Holdings, Inc. Effective upon the completion of the IPO, we entered into an amendment to the credit agreement that, among other things, allows us to increase the indebtedness under our Tranche B Term Loan Facility to $200.0 million and allows for an increase in our Revolving Credit Facility up to $60.0 million. Our principal uses of cash are for operating expenses, debt service, acquisitions, working capital and capital expenditures.

| | Six Months Ended September 30 | |
|---|---|---|
| ***(In thousands)*** | **2006** | **2005** |
| Cash provided by (used for): | | |
| Operating Activities | $ 42,734 | $ 24,530 |
| Investing Activities | (31,555) | (297) |
| Financing Activities | (8,871) | (1,982) |

Net cash provided by operating activities was $42.7 million for the six month period ended September 30, 2006 compared to $24.5 million for the six month period ended September 30, 2005. The $18.2 million increase in net cash provided by operating activities was primarily the result of the following:

- An increase of net income of $3.7 million from $13.3 million for the six month period ended September 30, 2005 to $17.0 million for the six month period ended September 30, 2006,
- A decrease in non-cash expenses of $1.6 million for the six month period ended September 30, 2006 compared to the six month period ended September 30, 2005, and
- An increase in cash provided by changes in the components of working capital for the six month period ended September 30, 2006 of $16.1 million over the six month period ended September 30, 2005.

Net cash used for investing activities was $31.6 million for the six month period ended September 30, 2006 compared to $297,000 for the six month period ended September 30, 2005. The net cash used for investing activities for the six month period ended September 30, 2006, was primarily the result of the acquisition of Wartner USA, B.V., while during the six month period ended September 30, 2005, cash was used primarily for the acquisition of leasehold improvements for our Irvington, New York headquarters.

Net cash used for financing activities was $8.9 million for the six month period ended September 30, 2006 compared to $2.0 million for the six month period ended September 30, 2005. The period-to-period increase was primarily the result of the repayment of $7.0 million indebtedness related to our Revolving Credit Facility which was drawn upon in November 2005 to fund the acquisition of Dental Concepts, LLC.

**Capital Resources**

As of September 30, 2006, we had an aggregate of $489.8 million of outstanding indebtedness, which consisted of the following:

- $363.8 million of borrowings under the Tranche B Term Loan Facility, and

- $126.0 million of 9.25% Senior 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.

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 September 30, 2006, an aggregate of $363.8 million was outstanding under the Senior Credit Facility at a weighted average interest rate of 7.26%.

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. The remaining interest rate cap agreements terminate on May 30, 2007 and 2008 as to notional amounts of $80.0 million and $50.0 million, respectively. The fair value of the interest rate cap agreements was $2.2 million at September 30, 2006.

The Tranche B Term Loan Facility matures in October 2011. We must make quarterly amortization payments on the Tranche B Term Loan Facility equal to $933,000, 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 obligations under the Senior Credit Facility are guaranteed on a senior basis by Prestige Brands International, LLC and all of its domestic subsidiaries, other than the borrower (Prestige Brands, Inc.), and are collateralized by substantially all of our assets.

The Revolving Credit Facility and the Tranche B Term Loan Facility contain various financial covenants, including provisions that require us to maintain certain leverage ratios, interest coverage ratios and fixed charge coverage ratios. The Revolving Credit Facility and the Tranche B Term Loan Facility, as well as the Senior Notes contain provisions that accelerate our indebtedness on certain changes in control and restrict us from undertaking specified corporate actions, including, asset dispositions, acquisitions, payment of dividends and other specified payments, repurchasing 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 5.25 to 1.0 for the quarter ended September 30, 2006, 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 September 30, 2006, 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 September 30, 2006, and for each quarter thereafter until the quarter ending March 31, 2011.

At September 30, 2006, we were in compliance with the applicable financial and restrictive covenants under the Senior Credit Facility and the indenture governing the Senior Notes.

Our principal sources of funds are anticipated to be cash flows from operating activities and available borrowings under the Revolving Credit Facility and Tranche B Term Loan 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. 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 September 30, 2006, we had ongoing commitments under various contractual and commercial obligations as follows:

| *(In Millions)* | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 Year** | **1 to 3 Years** | **4 to 5 Years** | **After 5 Years** |
| Long-term debt | $ 489.7 | $ 3.7 | $ 7.5 | $ 352.5 | $ 126.0 |
| Interest on long-term debt (1) | 181.7 | 38.2 | 75.4 | 61.8 | 6.3 |
| Operating leases | 1.8 | 0.6 | 1.1 | 0.1 | -- |
| Total contractual cash obligations | $ 673.2 | $ 42.5 | $ 84.0 | $ 414.4 | $ 132.3 |

(1) Represents the estimated interest obligations on the outstanding balances of the Revolving Credit Facility, Tranche B Term Loan Facility and Senior Notes, together, assuming scheduled principal payments (based on the terms of the loan agreements) were made and assuming a weighted average interest rate of 8.11%. 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 $3.6 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 $2.3 million.

**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, 2006. Both the Company and Prestige Brands International, LLC utilize the same critical accounting policies. 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 generally 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 varies 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, 2006 was $13.3 million, we participated in 4,700 promotional campaigns, resulting in an average cost of $2,800 per campaign. Of such amount, only 845 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 and six month periods ended September 30, 2006, our sales and operating income would have been adversely affected by approximately $315,000 and $699,000, respectively.

We also periodically run couponing 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, 2006, we had 20 coupon events. The amount expensed and accrued for these events during the year was $2.7 million, of which $2.4 million was redeemed during the year. During the six month period ended September 30, 2006, we had 9 coupon events. The amount expensed and accrued for these events during the three and six month periods ended September 30, 2006 was $600,000 and $1.5 million, respectively, of which $800,000 and $1.0 million, respectively, was redeemed during each 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, 2006, 2005 and 2004, returns represented 3.5%, 3.6% and 3.6%, respectively, of gross sales. At September 30, 2006 and March 31, 2006, the allowance for sales returns was $1.4 million and $1.7 million, respectively.

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 3.6% 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 and six month periods ended September 30, 2006 by approximately $98,000 and $187,000, respectively.

***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 September 30, 2006 and March 31, 2006, the allowance for obsolete and slow moving inventory represented 4.8% and 2.9%, respectively, of total inventory. A 1.0% increase in our allowance for obsolescence at September 30, 2006 would have adversely affected our reported operating income for the three and six month periods ended September 30, 2006 by approximately $308,000. Inventory obsolescence costs charged to operations for the three and six month periods ended September 30, 2006 were 0.26% and 0.52% of net sales.

***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 September 30, 2006 and March 31, 2006 amounted to 0.1% and 0.3%, respectively, of accounts receivable. For the three and six month periods ended September 30, 2006 we recorded net recoveries of $67,000 and $13,000, 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 and six month periods ended September 30, 2006 of approximately $85,000 and $161,000, respectively.

***Valuation of Intangible Assets and Goodwill***

Goodwill and intangible assets amounted to $965.2 million and $935.1 million at September 30, 2006 and March 31, 2006, respectively. As of September 30, 2006, goodwill and intangible assets were apportioned among our three operating segments as follows:

| | Over-the-Counter Drug | Household Cleaning | Personal Care | Consolidated |
|---|---|---|---|---|
| Goodwill | $ 227,486 | $ 72,549 | $ 2,751 | $ 302,786 |
| Intangible assets | | | | |
| Indefinite lived | 374,070 | 170,893 | -- | 544,963 |
| Finite lived | 98,566 | 27 | 18,855 | 117,448 |
| | 472,636 | 170,920 | 18,855 | 662,411 |
| | $ 700,122 | $ 243,469 | $ 21,606 | $ 965,197 |

Our *Clear Eyes*®, *New-Skin*®, *Chloraseptic*® and *Compound W*® brands comprise the majority of the value of the intangible assets within the Over-The-Counter segment. *Denorex*®, *Cutex*® and *Prell*® comprised substantially all of the intangible asset value within the Personal Care segment. The *Comet*®, *Spic and Span*®

and *Chore Boy*® brands comprise substantially all of the intangible asset value within the Household Cleaning segment.

Goodwill and intangible assets comprise substantially all of our assets. Goodwill represents the excess of the purchase price over the fair value of assets acquired and liabilities assumed in a 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".

To assist in the valuation process, management engages an independent valuation firm to provide an evaluation of the acquired intangibles. 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, 2006, management applied a discount rate of 10.3%, 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 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 $233,000 during the three month period ended September 30, 2006, and net non-cash compensation of $224,000 for the six months ended September 30, 2006. During the three month period ended June 30, 2006, the Company recorded a net non-cash compensation 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. The Company recorded non-cash compensation expense of $110,000 during the three and six month periods ended September 30, 2005.

***Recent Accounting Pronouncements***

In November 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs" ("Statement No. 151"). Statement No. 151 amended the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing", and requires the exclusion of certain costs, such as abnormal amounts of freight, handling costs and manufacturing overhead, from inventories. Additionally, Statement No. 151 requires the allocation of fixed production overhead to inventory based on normal capacity of the production facilities. The provisions of Statement No. 151 are effective for costs incurred during fiscal years beginning after June 15, 2005. The adoption of Statement No. 151 did not have a material impact on the Company's financial condition, results of operations or cash flows for the three and six month periods ended September 30, 2006.

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 FASB Statement No. 109. FIN 48 is effective for fiscal years beginning after December 15, 2006, and 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. While the Company has not completed a comprehensive analysis of FIN 48, the adoption of FIN

48 is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

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 pronouncement that could have a material impact on our consolidated financial position, results of operations or cash flows.

**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 recent increase in crude oil prices has had an adverse impact on transportation costs, as well as, certain petroleum based raw materials and packaging material. Although the Company takes efforts to minimize the impact of inflationary factors, including raising prices to our customers, a high rate of pricing volatility associated with crude oil supplies may have an adverse effect on our future 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 the increased advertising and promotional spending to support those brands with a summer selling season, such as Compound W, 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.

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), including, without limitation, information within Management’s Discussion and Analysis of Financial Condition and Results of Operations. The following cautionary statements are being made pursuant to the provisions of the PSLRA and with the intention of obtaining the benefits of the “safe harbor” provisions of the PSLRA. 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. 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.

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 and 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. For more information, see “Risk Factors” contained in Part I, Item 1A of our Annual Report on Form 10-K. 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,
- our ability to obtain additional financing, and
- the restrictions imposed by our senior credit facility and the indenture 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 September 30, 2006, we had variable rate debt of approximately $363.8 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. The remaining interest rate cap agreements terminate on May 30, 2007 and 2008 as to notional amounts of $80.0 million and $50.0 million, respectively.

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 2007 of approximately $3.7 million. However, given the protection afforded by the interest rate cap agreements, the impact of a one percentage point increase would be limited to $2.3 million. The fair value of the interest rate cap agreements was $2.2 million at September 30, 2006.

**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"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2006, 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 Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There were no changes during the quarter ended September 30, 2006 in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) 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**

The Company and certain of its officers and directors are defendants in a consolidated putative securities class action lawsuit filed in the United States District Court for the Southern District of New York (the "Consolidated Action"). The first of the six consolidated cases was filed on August 3, 2005. Plaintiffs purport to represent a class of stockholders of the Company who purchased shares between February 9, 2005 through November 15, 2005. Plaintiffs also name as defendants the underwriters in the Company's initial public offering and a private equity fund that was a selling stockholder in the offering. The District Court has appointed a Lead Plaintiff. On December 23, 2005, the Lead Plaintiff filed a Consolidated Class Action Complaint, which asserted claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 and Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934. The Lead Plaintiff generally alleged that the Company issued a series of materially false and misleading statements in connection with its initial public offering and thereafter in regard to the following areas: the accounting issues described in the Company's press release issued on or about November 15, 2005; and the alleged failure to disclose that demand for certain of the Company's products was declining and that the Company was planning to withdraw several products from the market. Plaintiffs seek an unspecified amount of damages. The Company filed a motion to dismiss the Consolidated Class Action Complaint in February 2006. On July 10, 2006, the Court dismissed all claims against the Company and the individual defendants arising under the Securities Exchange Act of 1934. The Company's management believes the remaining claims are legally deficient and subject to meritorious defenses. The Company intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 6, 2005, another putative securities class action lawsuit substantially similar to the initially-filed complaints in the Consolidated Action described above was filed against the same defendants in the Circuit Court of Cook County, Illinois (the "Chicago Action"). In light of the first-filed Consolidated Action, proceedings in the Chicago Action were stayed until a ruling on defendants' anticipated motions to dismiss the consolidated complaint in the Consolidated Action. Subsequent to the Court's decision on the motions to dismiss in the Consolidated Action, on August 11, 2006, the Plaintiffs in the Chicago Action agreed to dismiss the Chicago Action.

On May 23, 2006, Similasan Corporation filed a lawsuit against the Company in the United States District Court for the District of Colorado in which Similasan alleged false designation of origin, trademark and trade dress infringement, and deceptive trade practices by the Company related to *Murine* for Allergy Eye Relief, *Murine* for Tired Eye Relief and *Murine* for Earache Relief, as applicable. Similasan has requested injunctive relief, an accounting of profits and damages and litigation costs and attorneys' fees. The Company has filed an answer to the complaint with a potentially dispositive motion. In addition to the lawsuit filed by Similasan in the U.S. District Court for the District of Colorado, the Company also received a cease and desist letter from Swiss legal counsel to Similasan and its parent company, Similasan AG, a Swiss company. In the cease and desist letter, Similasan and Similasan AG have alleged a breach of the Secrecy Agreement executed by the Company and demanded that the Company cease and desist from (i) using confidential information covered by the Secrecy Agreement; and (ii) manufacturing, distributing, marketing or selling certain of its homeopathic products. The complaint in the Colorado action has now been amended to include allegations relating to the breach of confidentiality' and the Company has filed an answer responsive thereto. The Company's management believes the allegations to be without merit and intends to vigorously pursue its defenses; however, the Company cannot reasonably estimate the potential range of loss, if any.

On September 28, 2006, OraSure Technologies, Inc. moved in the Supreme Court of the State of New York for a preliminary injunction prohibiting the Company from selling cryogenic wart removal products under the Wartner® brand, which the Company acquired on September 21, 2006. OraSure Technologies is a supplier to the Company for the Company's Compound W Freeze Off® business. The distribution agreement in place calls for mediation of contract disputes, followed by arbitration, if necessary. The contract in question is of five years duration ending in December 2007. On October 30, 2006, the Court denied OraSure Technologies' motion for a preliminary injunction. To the extent the contract dispute is not resolved through mediation, the Company intends to seek resolution of the matter through arbitration.

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 of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter 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.

**ITEM 1A. RISK FACTORS**

You are advised to consider the risk factors disclosure contained in Part I, Item 1A, included in our Annual Report on Form 10-K for the year ended March 31, 2006, which are incorporated herein by reference, as they could materially affect our business, financial condition and future results from operations. In addition, the following matters may also materially affect our business, financial condition and future results from operations, as well as the market value of our common stock.

***Litigation may adversely affect our business, financial condition and results of operations.***

Our business is subject to the risk of litigation by employees, consumers, suppliers, shareholders or others through private actions, class actions, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend current and future litigation may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of our products, regardless of whether the allegations are valid or whether we are ultimately found liable. As a result, litigation may adversely affect our business, financial condition and results of operations.

***The trading price of our common stock may be volatile.***

The trading price of our common stock could be subject to significant fluctuations in response to several factors, some of which are beyond our control, including variations in our quarterly operating results, our leveraged financial position, potential sales of additional shares of our common stock, general trends in the consumer products industry, changes by securities analysts in their estimates or investment ratings, the relative illiquidity of our common stock, news regarding litigation in which we are or become involved and other potential litigation and stock market conditions generally.

***We have no current intention of paying dividends to holders of our common stock.***

We presently intend to retain our earnings, if any, for use in our operations, or to repay our outstanding indebtedness and have no current intention of paying dividends to holders of our common stock. In addition, our debt instruments limit our ability to declare and pay cash dividends on our common stock. As a result, your only opportunity to achieve a return on your investment in Prestige will be if the market price of our common stock appreciates and you sell your shares at a profit.

***Our principal stockholders have the ability to significantly influence our business, which may be disadvantageous to other stockholders and adversely affect the trading price of our common stock.***

Entities affiliated with GTCR collectively own approximately 31.8% of our outstanding common stock. As a result, these stockholders, acting together, will have the ability to exert substantial influence over all matters

requiring approval by our stockholders, including the election and removal of directors and any proposed merger, consolidation or sale of all or substantially all of our assets and other corporate transactions. Under our amended and restated certificate of incorporation, the GTCR entities and non-employee directors will not have any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business that we do. In the event that any GTCR entity or non-employee director, as the case may be, acquires knowledge of a potential transaction or matter which may be a corporate opportunity for itself and us, the GTCR entity or non-employee director, as the case may be, will not have any duty to communicate or offer such corporate opportunity to us and may pursue such corporate opportunity for itself or direct such corporate opportunity to another person. This concentration of stock ownership also may make it difficult for stockholders to replace management. In addition, this significant concentration of stock ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. This concentration of control could be disadvantageous to other stockholders with interests different from those of our officers, directors and principal stockholders and the trading price of shares of our common stock could be adversely affected.

***Substantial sales of our common stock by either our controlling shareholder or management or the perception that these sales could occur could cause the price of our common stock could decline.***

Sales of substantial amounts of our common stock in the public market by our controlling shareholder or management, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional equity securities.

***We are subject increasingly to the risk of doing business internationally.***

During the fiscal year ended March 31, 2006, approximately 3.0% of our total revenues were attributable to our international business. We operate and may operate in the future in regions and countries where we have little or no experience, and we may not be able to market our products in, or develop new products successfully for, these markets. We may also encounter other risks of doing business internationally including:

- unexpected changes in, or impositions of, legislative or regulatory requirements;
- fluctuations in foreign exchange rates, which could cause fluctuations in the price of our products in foreign markets or cause fluctuations in the cost of certain raw materials purchased by us;
- delays resulting from difficulty in obtaining export licenses, tariffs and other barriers and restrictions, potentially longer payment cycles, greater difficulty in accounts receivable collection and potentially adverse tax treatment;
- potential trade restrictions and exchange controls;
- differences in protection of our intellectual property rights; and
- the burden of complying with a variety of foreign laws.

In addition, we will be increasingly subject to general geopolitical risks in foreign countries where we operate, such as political and economic instability and changes in diplomatic and trade relationships, which could affect, among other things, customers' inventory levels and consumer purchasing, which could cause our results to fluctuate and our sales to decline. It has not been our practice to engage in foreign exchange hedging transactions to manage the risk of fluctuations in foreign exchange rates because of the limited nature of our past international operations.

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

Our annual and quarterly operating results may fluctuate significantly because of several factors, including:

- increases and decreases in average monthly revenues and profitability;
- the rate at which we make acquisitions or develop new products and successfully market them;
- changes in consumer preferences and competitive conditions, including the effects of competitors' operational, promotional or expansion activities;
- fluctuations in commodity prices, product costs, utilities and energy costs, prevailing wage rates, insurance costs and other costs;
- our ability to recruit, train and retain qualified employees, and the costs associated with those activities;
- changes in advertising and promotional activities and expansion to new markets;
- negative publicity relating to products we sell;
- unanticipated increases in infrastructure costs;
- impairment of goodwill or long-lived assets;
- changes in interest rates; and
- changes in accounting, tax, regulatory or other rules applicable to our business.

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

***We can be affected adversely and unexpectedly by the implementation of new, or changes in the interpretation of existing, accounting principles generally accepted in the United States of America ("GAAP").***

Our financial reporting complies with GAAP, and GAAP is subject to change over time. If new rules or interpretations of existing rules require us to change our financial reporting, our results of operations and financial condition could be affected adversely.

***Identification of material weakness in internal control may adversely affect our financial results.***

We are subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. Those provisions provide for the identification of material weaknesses in internal control. If such a material weakness is identified, it could indicate a lack of controls adequate to generate accurate financial statements. We routinely assess our internal controls, but we cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods, or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

***Provisions in our charter and Delaware law may discourage potential acquirers of our company, which could adversely affect the value of our securities.***

Our charter documents contain provisions that may have the effect of making it more difficult for a third party to acquire or attempt to acquire control of the Company. In addition, we are subject to certain provisions of Delaware law that limit, in some cases, our ability to engage in certain business combinations with significant shareholders.

These provisions, either alone, or in combination with each other, give our current directors and executive officers a substantial ability to influence the outcome of a proposed acquisition of the Company. These provisions would apply even if an acquisition or other significant corporate transaction was considered beneficial by some of our shareholders. If a change in control or change in management is delayed or prevented by these provisions, the market price of our securities could decline.

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

There were no equity securities sold by the Company during the period covered by this Quarterly Report on Form 10-Q that were not registered under the Securities Act of 1933, as amended.

There were no purchases of shares of the Company's common stock during the quarter ended September 30, 2006, by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company's 2006 Annual Meeting of Stockholders was held on August 15, 2006 (the "Annual Meeting"). Proxies for the Annual Meeting were solicited in accordance with Regulation 14 of the Exchange Act; there was no solicitation in opposition to management's nominees for director and all of management's nominees were elected. The following nominees were elected to the Company's Board of Directors to serve until the 2007 Annual Meeting of Stockholders and until their respective successors have been elected and qualified, or until their earlier death, resignation or retirement in accordance with Proposal 1 - Election of Directors:

| | For | Withheld | Broker Non-Votes |
|---|---|---|---|
| Peter C. Mann | 46,850,209 | 1,359,659 | -- |
| L. Dick Buell | 46,974,885 | 1,234,983 | -- |
| John E. Byom | 47,192,801 | 1,017,067 | -- |
| Gary E. Costley | 47,016,491 | 1,193,377 | -- |
| David A. Donnini | 45,312,880 | 2,896,988 | -- |
| Ronald Gordon | 46,960,437 | 1,249,431 | -- |
| Vincent J. Hemmer | 46,944,514 | 1,265,354 | -- |
| Patrick Lonergan | 47,145,375 | 1,064,493 | -- |
| Raymond P. Silcock | 47,145,475 | 1,064,393 | -- |

The votes for Proposal 2 for the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the audit of the Company's financial statements for the fiscal year ending March 31, 2007 were as follows:

| For | Against | Withheld | Broker Non-Votes |
|---|---|---|---|
| 46,845,933 | 1,329,439 | 34,496 | -- |

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| | |
|---|---|
| 2.1 | Stock Sale and Purchase Agreement, dated as of September 21, 2006, by Lil' Drug Store Products, Inc., Wartner USA B.V., Lil' Drug Store Products, Inc.'s shareholders set forth on the signature page attached thereto, and Medtech Products Inc. |
| 10.1 | Executive Employment Agreement, dated as of August 21, 2006, between Prestige Brands Holdings, Inc. and Jean A. Boyko. |
| 10.2 | Exclusive Supply Agreement, dated as of September 18, 2006, among Medtech Products Inc., Pharmacare Limited, Prestige Brands Holdings, Inc. and Aspen Pharmacare Holdings Limited. |
| 10.3 | Form of Performance Share Grant Agreement. |
| 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. |
| 31.3 | Certification of Principal Executive Officer of Prestige Brands International, LLC pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. |
| 31.4 | Certification of Principal Financial Officer of Prestige Brands International, LLC 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. |
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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

**Prestige Brands Holdings, Inc.**
Registrant

Date: November 9, 2006

By: **/s/ PETER J. ANDERSON**
Peter J. Anderson
Chief Financial Officer

**Prestige Brands International, LLC**
Registrant

Date: November 9, 2006

By: **/s/ PETER J. ANDERSON**
Peter J. Anderson
Chief Financial Officer

**Exhibit Index**

| | |
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**EXHIBIT 2.1**

STOCK SALE AND PURCHASE AGREEMENT

This Stock Sale and Purchase Agreement (this "Agreement") is made as of September 21, 2006, by LIL' DRUG STORE PRODUCTS, INC., an Iowa corporation ("Seller"), WARTNER USA B.V., a private company with limited liability organized under the laws of the Netherlands (the "Company"), the Seller's shareholders set forth on the signature page attached hereto (the "Shareholders"), and MEDTECH PRODUCTS INC., a Delaware corporation ("Buyer").

RECITALS

Seller desires to sell, and Buyer desires to purchase, all of the issued and outstanding shares (the "Shares") of capital stock of the Company, a wholly-owned subsidiary of Seller, for the consideration and on the terms set forth in this Agreement.

The Shareholders, as the record and beneficial owners of 96.8% of all of the outstanding capital stock of Seller, will indirectly benefit from the sale of the Shares by Seller to Buyer and therefore desire to execute this Agreement for the limited purposes set forth below.

AGREEMENT

The parties, intending to be legally bound, agree as follows:

1. DEFINITIONS

For purposes of this Agreement, the following terms have the meanings specified or referred to in this Section 1:

"Accounts Receivable" - as defined in Section 3.7.

"Affiliate" - with respect to any Person, any other Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Person specified.

"Agreement" - as defined in the first paragraph of this Agreement.

"Allocation" - as defined in Section 2.5.

"Annual Balance Sheet" - the balance sheet of the Company as of December 31, 2005 included in the Annual Financial Statements.

"Annual Financial Statements" - as defined in Section 3.4.

"Assignment and Assumption" - as defined in Section 2.4(a)(vi).

“Business” means the business carried on by the Company which involves the design, marketing, sale and distribution of the Products in the Territory.

“Business Day” - means any day other than a Saturday, Sunday or holiday on which commercial banks located in New York City are obligated or authorized by law or executive order to close.

“Business Intellectual Property” - as defined in Section 3.15.

“Buyer” - - as defined in the first paragraph of this Agreement.

“Buyer’s Advisors” - as defined in Section 5.1.

“Check-the-box Election” - as defined in Section 3.9(b).

“Closing”—as defined in Section 2.3.

“Closing Date”—the date and time as of which the Closing actually takes place.

“Company” - as defined in the first paragraph of this Agreement.

“Company Transaction Expenses” - all of the following to the extent incurred or accrued by the Company on or before the Closing Date: (i) all out-of-pocket costs and expenses incurred in connection with the transactions contemplated hereby, including, without limitation, investment advisory fees and expenses, other consultant, legal, Tax, accounting, travel, due diligence and related fees and expenses, and escrow agent fees and expenses; (ii) all payments required to be made by the Company to any Person due to the consummation of the Contemplated Transactions; and (iii) all fees and expenses incurred by the Company in connection with the termination of any Company Indebtedness.

“Company Indebtedness” - as defined in Section 2.2.

“Consent”—any approval, consent, ratification, waiver, or other authorization.

“Confidentiality Agreement” - means the confidentiality agreement dated April 24, 2006 between Seller and Buyer or any of its Affiliates.

“Contemplated Transactions”—all of the transactions contemplated by this Agreement, including, without limitation:

(a) the sale of the Shares by Seller to Buyer; and

(b) the performance by Buyer and Seller of their respective covenants and obligations under this Agreement.

“Contract”—any agreement, commitment, contract, instrument, obligation, promise, or undertaking (whether written or oral and whether express or implied) that is legally binding, in whole or in part, upon a party thereto.

“Damages”—as defined in Section 9.2.

“Deed of Transfer” - the notarial deed of transfer for the Shares substantially in the form attached hereto as Exhibit B.

“Disclosure Schedule”—the Disclosure Schedule delivered by Seller to Buyer concurrently with the execution and delivery of this Agreement and attached hereto as Exhibit A.

“Disregarded Entity” - as defined in Section 3.9(b).

“Divestiture Agreement” - all agreements or arrangements by which the Company sold or divested itself, directly or through a Subsidiary, of any material portion of its assets, including the sale of all or substantially all of the capital stock or other ownership interests of any of its Subsidiaries.

“Encumbrance”—any burden charge, claim, condition, covenant, deed of trust, easement, encroachment, equitable interest, hypothecation, lease, lien, mortgage, option, pledge, security interest, sublease, title defect, title retention agreement, right of first refusal, or restriction of any kind, including, without limitation, any restriction on use, voting, transfer, receipt of income, or exercise of any other attribute of ownership, other than any applicable federal or state securities law restrictions.

“Environment”—soil, land surface or subsurface strata, surface waters, groundwaters, air or any other environmental medium or natural resource.

“Environmental Law”—any Legal Requirement that requires or relates to:

(a) advising appropriate authorities, employees, and the public of intended or actual releases of pollutants or hazardous substances or materials, violations of discharge limits, or other prohibitions and of the commencements of activities, such as resource extraction or construction, that could have significant impact on the Environment;

(b) preventing or reducing to acceptable levels the release of pollutants or hazardous substances or materials into the Environment;

(c) reducing the quantities, preventing the release, or minimizing the hazardous characteristics of wastes that are generated;

(d) assuring that products are designed, formulated, packaged, and used so that they do not present unreasonable risks to human health or the Environment when used or disposed of;

(e) protecting resources, species, or ecological amenities;

(f) reducing to acceptable levels the risks inherent in the transportation of hazardous substances, pollutants, oil, or other potentially harmful substances;

(g) cleaning up pollutants that have been released, preventing the threat of release, or paying the costs of such clean up or prevention; or

(h) making responsible parties pay private parties, or groups of them, for damages done to their health or the Environment, or permitting self-appointed representatives of the public interest to recover for injuries done to public assets.

“ERISA” - - the Employee Retirement Income Security Act of 1974, as amended, and any successor law, and regulations and rules issued pursuant to that act or any successor law.

“Facilities”—any leaseholds or other interests currently or formerly owned or operated by the Company and any buildings, plants, structures, or equipment currently or formerly owned or operated by the Company.

“FDA Act” - - the United States Federal Food, Drug and Cosmetic Act, as amended, and rules and regulations issued thereunder.

“Financial Statements” - as defined in Section 3.4.

“GAAP” - - means United States generally accepted accounting principles, as in effect from time to time, applied on a consistent basis.

“Governmental Authority” - any (a) federal, state, regional, county, city, municipal or local government, whether foreign or domestic; (b) governmental or quasi-governmental authority of any nature including any regulatory or administrative agency, commission, department, board, bureau, court, tribunal, arbitrator, arbitral body, agency, branch, official entity, or other administrative or regulatory body obtaining authority from any of the foregoing; or (c) other Person exercising, or entitled to exercise, any administration, executive, judicial, legislative, notice, regulatory or taxing authority or power of any nature.

“Hazardous Materials”—any waste or other substance that is listed, defined, designated, or classified as, or otherwise determined to be, hazardous, radioactive, or toxic or a pollutant or a contaminant under or pursuant to any Environmental Law.

“Indemnified Persons”—as defined in Section 9.2.

“Interim Balance Sheet” - the balance sheet of the Company as of August 31, 2006 included in the Interim Financial Statements.

“Interim Financial Statements”—as defined in Section 3.4.

“Inventory” - means the usable and merchantable finished goods, components, raw materials and displays of the Product which are not obsolete having expiration dating of not less than twenty-four (24) months and representing not more than six (6) months of forecasted requirements for sale of any SKU within the Territory. For the avoidance of doubt, Inventory shall not include Wartner Kids products or any components or raw materials not usable by Pharmaspray and/or the Company as of the Closing Date.

“IRC”—the Internal Revenue Code of 1986, as amended, or any successor law, and regulations issued by the IRS pursuant to the Internal Revenue Code or any successor law.

“IRS”—the United States Internal Revenue Service or any successor agency, and, to the extent relevant, the United States Department of the Treasury.

“Knowledge” - and all other words of similar meaning, whether or not capitalized, when used with respect to (i) Seller shall mean the actual knowledge or knowledge that may be obtained by the officers of Seller after making Due Inquiry; and (ii) Buyer shall mean the actual knowledge or knowledge that may be obtained by the officers of Buyer after making Due Inquiry. For the purposes of this definition, the term “Due Inquiry” by an individual means inquiry, after review of the specific provision(s) of this Agreement in question, of such peers or subordinates whom such individual determines in reasonable good faith to be the appropriate Persons to be approached with respect to the particular fact or matter in question, about such particular fact or matter in question and who the Person making the inquiry reasonably believes has personal knowledge of the particular fact or matter in question.

“Legal Requirement”—any federal, state, local, municipal, foreign, international, multinational, or other administrative order, constitution, law, ordinance, principle of common law, regulation, statute, or treaty.

“Material Adverse Effect” - means, with respect to any Person or any of its Subsidiaries (together as one party for purposes of this Section), an individual or cumulative adverse change in or effect on (i) the business, properties, assets, condition (financial or otherwise), liabilities or results of operations of such party which is, or could reasonably be expected to be, materially adverse to the business, properties, assets, condition (financial or otherwise), liabilities or results of operations of such party and its Subsidiaries taken as a whole, (ii) such Person or any of its Subsidiaries as a result of the cancellation, amendment or postponement for a period of three months or more of any current or proposed Material Contract, or (iii) the ability of such Person to perform its material obligations under this Agreement and the Related Agreements.

“Material Contract” - as defined in Section 3.12.

“Non-Compete Activities” - as defined in Section 5.3(a).

“Notary” - means Daan ter Braak, civil law notary (*notaris*), or his/her deputy (*plaatsvervanger*).

“Order” - - an order, award, decision, injunction, judgment, ruling, subpoena, or verdict issued or rendered by any court, administrative agency or other Governmental Authority (A) to which the Company or any of its businesses, assets or properties is subject, or (B) to which Seller is subject with respect to Seller’s ownership of or ability to sell or vote the Shares.

“Ordinary Course of Business” - the ordinary course of Business consistent with past custom and practice (including with respect to quantity and frequency).

“Organizational Documents”— (a) the articles or certificate of incorporation and the bylaws of a corporation; (b) any charter or similar document adopted or filed in connection with the creation, formation, or organization of a Person; and (c) any amendment to any of the foregoing (including but not limited to the current articles of association (*statuten*) of the Company).

“Permits” - as defined in Section 3.24(ii).

“Person”—any individual, corporation, general or limited partnership, limited liability company, joint venture, estate, trust, association, organization, labor union, or other entity or governmental body.

“Pharmaspray” - means Pharmaspray B.V., a company organized and existing under the law of the Netherlands.

“Post-Closing Tax Period” - as defined in Section 10.1(b).

“Pre-Closing Tax Period” - as defined in Section 10.1(a).

“Proceeding”—any action, arbitration, audit, hearing, investigation, litigation, or suit commenced, brought, conducted, or heard by or before, or otherwise involving, any Governmental Authority.

“Product” - the OTC cryogenic treatment for warts sold under the WARTNER trademark and the cryogenic professional use treatment for warts under the WARTNER PRO trademark, both of which utilize the Business Intellectual Property.

“Purchase Price” - as defined in Section 2.2.

“Related Agreements” - means, with respect to a party hereto, the Transition Agreement, the Assignment and Assumption, the Wartner Assignment and any other agreement or instrument executed by such party in connection with this Agreement.

“Representative”—with respect to a particular Person, any director, officer, employee, affiliate, agent, consultant, advisor, or other representative of such Person, including legal counsel, accountants, and financial advisors.

“Restricted Period” - as defined in Section 5.3(a).

“Returns” - any claim for credit or refund for unsold Product or other merchandise by any customer or account of Seller, the Company or Buyer, whether or not accompanied by the Product or other merchandise originally sold, and whether or not damaged, out of date or otherwise impaired.

“Right of Set-Off” - as defined in Section 9.10.

“Securities Act”—the Securities Act of 1933, as amended, or any successor law, and regulations and rules issued pursuant to that Act or any successor law.

“Seller” - as defined in the first paragraph of this Agreement.

“Shareholders” - as defined in the first paragraph of this Agreement.

“Shares”—as defined in the Recitals of this Agreement.

“Share Sale Agreement”—the Share Sale Agreement dated June 10, 2003 between Wartner Holding as the seller, Seller as the purchaser, and the Company, for the sale by the seller of the entire issued and outstanding share capital of the Company to the purchaser.

“SKU” - - means one or more non-obsolete shelf keeping units of the Product.

“Straddle Period” - as defined in Section 10.1(c).

“Subsidiary”—with respect to any Person (the “Owner”), any corporation or other Person of which securities or other interests having the power to elect a majority of that corporation's or other Person's board of directors or similar governing body, or otherwise having the power to direct the business and policies of that corporation or other Person (other than securities or other interests having such power only upon the happening of a contingency that has not occurred) are held by the Owner or one or more of its Subsidiaries; when used without reference to a particular Person, “Subsidiary” means a Subsidiary of the Company.

“Tax” or “Taxes” means any federal, state, local or foreign net or gross income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium (including taxes under Section 59A of the IRC), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, conveyance, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax, governmental fee or like assessment, together with any interest and penalties, additions to tax or additional amounts imposed by any Governmental Authority.

“Tax Authority” means any Governmental Authority with responsibility for Taxes.

“Tax Return” means all returns, reports, elections, forms, declarations, statements, estimated returns, claims for refund and information returns supplied or required to be supplied to a Tax Authority relating to Taxes.

“Territory” - means the United States of America (including its territories and possessions), Canada, Mexico, Bermuda and the Dominican Republic.

“Trade Adjustment” - means any unilateral financial adjustment by a customer or account of Seller, the Company or Buyer wherein such customer or account makes a reduction of an amount to be paid or credited to Buyer, Seller or the Company as a consequence of alleged or actual prior or subsequent commercial dealings in the Product or in connection with prior or subsequent commercial dealings in other products where those commercial dealings are treated by the account as offsets to obligations to Buyer, Seller or the Company relating to the Product.

“Transfer Taxes: - as defined in Section 10.3.

“Transition Agreement” - as defined in Section 2.4(a)(v).

“U.S. Patent” - as defined in Section 3.15.

“Wartner Assignment” - as defined in Section 2.4(a)(iv).

“Wartner B.V.” - means that certain private company with limited liability organized under the laws of the Netherlands which has among its affiliates Wartner Holding and Wartner Medical Products A.G.

“Wartner Europe B.V.” means that certain private company with limited liability organized under the laws of the Netherlands formerly affiliated with Wartner Holding but which as of the date of this Agreement is a wholly owned subsidiary of Omega Pharma N.V. Wartner Europe B.V. is not a party to this Agreement.

“Wartner Holding” - means Wartner Holding B.V., a private company with limited liability organized under the laws of the Netherlands which is an affiliate of Wartner B.V.

## 2. SALE AND TRANSFER OF SHARES; CLOSING

### 2.1 SHARES

Subject to the terms and conditions of this Agreement, at the Closing, Seller will sell and transfer all of the Shares of capital stock of the Company to Buyer, and Buyer will purchase all of the Shares of capital stock of the Company from Seller, free and clear of any Encumbrances except as set forth on Schedule 2.1.

Subject to the terms and conditions of this Agreement, Seller shall transfer title to the Shares to Buyer, and Buyer shall accept the same from Seller, at Closing through the execution of the Deed of Transfer before the Notary.

### 2.2 PURCHASE PRICE

Subject to the further provisions of this Section 2.2, the purchase price (the “Purchase Price”) for all of the Shares of capital stock of the Company shall be $31,500,000 payable in cash at Closing to Seller. The Purchase Price assumes that, as of the Closing, (i) the Company will have no outstanding debt and no obligations not in the Ordinary Course of Business (any such indebtedness and obligations, “Company Indebtedness”); and (ii) the Company will have Inventory in an aggregate amount equal to at least $950,000 which shall be saleable in the Ordinary Course of Business; provided, that Company Indebtedness shall not include trade debt and normal operating liabilities not incurred in the Ordinary Course of Business. The Purchase Price shall be (i) (x) increased by the amount, if any, by which the Company’s Inventory (valued at cost) as of the Closing (based on a physical inventory taken by Buyer and Seller on the Closing Date) exceeds $950,000; or (y) decreased by the amount, if any, by which the Company’s Inventory (valued at cost) as of the Closing (based on a physical inventory taken by Buyer and Seller on the Closing Date) is less than $950,000; (ii) decreased by the amount, if any, of Company Indebtedness as of the Closing; and (iii) decreased by the amount of Company Transaction Expenses. For purposes of

calculating the amount to be wired at Closing, the amount of Inventory shall be determined on the Closing Date based on Seller's perpetual inventory system. Each of Seller and Buyer agree to cooperate with the other regarding any post-closing adjustments that need to be made to the Purchase Price to reflect the actual amount of Inventory as of the Closing.

2.3 CLOSING

Subject to the satisfaction of all of the closing conditions contained in this Agreement, the purchase and sale (the "Closing") provided for in this Agreement will take place at the offices of Seller's counsel, Bradley & Riley PC, Cedar Rapids, Iowa, at 10:00 a.m. (local time) on or about September 21, 2006, or at such other time and place as the parties may agree. The execution of the Deed of Transfer will take place on the Closing Date at the offices of Van Doorne N.V., Jachthavenweg 121, 1081 KM Amsterdam, The Netherlands.

2.4 CLOSING OBLIGATIONS

At the Closing, after the Notary has received sufficient confirmation that the Purchase Price has been transferred by Buyer and received by Seller in accordance with Sections 2.2 and 2.4(b)(i), Seller and Buyer shall execute the Deed of Transfer before the Notary and shall procure that the Notary shall execute the Deed of Transfer. Seller shall procure that the Company will acknowledge the transfer of the Shares, by signing the Deed of Transfer.

At the Closing:

(a) Seller will deliver to Buyer:

(i) certificates representing the Shares, duly endorsed (or accompanied by duly executed stock powers) and any other documents reasonably necessary to transfer to Buyer the entire right, title and interest in and to all of the Shares of capital stock of the Company;

(ii) a certificate, dated as of the Closing Date and executed by the Chief Executive Officer or Chief Financial Officer of Seller certifying in such detail as Buyer may reasonably request that the conditions specified in Sections 6.1 and 6.2 hereof have been fulfilled with respect to Seller and the Company and certifying that Seller and the Company have obtained all consents and approvals required with respect to the Contemplated Transactions;

(iii) [Intentionally Omitted];

(iv) a duly executed counterpart of an Assignment and Assumption Agreement between Seller and Buyer under which Seller transfers and assigns to Buyer, and Buyer expressly assumes, certain rights and obligations under the Share Sale Agreement, such agreement to be in substantially the form attached hereto as Exhibit C (the "Wartner Assignment")

(v) a duly executed counterpart of a transition services agreement between Buyer and Seller in substantially the form attached hereto as Exhibit D (the "Transition Agreement");

(vi) a duly executed counterpart of an assignment and assumption agreement between Seller and Buyer under which Seller transfers and assigns to Buyer, and Buyer expressly assumes, those trade and marketing programs listed in Schedule 3.20, such assignment and assumption agreement to be in substantially the form attached hereto as Exhibit E (the "Assignment and Assumption");

(vii) a disclaimer duly executed by Seller's lenders terminating any Encumbrances held by them with respect to the Shares;

(viii) a bill of sale as of Closing in a form acceptable to Buyer reflecting the transfer of all Inventory of Product in the possession of Seller from Seller to Company;

(ix) a license agreement in favor of Buyer, the Company and Pharmaspray duly executed by Wartner Europe in the form of Exhibit F;

(x) [Intentionally Omitted];

(xi) the releases referenced in Section 6.14; and

(xii) other documents reasonably requested by Buyer.

(b) Buyer will deliver to Seller:

(i) subject to the Purchase Price adjustments in Section 2.2, $31,500,000 by wire transfer to the account specified by Seller on and as of the Closing Date.

(ii) a certificate dated as of the Closing Date and executed by the Chief Executive Officer or Chief Financial Officer of Buyer certifying in such detail as Seller may reasonably request that the conditions specified in Sections 7.1 and 7.2 hereof have been fulfilled with respect to Buyer and certifying that Buyer has obtained all consents and approvals required with respect to the Contemplated Transactions;

(iii) a duly executed counterpart of the Transition Agreement;

(iv) a duly executed counterpart of the Assignment and Assumption;

(v) [Intentionally Omitted];

(vi) a duly executed counterpart of the Wartner Assignment;

(vi) [Intentionally Omitted]; and

(viii) other documents reasonably requested by Seller.

2.5 PURCHASE PRICE ALLOCATION

Buyer and Seller agree to allocate the Purchase Price (and all other capitalizable costs) among the Company's assets for federal, state and local Tax purposes in accordance with IRC Section 1060, as set forth on the allocation schedule attached as Schedule 2.5. Buyer and Seller agree to use such Allocation (the "Allocation") for all relevant federal, state, local or foreign Tax purposes, and to file timely one or more IRS Forms 8594 and any similar forms required under state or local law in accordance with the requirements of IRC Section 1060 (or such state or local law) and the Allocation. Neither Buyer nor Seller shall take any position, whether in a Tax audit, on a Tax Return or otherwise, that is inconsistent with the Allocation unless required to do so by applicable Legal Requirements.

3. REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Buyer as follows:

3.1 ORGANIZATION AND GOOD STANDING

(a) The Company is a private company with limited liability duly organized, validly existing and in good standing under the laws of the Netherlands, with full corporate power and authority to conduct its business as it is now being conducted, to own or use the properties and assets that it purports to own or use, and to perform all its obligations under the Contracts. The Company is duly qualified to do business as a foreign corporation and is in good standing under the laws of each state or other jurisdiction in which either the ownership or use of the properties owned or used by it, or the nature of the activities conducted by it, requires such qualification (each of which such states or jurisdictions is set forth in Schedule 3.1(a). The Company is not in violation of its Organizational Documents and no decision to amend the articles of association of the Company has been made.

(b) Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Iowa, with full corporate power and authority to conduct its business as it is now being conducted and to own or use the properties and assets that it purports to own or use. Seller is not in violation of its Organizational Documents.

3.2 AUTHORITY; NO CONFLICT

(a) This Agreement has been duly authorized, executed and delivered by Seller and the Company and constitutes the legal, valid, and binding obligation of Seller and the Company, enforceable against Seller and the Company in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally; and (ii) general principles of equity. Each of Seller and the Company has the absolute and unrestricted right, power, authority, and capacity to execute and deliver this Agreement and the Related Agreements to which it is a party and to perform its obligations under this Agreement and the Related Agreements to which it is a party.

(b) Except as set forth in Schedule 3.2(b), neither the execution and delivery of this Agreement nor the consummation or performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time):

(i) contravene, conflict with, or result in a violation of (A) any provision of the Organizational Documents of the Company or Seller, or (B) any resolution adopted by the board of directors or the shareholder(s) of the Company or Seller;

(ii) contravene, conflict with, or result in a violation of, or give any Governmental Authority or other Person the right to challenge any of the Contemplated Transactions or to exercise any remedy or obtain any relief under, any Legal Requirement or any Order to which the Company or Seller, or any of the business, properties and assets operated, owned or used by the Company or Seller, may be subject;

(iii) contravene, conflict with, or result in a violation of any of the terms or requirements of, or give any Governmental Authority the right to revoke, withdraw, suspend, cancel, terminate, or modify, any permit or governmental authorization that is held by the Company or Seller or that otherwise relates to the business of, or any of the assets owned or used by, the Company or Seller;

(iv) cause Buyer or the Company to become subject to, or to become liable for the payment of, any Tax;

(v) contravene, conflict with, or result in a violation or breach of any provision of, or give any Person the right to declare a default or exercise any remedy under, or to accelerate the maturity or performance of, or to cancel, terminate, or modify, any Contract related to the Company or its Business; or

(vi) result in the imposition or creation of any Encumbrance upon or with respect to the Shares or any of the assets owned or used by the Company.

Except as set forth in Schedule 3.2(b), neither Seller nor the Company is or will be required to give any notice to or obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions. Schedule 3.2(b) contains a complete and accurate list of all consents and notices needed in connection with this Agreement, the Related Agreements and the transactions contemplated herein and in the Related Agreements. The consents set forth in Schedule 3.2(b) have been obtained on or prior to the date hereof.

3.3 CAPITALIZATION; TITLE TO SHARES AND POWER TO CONVEY

(a) The authorized equity securities of the Company consist of 180 normal shares of capital stock with a nominal value of Euro 100 per share, of which 180 shares are issued and outstanding on the date hereof and are represented by the Shares. All of the issued and outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid-up in accordance with all requirements of applicable law and nonassessable and, except as set forth on Schedule 3.3(a), none of them are subject to or were issued in violation of pre-emptive rights, rights

of first offer or first refusal or similar rights, or in violation of the Securities Act or any other applicable securities law. On the date of this Agreement, there are no, and as of the Closing Date there will be no, outstanding subscriptions, options, warrants or other agreements or commitments or other rights of any kind to acquire (including securities exercisable or exchangeable for or convertible into), or obligating the Company to issue, any shares of capital stock of the Company, or giving any Person the right to receive any benefits or rights similar to any rights enjoyed by or accruing to the benefit of the holders of any shares of capital stock of the Company. The Company is not subject to any obligations (contingent or otherwise) to repurchase, redeem, call or otherwise retire, or to register, any shares of capital stock. On the date of this Agreement, the Shares owned by Seller collectively constitute, and on the Closing Date the Shares will constitute, all of the issued and outstanding shares of capital stock of the Company. There are no Contracts with respect to (i) voting of any shares of capital stock of the Company; or (ii) transfer of, or transfer restrictions on, any shares of capital stock of the Company. The Company does not own or have any Contract to acquire, any equity securities or other securities of any Person or any direct or indirect equity or ownership interest in any other entity or business.

(b) Seller is, and will be on the Closing Date, the sole record and beneficial owner of the Shares and, except as set forth on Schedule 3.3(b), has, and will have on the Closing Date, good title to the Shares free and clear of all Encumbrances of any nature whatsoever. All corporate formalities have been taken to grant Seller the full right and capability to sell and deliver the Shares as contemplated by this Agreement. Upon execution of the Deed of Transfer at the Closing in accordance with the first paragraph of Section 2.4, Buyer shall have acquired from Seller good, legal and equitable title to the Shares free and clear of all Encumbrances of any nature whatsoever, except as otherwise noted in Schedule 3.3(b).

3.4 FINANCIAL STATEMENTS

Seller has delivered to Buyer: (a) audited balance sheets of the Company as at December 31 in each of the years 2003, 2004 and 2005, and the related audited statements of income, changes in shareholders' equity, and cash flow for each of the fiscal years then ended (the “Annual Financial Statements”); and (b) an unaudited balance sheet of the Company as of August 31, 2006 and the related unaudited statements of income, changes in shareholders' equity, and cash flow for the eight months then ended (the “Interim Financial Statements;” together with the Annual Financial Statements, the “Financial Statements”). The Financial Statements (i) have been prepared in accordance with the books and records of the Company, (ii) have been prepared in accordance with GAAP, and (iii) fairly present the financial condition and the results of operations, changes in shareholders' equity, and cash flow of the Company as at the respective dates of and for the periods referred to in the Financial Statements, subject, in the case of the Interim Financial Statements, to normal recurring year-end adjustments (the effect of which will not, individually or in the aggregate, be material). Schedule 3.4 contains true, correct and complete copies of the Financial Statements.

3.5 BOOKS AND RECORDS

The minute books, stock record books, financial books and records, and other records of the Company and Seller with respect to the Business, all of which have been made available to Buyer, are complete and correct and have been maintained in accordance with sound business practices. At the Closing, all of those books and records will be in the possession of the Company or its agent.

3.6 TITLE TO PROPERTIES; ENCUMBRANCES

Schedule 3.6 contains a complete and accurate list of all fixed assets, leaseholds or other interests therein owned by the Company. The Company has good and valid right, title and interest in and to or, in the case of leased properties or properties held under license, good and valid leasehold or license interests, respectively, in all of its assets and properties, including, but not limited to, all of the machinery, equipment, terminals, computers, vehicles, and all other assets and properties (real, personal or mixed, tangible or intangible) reflected in the Annual Balance Sheet and the Interim Balance Sheet and all of the properties and assets purchased or otherwise acquired by the Company since the date of the Interim Balance Sheet (except for personal property sold since the date of the Interim Balance Sheet in the Ordinary Course of Business. All material properties and assets reflected in the Annual Balance Sheet and the Interim Balance Sheet, or acquired since the respective dates thereof, are free and clear of all Encumbrances. The properties and assets owned or leased by the Company are sufficient in all material respects for the conduct of the business of the Company as it is now conducted, and such properties and assets are in working order (reasonable wear and tear excepted).

3.7 ACCOUNTS RECEIVABLE

Except as set forth on Schedule 3.7, the Company shall have no accounts receivable on its books and records; provided, that, if there are any receivables in existence on the Closing Date, they shall be collected by the Company for the account of Buyer. Notwithstanding the generality of the foregoing, all accounts receivable of the Company reflected on the Annual Balance Sheet or the Interim Balance Sheet or on the accounting records of the Company as of the Closing Date (collectively, the “Accounts Receivable”) represent or will represent valid obligations arising from sales actually made or services actually performed in the Ordinary Course of Business and, to the Knowledge of Seller, are not subject to any defenses, set-offs or counterclaims, and subject only to reserves reflected on Schedule 3.7. Except as set forth on Schedule 3.7, all items which are required by GAAP to be reflected as Accounts Receivable on the Financial Statements and on the books and records of the Company are so reflected and have been recorded in accordance with GAAP. Since June 2003, the Company has not changed the period for determining when Accounts Receivable become uncollectible. Schedule 3.7 is a true and complete aged list of all the Accounts Receivable relating to the Company as of the day immediately prior to the date hereof, and except as set forth on Schedule 3.7, none of the Accounts Receivable included in the Financial Statements are owed by the Company's shareholders or relate to any employees or Affiliates of the Company. Schedule 3.7 sets forth a list of any and all Accounts Receivable from employees, shareholders and Affiliates of the Company, including, without limitation, all notes, loans, advances or other monies owed to the Company by any past or present employee.

3.8 INVENTORY

Except as set forth on Schedule 3.8, (i) Inventory shall be comprised of inventory consistent with the books and records of the Company and Seller (with respect to the Business); and (ii) the Company shall not be liable for any components for the Product provided by third-party suppliers. Notwithstanding the generality of the foregoing, any raw materials, work in process, spare parts, and other inventory of the Company and Seller (with respect to the Business) as set forth on the Financial Statements and Seller's financial statements, respectively, are in usable or salable condition in the Ordinary Course of Business at the amounts carried on such financial statements and on the books and records of the Company and Seller (with respect to the Business). The raw materials, work in process, spare parts, and other inventory are (a) not obsolete or excessive and are of at least the standard quality for such items; (b) suitable for the manufacture and distribution of the Products; (c) not in excess of the normal purchasing patterns of the Company and Seller (with respect to the Business); and (d) adequate to meet the Company's and Seller's expected shipping requirements. Except as set forth on Schedule 3.8, the amounts of the inventories reflected on the Financial Statements and Seller's financial statements and on the books and records of the Company and Seller (with respect to the Business) have been determined in accordance with GAAP.

3.9 TAXES

Except as set forth in Schedule 3.9:

(a) All Tax Returns required to be filed with any Governmental Authority by the Company or Seller or with respect to the Company's assets or the Business have been timely filed and were accurate and complete in all material respects. All Taxes due and payable by the Company or Seller or with respect to the Company's assets or the Business (whether or not shown on any Tax Return) have been timely paid in full. Neither the Company nor Seller is currently the beneficiary of or has applied for any extension of time within which to file any Tax Return. There are no Encumbrances with respect to Taxes on any of the Company's or Seller's assets, other than Encumbrances for Taxes not yet due and payable. No claim has ever been made by any Governmental Authority in a jurisdiction in which the Company or Seller does not file Tax Returns that the Company or Seller is or may be subject to Tax in that jurisdiction and, to the Knowledge of Seller, there is no basis on which a Governmental Authority could validly assert such a claim.

(b) Seller purchased the Shares on June 10, 2003 and timely made a valid election under IRC Section 338 with respect to such purchase. For United States Tax purposes, Seller treated such election as a liquidation of the Company into Seller pursuant to IRC Section 332. Such election did not result in the Company recognizing any income subject to federal, state or local Tax. The Company made a valid election to be treated as an entity disregarded from its owner (a "Disregarded Entity") for federal, state and local income and franchise Tax purposes pursuant to Treasury Regulation Section 301.7701-3 by filing IRS Form 8023 (the "Check-the-box Election") on March 10, 2004. The Check-the-box Election has been effective at all times since June 10, 2003 and will remain effective at all times through the Closing Date. For all federal, state and local income or franchise Tax purposes, Seller is deemed to own the Company's assets directly and to be engaged directly in the Business.

(c) The Company and Seller have withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, shareholder, partner, member or other third party, and have timely and properly

completed and filed any information returns or reports or other Tax Returns required with respect thereto.

(d) No dispute concerning any Tax liability of the Company or Seller (with respect to the Business) is pending or, to the Knowledge of Seller, threatened. No Tax proceedings by a Governmental Authority are pending or are being conducted with respect to the Company or Seller (with respect to the Business). With respect to Taxes for which the statute of limitations remains open, neither the Company nor Seller (with respect to the Business) has received from any foreign, federal, state or local Governmental Authority (i) any notice indicating an intent to open a Tax audit or other review, (ii) any request for information related to Tax matters, or (iii) any notice of deficiency or proposed adjustment for any amount of Tax proposed, asserted or assessed against the Company or Seller or with respect to the assets of the Company or the Business, in each case other than with respect to an audit, review or examination that has been completed and closed and with respect to which the Company or Seller has paid all Taxes asserted or assessed by the Governmental Authority. The Company has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency of a Tax.

(e) Schedule 3.9 of the Disclosure Schedule sets forth a complete and accurate list of all jurisdictions in which the Company or the Business is subject to Tax and of all Tax Returns filed by the Company with respect to the Company or the Business since the Company's formation on December 13, 2002. Seller has provided to Buyer correct and complete copies of all such Tax Returns and of all examination reports and statements of deficiencies assessed against or agreed to by the Company for all Tax periods as to which the statute of limitations remains open.

(f) Neither the Company nor Seller (with respect to the Company or its assets or the Business) has ever obtained from a Governmental Authority a ruling with respect to Taxes. There is no pending request by the Company or Seller (with respect to the Company or its assets or the Business) for a ruling by a Governmental Authority with respect to Taxes.

(g) The Company will not be required to include any item of income in, or exclude any item of deduction from, Taxable income for any Taxable period (or portion thereof) ending after the Closing Date as a result of any (i) change in method of accounting for a taxable period ending on or prior to the Closing Date (under IRC Section 481(c) or any corresponding or similar provision of state, local or foreign income Tax law); (ii) closing agreement with a Tax Authority; (iii) prior intercompany transactions, the income or gain on which was deferred and will become Taxable as a result of the purchase by Buyer of the Shares; (iv) installment sale made prior to the Closing Date; or (v) prepaid amount received on or prior to the Closing Date.

(h) The Company is not liable for any unpaid Taxes for any Taxable period beginning before the effective date of the Check-the-box Election.

(i) Neither Seller nor the Company has been a United States real property holding corporation within the meaning of IRC Section 897(c)(2) during the applicable period specified in IRC Section 897(c)(1)(A)(ii).

(j) Neither the Company nor Seller (with respect to the Company, its assets or the Business) has ever been required to make any material adjustment by the IRS pursuant to IRC

Section 482 or any similar adjustment by another Governmental Authority pursuant to any foreign Tax Law, and to the Knowledge of Seller, there is no valid basis on which the IRS or another Governmental Authority could make such an adjustment.

(k) Neither the Company nor Seller (with respect to the Company, its assets or the Business) is party to any Tax sharing agreement. Neither the Company nor Seller has any liability for Taxes of any other Person as a transferee or successor, by contract or otherwise.

3.10 EMPLOYEE BENEFITS

Since June 2003, the Company has had no employees other than the two management level employees set forth on Schedule 3.10. The one current employee of the Company, as of the Closing, will become an employee of Seller or one of its Affiliates and Seller will be responsible for all severance or other benefits, if any, which may be or become payable to such employee as a result of the termination of his employment with the Company. The Company does not now, nor has it ever, maintained any employee benefit plans subject to the provisions of ERISA, nor does the Company have, nor will it have, any obligation to make any contribution to an employee benefit plan maintained by another which is subject to ERISA with respect to periods prior to the Closing. The Company has provided for and timely paid any and all required employee benefits. The Company has at all times complied with all applicable Legal Requirements relating to employment and labor matters.

As of Closing the Company has no employees and no former employees to whom there is any residual debt, duty or obligation of any kind whatsoever. At Closing Seller will have delivered to Buyer releases in favor of the Company from all former employees in a form acceptable to Buyer.

3.11 LEGAL PROCEEDINGS; ORDERS

Except as set forth in Schedule 3.11, there is no pending Proceeding:

(a) that has been commenced by or against the Company or that otherwise relates to or may affect the Shares or the business of, or any of the assets owned or used by, the Company; or

(b) that challenges, or that may have the effect of preventing, delaying, making illegal, or otherwise interfering with, the consummation of the Contemplated Transactions.

To the Knowledge of Seller, (1) no such Proceeding has been threatened, and (2) no event has occurred or circumstance exists that may give rise to or serve as a basis for the commencement of any such Proceeding.

3.12 CONTRACTS; NO DEFAULTS

Schedule 3.12 contains a complete and accurate list, and Seller has made available or delivered to Buyer true and complete copies of, all Material Contracts relating to the Company, or its business, properties or assets including each licensing agreement or other Contract with respect to patents, trademarks, copyrights, or other intellectual property, including, without limitation, agreements with current or former employees, consultants, or contractors regarding the appropriation or the non-disclosure of any of the Business Intellectual Property.

For purposes of this Section 3.12, the term "Material Contract" will include, without limitation, (i) any employment or consulting agreement, (ii) any Contract restraining the Company from engaging or competing in any manner in any business, (iii) any Contract that may require expenditures by or generate receipts to the Company in excess of $10,000, (iv) any Contract relating to indebtedness, any guaranty, direct or indirect, of any obligation of another Person, (v) any settlement or conciliation with respect to any claim asserted by any Person, or (vi) any Contract between the Company and Seller or any Affiliates of Seller. The Company is not in breach of any Contract listed in Schedule 3.12. To the Knowledge of Seller, no other party to any Contract listed in Schedule 3.12 is in breach of or default under or in violation of any such Contract. Each Contract listed in Schedule 3.12 is in full force and effect and constitutes the valid and binding obligation of the parties thereto, enforceable against each of such parties in accordance with its terms. No event has occurred that (with or without notice or lapse of time) may result in a breach or default under or violation of any Contract listed in Schedule 3.12 or give any party to any such Contract the right to exercise a remedy, or accelerate the maturity or performance of, or terminate or modify, any such Contract.

Except as set forth in Schedule 3.12, (i) no consent of any Person is needed in order for a Material Contract to continue in full force and effect in accordance with its terms without penalty, acceleration, or rights of early termination by reason of the consummation of the transactions contemplated by this Agreement and the Related Agreements, and (ii) the Company has not received notice that it is in violation of, breach of, or default under any, or is in violation of, breach of, or default under any, Material Contract, nor to Knowledge of Seller is any other party to any such Material Contract in violation of, material breach of, or default under any such Material Contract.

With respect to any Material Contract, there are no pending claims (other than Accounts Receivable) by or against the Company, or, to the Knowledge of Seller, threatened claims by or against the Company arising out of or relating to any such Material Contract.

3.13 INSURANCE

Schedule 3.13 sets forth a true and complete list of all policies of insurance to which the Company is a party or under which the Company, or any properties, assets, director or officer of the Company, is or has been covered at any time within the three years preceding the date of this Agreement. All premiums with respect thereto are currently paid and, to the Knowledge of the Seller, the Company is in compliance in all material respects with the terms and conditions thereof. The Company has given timely notice to the appropriate insurance carrier with respect to any potential claims which may be covered by such insurance policies. Except as set forth in Schedule 3.13, (i) no dispute with any insurance carrier exists with respect to the scope of any insurance coverage, (ii) the Company has not received any refusal of coverage or any notice that a defense will be afforded with

reservation of rights, (iii) the Company has not received any notice of cancellation, termination or reduction in coverage or any other indication that any insurance policy is no longer in full force or effect or will not be renewed, and (iv) none of the insurance policies listed in Schedule 3.13 will terminate or lapse (or be affected in any other adverse manner) by reason of the consummation of the Contemplated Transactions.

3.14 ENVIRONMENTAL MATTERS

Except as set forth in Schedule 3.14, the Company is, and at all times has been, in full compliance with, and has not been and is not in violation of or liable under, any Environmental Law. Seller has no basis to expect any actual or threatened Proceeding, Order, notice, or other communication from (i) any Governmental Authority or private citizen acting in the public interest, or (ii) the current or prior owner or operator of any Facilities, of any actual or potential violation or failure to comply with any Environmental Law, or of any actual or threatened obligation to undertake or bear the cost of any Environmental liabilities with respect to any of the Facilities or any other properties or assets (whether real, personal, or mixed) in which Seller or the Company has had an interest, or with respect to any property or Facility at or to which Hazardous Materials were generated, manufactured, refined, transferred, imported, used, or processed by Seller, the Company, or any other Person for whose conduct they are or may be held responsible, or from which Hazardous Materials have been transported, treated, stored, handled, transferred, disposed, recycled, or received.

3.15 INTELLECTUAL PROPERTY

Schedule 3.15 lists each patent, utility model, industrial design, registered trademark, design mark, service mark and trade name, registered copyright and domain name, and each published application for any of the foregoing, domestic and foreign, that is necessary for the operation of the Business as presently conducted (collectively, the “Business Intellectual Property”). Except as set forth in Schedule 3.15: (a) the Company has, directly or indirectly, the entire right, title and interest in and to the Business Intellectual Property, free and clear of all Encumbrances; (b) there is no claim or notice of infringement of the intellectual property rights of any other Person pending or, to the Knowledge of Seller threatened against the Company; (c) the Business Intellectual Property of the Company is valid, subsisting, in full force and effect and has not been compromised, abandoned or passed into the public domain in any respect, and all necessary registration, maintenance and renewal documentation and fees in connection with the Business Intellectual Property have been timely filed with appropriate authorities and paid; (d) to the Knowledge of Seller, no Person is infringing on or misappropriating any Business Intellectual Property; (e) to the Knowledge of Seller, the operation of the Business does not infringe or misappropriate the intellectual property rights of any other Person; (f) no present or former employee of the Company or Seller has any proprietary, financial or other interest, direct or indirect, in any Business Intellectual Property; and (g) the Company has taken commercially reasonable precautions to protect inventions, trade secrets and know how constituting Business Intellectual Property, including the execution of appropriate agreements. U.S. Patent No. 6,296,410 (Ruizendaal) (“U.S. Patent”) listed in Schedule 3.15 is acknowledged to be an essential asset of the Company in “as issued” form. There has been no material impairment or determination of invalidity of the U.S. Patent.

3.16 BROKERS OR FINDERS

Except for the investment banking fees of Sawaya Segalas & Co., LLC set forth on Schedule 3.16, Seller, the Company and their officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders fees or agents commissions or other similar payment in connection with this Agreement and will indemnify, defend and hold Buyer harmless from any such payment alleged to be due by or though Seller or the Company as a result of any action of Seller, the Company or any of their officers or agents in connection with this Agreement.

3.17 OFFICERS AND DIRECTORS; BANK ACCOUNTS

Schedule 3.17 lists (i) all officers and directors of the Company, (ii) all Persons holding a power of attorney, or appointment of general agency, executed by or on behalf of the Company (and a brief summary of any such power or appointment), and (iii) all banks in which the Company has an account or safe deposit or lock box, the account or box number, and the name of every person authorized to draw thereon or having access thereto.

3.18 PRODUCT WARRANTY; ADVERTISING

All Products sold or delivered by the Company since June 2003 have been in conformity in all material respects with all applicable contractual commitments and all express and implied warranties, and the Company has no liability (and, to Seller's Knowledge, there is no reasonable basis for any present or future action, suit, proceeding, charge, complaint, claim or demand against it giving rise to any such liability) for replacement or other damages in connection therewith, except for any such liability that has not had or would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect. Except as set forth in Schedule 3.18, no product or Product sold or delivered by the Company is subject to any guaranty, warranty or other indemnity beyond the applicable standard terms and conditions of sale of the Company which are attached hereto in Schedule 3.18.

3.19 PRODUCT LIABILITY

Except as set forth in Schedule 3.19, neither Seller nor the Company has been notified in writing of any claims (and neither Seller nor the Company has any Knowledge of any threatened claims) arising out of any injury to individuals or property as a result of the ownership, possession or use of any products or Products sold or delivered by the Company.

There has been no, and to Seller's Knowledge, there exists no reasonably likely basis for (i) withdrawal or suspension of any approval or consent of any Governmental Authority with respect to any Product distributed or sold by the Company, or (ii) recall, withdrawal, seizure or suspension by order of any Governmental Authority of any Product. There are no defects in the designs, specifications, or processes developed and/or owned by the Company with respect to any Product sold or otherwise distributed by the Company that will give rise to any liabilities, damages, fines, assessments, losses, penalties, or expenses, and to the Company's Knowledge, there are no such defects in the designs, specifications, or processes developed and/or owned by others and used by the Company with respect to any such Product sold or otherwise distributed.

3.20 TRADE AND MARKETING PROGRAMS

Schedule 3.20 lists all existing programs, practices or arrangements that relate to trade discounts, trade promotions, marketing, promotional sales or coupons related to any products or Products sold by the Company.

3.21 PRODUCT FORMULA, PROCESSING DETAILS AND KNOW-HOW

The Company has, and will have following the Closing, possession of, and the full right to use and exploit, all product formulae, processing details, know-how and Business Intellectual Property applicable to its products, including those products that have been, or are currently being, developed by any third party manufacturers.

3.22 REAL PROPERTY

Except as disclosed in Schedule 3.22, the Company does not now, nor has it ever, owned or leased any real property. As of Closing, the Company has no leasehold or leasehold termination obligations of any kind whatsoever.

3.23 NO UNDISCLOSED LIABILITIES

Except as set forth in Schedule 3.23 or reflected in the Annual Financial Statements or the Interim Financial Statements, the Company has no liabilities or obligations of any nature (whether absolute, accrued, contingent, matured or otherwise, and whether due or to become due) except liabilities or obligations arising in the Ordinary Course of Business since the respective dates thereof.

3.24 COMPLIANCE WITH LAWS

Except as set forth in Schedule 3.24:

(i) the Company has conducted its business in compliance in all respects with all applicable Legal Requirements;

(ii) the Company has all licenses, certificates of occupancy, permits and other authorizations of all Governmental Authorities ("Permits") required for the operation of the Business, and all such Permits are valid and in full force and effect;

(iii) no event has occurred, and to Seller's Knowledge, no event is expected that (with or without notice or lapse of time) (A) may constitute or result in a violation by the Company of, or a failure by the Company to comply with, any Legal Requirement or the terms and conditions of any Permit; or (B) may give rise to any obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature; and

(iv) the Company has not received, and to Seller's Knowledge, the Company does not expect to receive any oral or written notice or other communication from any Governmental Authority regarding any actual, alleged or potential (A) violation of or failure to comply with any Legal Requirement, or the terms and conditions of any Permit, by the

Company, or (B) obligation on the part of the Company to undertake, or to bear all or any portion of the cost of, any remedial action of any nature.

3.25 CONSENTS

Except as set forth in Schedule 3.25, no Consent of, and no notice to or filing or registration with, any Governmental Authority, domestic or foreign, is required in connection with the execution, delivery and performance of this Agreement, the Related Agreements and the transactions contemplated herein and therein by Seller or the Company. Except as set forth in Schedule 3.25, no Consent of, or notice to, any other Person, including without limitation, parties to loans, Contracts or other agreements, is required in connection with the execution, delivery and performance of this Agreement, the Related Agreements and the transactions contemplated herein and therein by Seller or the Company.

3.26 FDA

All inventories of finished goods in existence on the Closing Date will have been manufactured in accordance with good manufacturing practices, as defined by the FDA Act. None of such finished goods inventories will be adulterated or misbranded within the meaning of the FDA Act.

3.27 AFFILIATE TRANSACTIONS

Schedule 3.27 contains a complete and correct list of all Contracts or commitments, and of all transfers of assets, assumptions of liabilities or other transactions, whether or not entered into in the Ordinary Course of Business, to or by which the Company, on the one hand, and Seller or any shareholder, director, officer or employee of the Company or Seller, or any family member, relative or Affiliate of any such shareholder, director, officer or employee, on the other hand, is or has been a party or otherwise bound or affected, and that (i) are currently in effect or pending; or (ii) involve continuing liabilities or obligations. Except as set forth in Schedule 3.27, to the Knowledge of Seller, no shareholder, director, officer, or employee of the Company, or any family member, relative or Affiliate of any such shareholder, director, officer, or employee: (i) owns, directly or indirectly, and whether on an individual, joint or other basis, any interest in (A) any property or asset used in or held for use by the Company in connection with the Business; or (B) any Person that is a supplier, provider, customer or competitor of the Company; (ii) serves as a director, officer or employee of any Person that is a supplier, provider, customer or competitor of the Company; or (iii) has received any loans or is otherwise a debtor of, or made any loans to or is otherwise a creditor of, the Company.

3.28 PROVIDERS AND SUPPLIERS

Except as set forth in Schedule 3.28, no provider or supplier of the Company has cancelled or otherwise terminated, or made any written or oral threat to the Company to cancel or terminate, its relationship with the Company, or has at any time since December 31, 2005 decreased or threatened to decrease materially its services or supplies to the Company.

3.29 PAYMENTS

Neither the Company, nor any director, officer, managing director (or functional equivalents of the foregoing), equityholder, employee, Affiliate, agent or other Person associated with or acting on behalf of the Company, has used any funds of the Company for any unlawful contribution, gift, entertainment or expense relating to political activity, or made any direct or indirect unlawful payments to any foreign or domestic official or employee of any Governmental Authority from funds of the Company, or made any unlawful rebate or kickback or other unlawful payment.

3.30 CONTROLS AND PROCEDURES

The Company maintains accurate and complete books and records reflecting its assets and liabilities and maintains proper and adequate internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are recorded only in accordance with management's authorization, (ii) transactions are recorded as necessary to permit preparation of the financial statements of the Company in accordance with GAAP and to maintain accountability for the assets and liabilities of the Company, (iii) receipts and expenditures of the Company are executed only in accordance with management's authorization, (iv) unauthorized acquisition, disposition or use of assets is prevented or timely detected, and (v) accounts, notes and other receivables are recorded accurately, and proper and adequate procedures are implemented to effect the collection thereof on a current and timely basis. There are no material weaknesses in the design or operation of such internal accounting controls that could adversely affect the Company's ability to initiate, record, process and report financial data.

3.31 FULL DISCLOSURE

No representation or warranty by Seller in this Agreement or in any certificate furnished or to be furnished by the Company or Seller pursuant to this Agreement or the Related Agreements contains or will contain any untrue statement of a material fact, or omits or will omit to state a material fact required to be stated herein or therein or necessary to make the statements contained herein or therein, in light of the circumstances under which they are made, not misleading.

3.32 RELIANCE

The representations and warranties made by Seller in this Agreement, the Schedules and Annexes attached hereto and the Related Agreements are made by Seller with the knowledge and expectation that Buyer is placing complete reliance thereon in entering into, and performing its obligations under, the Agreement and the Related Agreements and the same shall not be affected in any respect whatsoever by any investigation conducted by or on behalf of Buyer, whether in contemplation of or pursuant to this Agreement, the Related Agreements or otherwise.

3.33 COMPANY TRANSACTION EXPENSES

Schedule 3.33 sets forth a complete and accurate list of all Company Transaction Expenses incurred or accrued by the Company through and including the Closing Date.

3.34 EVENTS SUBSEQUENT TO MOST RECENT FISCAL YEAR END

Since December 31, 2005, nothing has occurred that, individually or in the aggregate, has, or is reasonably likely to have, a Material Averse Effect.

3.35 CONDUCT OF BUSINESS

Except for the transfer and sale of certain Inventory by Seller to the Company in connection with the Closing of this transaction, since December 31, 2005, the Company has conducted the Business only in the Ordinary Course of Business.

3.36 DIVESTITURE AGREEMENTS

Other than the Share Sale Agreement, the Company is not a party to any Divestiture Agreement that remains in full force and effect in any respect on or after the Closing Date.

3.37 ACCOUNTS AND NOTES PAYABLE

Except as set forth on Schedule 3.37, the Company shall have no accounts payable on its books and records. Notwithstanding the generality of the foregoing, Schedule 3.37 sets forth a true and correct aged list of all accounts and notes payable of the Company as of the date immediately preceding the Closing Date. All accounts and notes payable have arisen in the Ordinary Course of Business and represent valid indebtedness of the Company, for the exclusive benefit of the Company. Except as set forth on Schedule 3.37, all items which are required by GAAP to be reflected as accounts and notes payable on the Financial Statements and on the books and records of the Company are so reflected and have been recorded in accordance with GAAP. The Company does not have any accounts payable to any of its directors, officers, employees, shareholders or any other Affiliates of the Company.

3.38 NO LEASED OR OWNED CAR EXPENSE

As of Closing, the Company has no debt, contract or other obligation with respect to the lease, rental or ownership of any car, truck or other motor vehicle.

4. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

4.1 ORGANIZATION AND GOOD STANDING

Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the State of Delaware, with full corporate power and authority to conduct its business as it is now being conducted and to own or use the properties and assets that it purports to own or use.

4.2 AUTHORITY; NO CONFLICT

(a) This Agreement has been duly authorized, executed and delivered by Buyer and constitutes the legal, valid, and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, subject to (i) bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally; and (ii) general principles of equity. Buyer has the absolute and unrestricted right, power, and authority to execute and deliver this Agreement and the Related Agreements to which it is a party and to perform its obligations hereunder and thereunder.

(b) Neither the execution and delivery of this Agreement by Buyer nor the consummation or performance of any of the Contemplated Transactions by Buyer will give any Person the right to prevent, delay, or otherwise interfere with any of the Contemplated Transactions pursuant to:

(i) any provision of Buyer's Organizational Documents;

(ii) any resolution adopted by the board of directors or the shareholders of Buyer;

(iii) any Legal Requirement or Order to which Buyer may be subject; or

(iv) any Contract to which Buyer is a party or by which Buyer may be bound.

Except for the consent of the board of directors of Buyer, which consent has been granted, Buyer is not and will not be required to obtain any Consent from any Person in connection with the execution and delivery of this Agreement or the consummation or performance of any of the Contemplated Transactions.

4.3 CERTAIN PROCEEDINGS

There is no pending Proceeding that has been commenced against Buyer and that challenges, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, any of the Contemplated Transactions. To Buyer's Knowledge, no such Proceeding has been threatened.

4.4 BROKERS OR FINDERS

Buyer and its officers and agents have incurred no obligation or liability, contingent or otherwise, for brokerage or finders' fees or agents' commissions or other similar payment in connection with this Agreement and will indemnify and hold Seller harmless from any such payment alleged to be due by or through Buyer as a result of the action of Buyer or its officers or agents.

4.5 ACCREDITED INVESTOR

Buyer is an "Accredited Investor" within the meaning of Rule 501 of Regulation D promulgated under the Securities Act.

4.6 EXPERIENCE; PURCHASE FOR OWN ACCOUNT

Buyer has sufficient knowledge and experience in investing in companies similar to the Company so as to be able to evaluate the risks and merits of its investment in the Company, and it is able financially to bear the risks thereof. The Shares are being acquired for Buyer's own account for the purpose of investment and not with a view to or for sale in connection with any distribution thereof.

4.7 ACCESS TO INFORMATION

Buyer has had an opportunity to discuss the Company's business, management and financial affairs with the Company's management and the conditions of the sale of the Shares.

4.8 NO PUBLIC MARKET; RESTRICTED SHARES

Buyer understands that (i) the Shares have not been registered under the Securities Act, and (ii) the Shares must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act or is exempt from such registration requirement.

5. COVENANTS OF SELLER

5.1 ACCESS AND INVESTIGATION

Prior to the Closing Date, Seller shall have caused the Company to (a) afford Buyer and its representatives and prospective lenders and their representatives (collectively, “Buyer's Advisors”) full access to the Company's personnel, contracts, books and records, and other documents and data, (b) furnish Buyer and Buyer's Advisors with copies of all such contracts, books and records, and other existing documents and data as Buyer may reasonably request, and (c) furnish Buyer and Buyer's Advisors with such additional financial, operating, and other data and information as Buyer may reasonably request.

5.2 OPERATION OF THE BUSINESS OF THE COMPANY

(a) Prior to the Closing Date, Seller shall have caused the Company to conduct the business of the Company only in the Ordinary Course of Business consistent with past practice, use its best efforts to preserve intact the current business organization of the Company and maintain the relations and goodwill with suppliers, customers, creditors, agents, and others having business relationships with the Company; provided, however, notwithstanding any other provisions in this Agreement, prior to Closing the following shall occur:

(i) The Company shall assign any and all rights it has in and to the tradename, fictitious name or d/b/a “Lil' Drug Store International,” or any similar name, to Seller;

(ii) The Company may distribute or dividend to Seller the Company's cash and accounts receivable due from Seller and Aurium Pharma Inc.; provided that

the Company shall retain in its bank accounts sufficient cash to satisfy all checks outstanding as of the Closing; and

(iii) The Company shall have assigned certain intangible properties of the Company unrelated to the Products to Seller or an affiliate of Seller.

5.3NON-COMPETITION; NON-SOLICITATION; NON-DISPARAGEMENT

For purposes of this Section 5.3, all references to Buyer shall be deemed to include all of the Affiliates, successors and assigns of Buyer, and all references to Seller and the Shareholders shall be deemed to include all of their Affiliates, successors, assigns, heirs, and personal and legal representatives of Seller or the Shareholders, as applicable.

(a) Seller and the Shareholders acknowledge that the agreements and covenants contained in this Section 5.3 are essential to protect the value of the Business being acquired by Buyer or any of its Affiliates. Therefore, Seller and the Shareholders agree that during the period commencing on the Closing Date and ending on the fifth ($5^{th}$) anniversary of the Closing Date (such period is hereinafter referred to as the "Restricted Period"), neither Seller nor the Shareholders shall, anywhere in the United States of America or any of the countries in which Seller has engaged in the Business on or prior to the Closing Date or Buyer has engaged in business on or prior to the Closing Date, participate or engage, for themselves, through or on behalf of or in conjunction with any Person, whether as an agent, consultant, shareholder, director, officer, employee, member, manager, partner, joint venturer, creditor, investor or in any other capacity, in the Non-Compete Activities (as defined below); provided, however, that the foregoing shall not prohibit (i) the ownership by Seller or the Shareholders of equity securities of a public company in an amount not to exceed 2% of the issued and outstanding shares of such company; and (ii) the commercialization by Seller and/or the Shareholders of products directly related to hemorrhoid care or other cryogenic devices to treat hemorrhoids. For purposes of this Agreement, the "Non-Compete Activities" means the Business directly related to wart care or other cryogenic devices to treat benign skin lesions, i.e., warts and skin tags.

(b) During such Restricted Period, each of Seller and the Shareholders agrees that it will not at any time or for any reason (i) solicit or divert any business or clients or customers away from Buyer or any of its Affiliates; (ii) induce any customers, clients, suppliers, agents or other Persons under contract or otherwise associated or doing business with Buyer or any of its Affiliates, to reduce or alter any such association or business with Buyer or any of its Affiliates; (iii) hire any Person employed by Buyer or any of its Affiliates or any Person who has left the employ of Buyer or any of its Affiliates during the preceding five (5) years; and (iv) solicit any person in the employment of Buyer or any of its Affiliates to (A) terminate such employment, and/or (B) accept employment, or enter into any consulting arrangement, with any Person other than Buyer or any of its Affiliates.

(c) (i) Seller and the Shareholders agree not to make or cause to be made, directly or indirectly, any disparaging or derogatory statements concerning Buyer or any of its Affiliates or their respective businesses, services, reputations, or prospects, or its past or present officers, directors, employees, attorneys, and agents. Seller and the Shareholders further agree not to intentionally do or say anything to damage any of the business, supplier, or customer relationships of Buyer or any of

its Affiliates nor in any way, directly or indirectly, assist any Person in inducing or otherwise counseling, advising, encouraging, or soliciting any Person to terminate or in any way diminish its relationship with Buyer or any of its Affiliates.

(ii) Buyer agrees not to make or cause to be made, directly or indirectly, any disparaging or derogatory statements concerning Seller or any of its Affiliates, or their respective businesses, services, reputations, or prospects, or Seller's past or present officers, directors, employees, attorneys, and agents. Buyer further agrees not to intentionally do or say anything to damage any of the business, supplier, or customer relationships of Seller or any of its Affiliates nor in any way, directly or indirectly, assist any Person in inducing or otherwise counseling, advising, encouraging, or soliciting any Person to terminate or in any way diminish its relationship with Seller or any of its Affiliates.

(d) Seller, the Shareholders and their Affiliates shall not at any time, directly or indirectly, use or purport to authorize any Person to use any name, mark, copyright, logo, trade dress or other identifying words or images which are the same as or similar to those used currently or in the past by Buyer, Seller, the Shareholders or their Affiliates in connection with any product or service in connection with the Business. In addition, Seller, the Shareholders and their Affiliates shall not at any time, directly or indirectly, challenge, or cooperate with any third-party challenging or desiring to challenge, any of the Business Intellectual Property; nor shall Seller, the Shareholders and their Affiliates threaten to take any of such actions. Seller and the Shareholders acknowledge that compliance with the restrictions set forth in this Section 5.3 will not prevent any of them from earning a livelihood.

5.4 GENERAL CONFIDENTIALITY

For purposes of this Section 5.4, all references to Seller and the Shareholders shall be deemed to include all of their Affiliates, successors, assigns, heirs and personal and legal representatives of Seller or the Shareholders, as applicable. Seller and the Shareholders acknowledge that the intangible property and all other confidential or proprietary information with respect to the business and operations of the Business are, after the Closing Date, valuable, special and unique assets of Buyer. Seller and the Shareholders shall not, at any time after the Closing Date, disclose, directly or indirectly, to any Person, or use or purport to authorize any Person to use any confidential or proprietary information with respect to the Business, whether or not for their own benefit, without the prior written consent of Buyer unless required by law, including, without limitation, (i) trade secrets, designs, formulae, drawings, intangible property, diagrams, techniques, research and development, specifications, data, know-how, formats, marketing plans, business plans, budgets, strategies, forecasts and client data; (ii) information relating to products, (iii) the names of customers and contacts, the marketing strategies, the names of its vendors and suppliers, the cost of materials and labor, the prices obtained for services sold (including the methods used in price determination, manufacturing and sales costs), lists or other written records used in the Business, compensation paid to employees and consultants and other terms of employment, production operation techniques or any other confidential information of, about or pertaining to the Business, and any other information and material relating to any customer, vendor, licensor, licensee, or other party in connection with the Business, (iv) all tangible material that embodies any confidential and proprietary information as well as all records, files, memoranda, reports, price lists, drawings, plans, sketches and other written and graphic records, documents, equipment, and the like, and (v) any

other confidential information or trade secrets which Seller or the Shareholders may acquire or develop in connection with or as a result of the performance of the terms and conditions of this Agreement, excepting only such information as is already known to the public or which may become known to the public without any fault of Seller or the Shareholder in violation of any confidentiality restrictions. Seller and the Shareholders acknowledge that Buyer would not enter into this Agreement without the assurance that all such confidential and proprietary information will be used for the exclusive benefit of Buyer.

5.5 CONTINUING OBLIGATIONS; EQUITABLE REMEDIES

The restrictions set forth in Sections 5.3 and 5.4 are considered by the parties to be reasonable for the purposes of protecting the value of the Business and goodwill of Buyer. Buyer, Seller, and the Shareholders acknowledge that Buyer would be irreparably harmed and that monetary damages would not provide an adequate remedy to Buyer in the event the covenants contained in Sections 5.3 and 5.4 were not complied with in accordance with their terms. Accordingly, Seller and the Shareholders agree that any breach or threatened breach by any of them of any provision of Sections 5.3 or 5.4 shall entitle Buyer to injunctive and other equitable relief to secure the enforcement of these provisions, in addition to any other remedies (including damages) which may be available to Buyer. If Seller, the Shareholders or any of their Affiliates breaches the covenant set forth in Section 5.3, the running of the non-compete period described therein shall be tolled for so long as such breach continues. It is the desire and intent of the parties that the provisions of Sections 5.3, and 5.4 be enforced to the fullest extent permissible under the Legal Requirements and public policies of each jurisdiction in which enforcement is sought. If any provisions of Section 5.3 relating to the time period, scope of activities or geographic area of restrictions is declared by a court of competent jurisdiction to exceed the maximum permissible time period, scope of activities or geographic area, as the case may be, the time period, scope of activities or geographic area shall be reduced to the maximum which such court deems enforceable. If any provisions of Section 5.3 or 5.4 other than those described in the preceding sentence are adjudicated to be invalid or unenforceable, the invalid or unenforceable provisions shall be deemed amended (with respect only to the jurisdiction in which such adjudication is made) in such manner as to render them enforceable and to effectuate as nearly as possible the original intentions and agreement of the parties. In addition, if any party brings an action to enforce Sections 5.3 or 5.4 hereof or to obtain damages for a breach thereof, the prevailing party in such action shall be entitled to recover from the non-prevailing party all attorney’s fees and expenses incurred by the prevailing party in such action.

6. CONDITIONS PRECEDENT TO BUYER'S OBLIGATION TO CLOSE

Buyer's obligation to purchase the Shares and to take the other actions required to be taken by Buyer at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Buyer, in whole or in part, in its sole discretion):

6.1 ACCURACY OF REPRESENTATIONS

The representations and warranties of Seller contained in this Agreement and any of the Related Agreements to which it is a party shall be true and correct in all material respects (except for such representations and warranties as are qualified by materiality or Material Adverse Effect, which representations and warranties shall be true and correct in all respects), on the Closing Date (other

than such representations and warranties that are expressly made as of an earlier date which need only be true and correct in all material respects or true and correct, as the case may be, as of such earlier date).

6.2 SELLER'S PERFORMANCE

(a) All of the covenants and obligations that Seller or the Company is required to perform or to comply with pursuant to this Agreement at or prior to the Closing must have been duly performed and complied with in all material respects.

(b) Each document required to be delivered pursuant to Section 2.4(a) must have been delivered to Buyer.

6.3 NO PROCEEDINGS

There must not have been commenced or threatened against Buyer, or against any Person affiliated with Buyer, any Proceeding (a) involving any challenge to, or seeking damages or other relief in connection with, any of the Contemplated Transactions, or (b) that may have the effect of preventing, delaying, making illegal, or otherwise interfering with any of the Contemplated Transactions.

6.4 NO CLAIM REGARDING STOCK OWNERSHIP OR SALE PROCEEDS

There must not have been made or threatened by any Person any claim asserting that such Person (a) is the holder or the beneficial owner of, or has the right to acquire or to obtain beneficial ownership of, any stock of, or any other voting, equity, or ownership interest in, the Company, or (b) is entitled to all or any portion of the Purchase Price payable for the Shares in accordance with Section 2.2 hereof.

6.5 NO PROHIBITION

Neither the consummation nor the performance of any of the Contemplated Transactions will, directly or indirectly (with or without notice or lapse of time), contravene, or conflict with, or result in a material violation of, or cause Buyer or any Person affiliated with Buyer to suffer any material adverse consequence under, (a) any applicable Legal Requirement or Order, or (b) any Legal Requirement or Order that has been published, introduced, or otherwise formally proposed by or before any governmental body.

6.6 PERMITS

The Company shall have received or been granted, or otherwise have in effect as of the Closing, all Permits and other Consents, approvals and authorizations of any Governmental Authority listed on Schedule 6.6 hereto or otherwise required for the operation of the Business in all material respects.

6.7 CONSENTS

All of the Consents, approvals and waivers listed in Schedule 6.7 hereto shall have been obtained.

6.8 CLOSING PAPERS

Seller and the Company shall have executed and delivered to Buyer all of the other closing documents, instruments and certificates reasonably requested by Buyer and its counsel, pursuant to any term or provision of this Agreement.

6.9 NO MATERIAL ADVERSE CHANGE

No event, occurrence, fact, condition, change, development or effect shall exist or shall have occurred that, individually or in the aggregate, has had, or would reasonably be expected to have, a Material Adverse Effect, and Buyer shall have received a certificate signed by the Chief Executive Officer of Seller to that effect.

6.10 EVIDENCE OF TRANSFER OF SHARES

Seller shall have delivered to Buyer evidence reasonably satisfactory to Buyer and its counsel that all actions necessary under the Organizational Documents of the Company and the laws of the Netherlands to transfer the record and beneficial ownership of all of the Shares of capital stock of the Company to Buyer have been taken including, without limitation, the execution and delivery of the Deed of Transfer.

6.11 OFFICER'S CERTIFICATE WITH RESPECT TO THE SELLER AND THE COMPANY

Buyer shall have received certificates in a form reasonably acceptable to Buyer, dated the Closing Date, executed by an executive officer of each of Seller and the Company, as applicable, certifying as of the Closing Date (i) a true and complete copy of the certificate of incorporation and bylaws of Seller and the Company on the Closing Date; (ii) the resolutions adopted by the Board of Directors with respect to the approval of this Agreement and the Related Agreements to which it is a party and the transactions contemplated hereby and thereby; and (iii) that the original minute books of the Company as delivered to Buyer or its agent on the Closing Date contains (a) all material written minutes or consents of material meetings and actions of the equityholders or Board of Directors of the Company in the possession of Seller or the Company, and (b) the other organizational documents of the Company.

6.12 SELLER CLOSING CERTIFICATE

Buyer shall have received a certificate, dated the Closing Date, executed by Seller, certifying that, as of the Closing Date, the conditions set forth in Sections 6.1 and 6.2 have been satisfied.

6.13 GOOD STANDING CERTIFICATES

Buyer shall have received from Seller a certificate issued by the appropriate Governmental Authority of the jurisdiction of incorporation of each of Seller and the Company, certifying as of a date within thirty (30) days of the Closing Date, the good standing of each of Seller and the Company, and the Certificate of Incorporation of Seller and the articles of association of the Company.

6.14 RESIGNATIONS; RELEASES

Buyer shall have received (i) the resignations, effective contemporaneously with the Closing, of each director and officer of the Company in a form satisfactory to Buyer; and (ii) written releases from Seller, the Shareholders and all of the former employees of the Company in substantially the form attached hereto as Exhibit G.

6.15 PAYOFF LETTERS; LIEN RELEASES

Except as set forth in Schedule 6.15, Buyer shall have received payoff letters and/or lien releases, as applicable, in a form satisfactory to Buyer, with respect to the payoff amounts under the Company's outstanding loan facilities or any other arrangement pursuant to which a lien has been filed against the Company. The payoff letters shall indicate that the Encumbrances relating to such debt or other arrangements shall be discharged contemporaneously with the Closing.

6.16 RELATED AGREEMENTS

Seller and the Company shall have executed and delivered each of the Related Agreements to which they are parties and such agreements and instruments shall be in full force and effect.

6.17 BOOKS AND RECORDS

Counsel to Buyer, or Buyer's agent, shall have received the stock book, stock certificates, stock ledger, minute books, corporate seal and all other corporate books and records of the Company and any other books and records related to the Business in the possession of Seller.

6.18 UPC AND PACKAGING AUTHORIZATION

Seller shall deliver a letter authorizing the use by Buyer and its Affiliates of Seller's existing UPC codes and packaging for the Product for a period of eighteen (18) months after the Closing Date.

7. CONDITIONS PRECEDENT TO SELLER'S OBLIGATION TO CLOSE

Seller's obligation to sell the Shares and to take the other actions required to be taken by Seller at the Closing is subject to the satisfaction, at or prior to the Closing, of each of the following conditions (any of which may be waived by Seller, in whole or in part, in its sole discretion):

7.1 ACCURACY OF REPRESENTATIONS

The representations and warranties of Buyer contained in this Agreement and any of the Related Agreements to which it is a party shall be true and correct in all material respects (except for such representations and warranties as are qualified by materiality, which representations and warranties shall be true and correct in all respects), on the Closing Date (other than such representations and warranties that are expressly made as of an earlier date which need only be true and correct in all material respects or true and correct, as the case may be, as of such earlier date).

7.2 BUYER'S PERFORMANCE

(a) All of the covenants and obligations that Buyer is required to perform or to comply with pursuant to this Agreement at or prior to the Closing must have been performed and complied with in all material respects.

(b) Each document required to be delivered by Buyer pursuant to Section 2.4(b) must have been delivered to Seller and Buyer and must have made the cash payment required to be made by Buyer pursuant to Section 2.4(b)(i).

7.3 NO INJUNCTION

There must not be in effect any Legal Requirement or any injunction or other Order that (a) prohibits the sale of the Shares by Seller to Buyer, and (b) has been adopted or issued, or has otherwise become effective, since the date of this Agreement.

7.4 CLOSING PAPERS

Buyer shall have executed and delivered to Seller all of the other closing documents, instruments and certificates reasonably requested by Seller and its counsel, pursuant to any term or provision of this Agreement.

7.5 RESOLUTIONS

Buyer shall have delivered to Seller a copy, certified by the Secretary or Assistant Secretary of Buyer, of resolutions adopted by the Board of Directors of Buyer approving the Agreement, the Related Agreements to which it is a party and the Contemplated Transactions.

7.6 BUYER CLOSING CERTIFICATE

Seller shall have received a certificate, dated the Closing Date, executed by Buyer, certifying that, as of the Closing Date, the conditions set forth in Sections 7.1 and 7.2 have been satisfied.

7.7 GOOD STANDING CERTIFICATE

Seller shall have received from Buyer a certificate issued by the Secretary of State of Delaware certifying as of a date within thirty (30) days of the Closing Date, the good standing of Buyer.

8. TERMINATION

8.1 TERMINATION EVENTS

This Agreement may, by notice given prior to or at the Closing, be terminated:

(a) by either Buyer or Seller if a material breach of any provision of this Agreement has been committed by the other party and such breach has not been waived; provided that the non-

breaching party has provided the breaching party with a thirty (30) day period in which to cure such breach and such breach has not been cured.

(b) (i) by Buyer if any of the conditions in Section 6 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Buyer to comply with its obligations under this Agreement) and Buyer has not waived such condition on or before the Closing Date; or (ii) by Seller, if any of the conditions in Section 7 has not been satisfied as of the Closing Date or if satisfaction of such a condition is or becomes impossible (other than through the failure of Seller or the Company to comply with its obligations under this Agreement) and Seller has not waived such condition on or before the Closing Date;

(c) by mutual written consent of Buyer and Seller; or

(d) by either Buyer or Seller if the Closing has not occurred (other than through the failure of any party seeking to terminate this Agreement to comply fully with its obligations under this Agreement) on or before September 22, 2006, or such later date as the parties may agree upon.

8.2 EFFECT OF TERMINATION

Each party's right of termination under Section 8.1 is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 8.1, all further obligations of the parties under this Agreement will terminate, except that Sections 8.2, 12.1, 12.4 and 12.7 will survive; provided, however, that if this Agreement is terminated by a party because of the breach of this Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement are not satisfied as a result of the other party's failure to comply with its obligation under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired.

9. INDEMNIFICATION; REMEDIES

9.1 RIGHT TO INDEMNIFICATION NOT AFFECTED BY KNOWLEDGE

The right to indemnification, payment of Damages or other remedy based on such representations, warranties, covenants, and obligations will not be affected by any investigation conducted with respect to, or any Knowledge acquired (or capable of being acquired) at any time by the Person claiming such right of indemnification, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant, or obligation. The waiver of any conditions to Closing will not affect the right to indemnification, payment of Damages, or other remedy based on such representations, warranties, covenants, and obligations.

9.2 INDEMNIFICATION AND PAYMENT OF DAMAGES BY SELLER

Seller will indemnify and hold harmless Buyer, the Company, and their respective Representatives, shareholders, controlling persons, and Affiliates (collectively, the “Indemnified Persons”) for, and will pay to the Indemnified Persons the amount of, any loss, liability, claim, damage (including

incidental and consequential damages), expense (including costs of investigation and defense and reasonable attorneys' fees) and/or diminution of value, whether or not involving a third-party claim (collectively, “Damages”), arising, directly or indirectly, from or in connection with:

(a) any breach of any representation or warranty made by Seller in this Agreement, the Disclosure Schedules, the supplements to the Disclosure Schedules, or any other certificate or document delivered by Seller pursuant to this Agreement;

(b) any breach by Seller or the Shareholders of any covenant or obligation of Seller or the Shareholders in this Agreement or in any of the Related Agreements;

(c) any product shipped or manufactured by, or any services provided by, the Company or Seller with respect to the Business prior to the Closing Date;

(d) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by any such Person with Seller, the Shareholders or the Company (or any Person acting on their behalf) in connection with any of the Contemplated Transactions;

(e) the matter set forth on Schedule 9.2(e);

(f) any revaluation of intangible assets contemplated in Section 3.5 of the Share Sale Agreement, subject to the Wartner Assignment; provided, however, nothing contained in the Wartner Assignment shall obviate in any way the Indemnified Persons’ rights and protections set forth in this Section 9.2(f); or

(g) the matters set forth on Schedule 9.2(g).

The remedies provided in this Section 9.2 will not be exclusive of or limit any other remedies that may be available to Buyer or the other Indemnified Person against Seller.

9.3 INDEMNIFICATION AND PAYMENT OF DAMAGES BY THE SHAREHOLDERS

The Shareholders will indemnify and hold harmless the Indemnified Persons for, and will pay to the Indemnified Persons the amount of, Damages arising, directly or indirectly, from or in connection with:

(a) any breach of the representation and warranty made by Seller in Section 3.15 of this Agreement and with respect thereto in the Disclosure Schedules or any supplements to the Disclosure Schedules; or

(b) any breach by the Shareholders of any covenant or obligation of the Shareholders set forth in Sections 5.3, 5.4, 5.5 and 9 of this Agreement; or

(c) the matters set forth on Schedule 9.2(g).

Notwithstanding anything contained herein to the contrary, the Shareholders shall have no liability to any of the Indemnified Persons pursuant to this Section 9.3 unless and until such Indemnified Persons have first sought indemnification for Damages from Seller pursuant to Sections 9.2(a) (with respect to a breach of Section 3.15 only), 9.2(b) or 9.2(g), respectively, and Seller has not, will not or is unable to indemnify such Indemnified Persons for such Damages which Seller is required to pay pursuant to the terms of this Agreement. The aggregate liability of the Shareholders under this Section 9.3 shall not exceed the lesser of (i) $9,500,000; or (ii) the aggregate amount of distributions to the Shareholders by Seller on and after the Closing Date in excess of distributions sufficient to pay the Shareholders' federal and state income taxes directly related to Seller's sale to Buyer of all of the issued and outstanding capital stock of the Company pursuant to the terms hereof.

9.4 INDEMNIFICATION AND PAYMENT OF DAMAGES BY BUYER

Buyer will indemnify and hold harmless Seller, and will pay to Seller the amount of any Damages arising, directly or indirectly, from or in connection with (a) any breach of any representation or warranty made by Buyer in this Agreement or in any certificate or document delivered by Buyer pursuant to this Agreement, (b) any breach by Buyer of any covenant or obligation of Buyer in this Agreement or in any of the Related Agreements, (c) any claim by any Person for brokerage or finder's fees or commissions or similar payments based upon any agreement or understanding alleged to have been made by such Person with Buyer (or any Person acting on its behalf) in connection with any of the Contemplated Transactions; or (d) any claim by any Person based on any Product shipped or manufactured by, or any services provided by, the Company after the Closing Date.

9.5 SURVIVAL

All representations and warranties made by the parties in this Agreement or in any certificate, schedule, statement, document, or instrument furnished hereunder or in connection with the negotiation, execution and performance of this Agreement shall survive the Closing for a period ending upon the first anniversary of the Closing Date; provided, however, that the representations and warranties set forth in (i) Sections 3.1, 3.2, 3.3, 3.6, 3.16, 3.33, 4.1, 4.2 and 4.4 shall survive the Closing indefinitely; (ii) Sections 3.9, 3.10, 3.14, 3.18, 3.19 and 3.26 shall survive until sixty (60) days after the expiration of the applicable statute of limitations; and (iii) Section 3.15 shall survive the Closing until midnight on December 31, 2011. Notwithstanding anything herein to the contrary, if notice has been given by any Indemnified Person pursuant to Sections 9.7 or 9.8 on or before the end of any applicable survival period, then such Indemnified Person's right to indemnification with respect to the breach of representation or warranty that is the subject of such notice shall survive until final resolution and payment, if any, with respect thereto. Any covenant set forth in this Agreement that is to be performed on or prior to Closing shall survive until the one-year anniversary date of the Closing, and all other covenants of the Company shall survive for the period of time set forth in the particular covenant, and, if no time is set forth, such covenant shall survive the Closing indefinitely. Any claim for indemnification other than indemnification claims set forth in Sections 9.2(a) and 9.3(a) shall survive the Closing indefinitely; provided, however, a claim for indemnification based on the covenants and obligations set forth in Section 10 shall survive until sixty (60) days after the expiration of the applicable statute of limitations.

If the Closing occurs, Seller and/or the Shareholders will have no liability (for indemnification or otherwise) with respect to any representation or warranty, or covenant or obligation to be performed and complied with unless on or before the expiration of the applicable survival period an Indemnified Person notifies Seller and/or the Shareholders of a claim specifying the factual basis of that claim in reasonable detail to the extent then known by such Indemnified Person.

9.6 LIMITATIONS ON AMOUNT—BUYER, SELLER AND THE SHAREHOLDERS

Notwithstanding anything to the contrary in any other section of this Agreement:

(a) (i) Buyer shall have no obligation to indemnify Seller pursuant to Section 9.4(a) until the aggregate total for all Damages incurred or suffered by Seller pursuant to 9.4(a) exceeds $250,000, in which event the right to be indemnified shall apply to the full amount of such Damages, and (ii) Seller and the Shareholders shall have no obligation to indemnify the Indemnified Persons pursuant to Sections 9.2(a) and 9.3(a) until the aggregate total of all Damages incurred or suffered by the Indemnified Persons exceeds $250,000, in which event the right to be indemnified shall apply to the full amount of such Damages; and

(b) The aggregate liability of (i) Seller under Sections 9.2(a) shall not exceed $2,100,000 except that the limit of aggregate liability for breach of the representation and warranty appearing in Section 3.15 shall be $9,500,000. For the avoidance of doubt, (i) any indemnification payments made by Seller pursuant to Section 9.2(a) with respect to a breach of any representation and warranty by Seller other than Section 3.15 shall in no way reduce the indemnification cap of $9,500,000 applicable to a breach of Section 3.15; and (ii) the Indemnified Persons shall be entitled to indemnification in an amount up to $9,500,000 in the event of a breach of Section 3.15, notwithstanding the existence of any other indemnification claims by the Indemnified Persons against Seller or the payment by Seller of prior indemnification claims by the Indemnified Persons. The aggregate liability of Buyer under Section 9.4(a) shall not exceed $2,100,000; provided, however, that the limitations in this Section 9.6 shall not apply to Damages for inaccuracies in or breaches of the representations and warranties of Seller set forth in Sections 3.1, 3.2, 3.3, 3.6, 3.9, 3.10, 3.14, 3.16, 3.18, 3.26 or 3.33 or of Buyer set forth in Sections 4.1, 4.2 and 4.4. The limitations set forth in this Section shall not: (i) limit a party's ability to enforce its rights and obligations under this Agreement by a decree of specific performance or other equitable relief issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith; (ii) apply to claims brought by Seller against Buyer which arise out of Buyer's failure to pay the Purchase Price in accordance with Section 2.2 to Seller on the Closing Date; (iii) apply to claims brought by Buyer against Seller which arise out of Seller's failure to sell all of the Shares of capital stock of the Company to Buyer on the Closing Date; or (iv) apply to a claim brought by the Indemnified Persons against Seller and/or the Shareholders in which a court of competent jurisdiction issues a final, unappealable judgment, order or decree concluding that Seller's and/or the Shareholders' actions or inactions constituted fraud or willful misconduct.

9.7 PROCEDURE FOR INDEMNIFICATION—THIRD PARTY CLAIMS

(a) Promptly after receipt by an indemnified party under Section 9.2, 9.3 or 9.4 of notice of the commencement of any Proceeding against it, such indemnified party will, if a claim is to be

made against an indemnifying party under Section 9.2, 9.3 or 9.4, give notice to the indemnifying party of the commencement of such claim, but the failure to notify the indemnifying party will not relieve the indemnifying party of any liability that it may have to any indemnified party, except to the extent that the indemnifying party demonstrates that the defense of such action is irrevocably and materially prejudiced by the indemnified party's failure to give such notice.

(b) If any Proceeding referred to in Section 9.7(a) is brought against an indemnified party and it gives notice to the indemnifying party of the commencement of such Proceeding, the indemnifying party will, unless the claim involves Taxes, be entitled to participate in such Proceeding and, to the extent that it wishes (unless (i) the indemnifying party is also a party to such Proceeding and the indemnified party determines in good faith that joint representation would be inappropriate, or (ii) the indemnifying party fails to provide reasonable assurance to the indemnified party of its financial capacity to defend such Proceeding and provide indemnification with respect to such Proceeding), to assume the defense of such Proceeding with counsel satisfactory to the indemnified party and, after notice from the indemnifying party to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will not, as long as it diligently conducts such defense, be liable to the indemnified party under this Section 9 for any fees of other counsel or any other expenses with respect to the defense of such Proceeding, in each case subsequently incurred by the indemnified party in connection with the defense of such Proceeding, other than reasonable costs of investigation. If the indemnifying party assumes the defense of a Proceeding, (i) it will be conclusively established for purposes of this Agreement that the claims made in that Proceeding are within the scope of and subject to indemnification; (ii) no compromise or settlement of such claims may be effected by the indemnifying party without the indemnified party's consent unless (A) there is no finding or admission of any violation of Legal Requirements or any violation of the rights of any Person and no effect on any other claims that may be made against the indemnified party, and (B) the sole relief provided is monetary damages that are paid in full by the indemnifying party; and (iii) the indemnified party will have no liability with respect to any compromise or settlement of such claims effected without its consent. If notice is given to an indemnifying party of the commencement of any Proceeding and the indemnifying party does not, within ten days after the indemnified party's notice is given, give notice to the indemnified party of its election to assume the defense of such Proceeding, the indemnifying party will be bound by any determination made in such Proceeding or any compromise or settlement effected by the indemnified party.

(c) Notwithstanding the foregoing, if an indemnified party determines in good faith that there is a reasonable probability that a Proceeding may adversely affect it or its Affiliates other than as a result of monetary damages for which it would be entitled to indemnification under this Agreement, the indemnified party may, by written notice to the indemnifying party, assume the exclusive right to defend, compromise, or settle such Proceeding, but the indemnifying party will not be bound by any determination of a Proceeding so defended or any compromise or settlement effected without its consent (which may not be unreasonably withheld, delayed or conditioned).

(d) Seller, the Shareholders and Buyer hereby consent to the non-exclusive jurisdiction of any court in which a Proceeding is brought against any Indemnified Person for purposes of any claim that an Indemnified Person may have under this Agreement with respect to such Proceeding or the matters alleged therein, and agree that process may be served on Seller, the Shareholders and/or Buyer with respect to such a claim anywhere in the world.

9.8 PROCEDURE FOR INDEMNIFICATION—OTHER CLAIMS

A claim for indemnification for any matter not involving a third-party claim may be asserted by written notice to the party from whom indemnification is sought.

9.9 CO-INDEMNIFICATION

The existence of a third-party co-indemnitor in favor of the Indemnified Persons with respect to the U.S. Patent shall in no way reduce or eliminate to any extent the indemnification obligations of Seller and the Shareholders pursuant to this Section 9. Furthermore, to the extent there exists a third-party co-indemnitor in favor of the Indemnified Persons with respect to the U.S. Patent, the Indemnified Persons shall not be entitled to collect a payment in excess of the Damages incurred by such Indemnified Persons.

9.10 SET-OFF

Each of Buyer and Seller shall have the right, at any time, to set off against any payments or obligations otherwise owing to the other party hereto (including, without limitation, other indemnification payments that are payable by Seller, the Shareholders or Buyer, as applicable, pursuant to Sections 9.2, 9.3 or 9.4) any amount owed by Seller, the Shareholders and/or Buyer to the Indemnified Persons as indemnification payments pursuant to Section 9 (the "Right of Set-Off"). Either party exercising the Right of Set-Off shall be required to provide written notice of its good-faith claim of any amount owed by the other party hereto to the Indemnified Persons, but shall thereafter not be required to proceed against or exhaust any other remedy or source of security prior to exercising the Right of Set-Off.

10. TAX MATTERS

10.1 RESPONSIBILITY FOR TAX RETURNS AND TAXES

(a) Seller and the Company shall prepare, or cause to be prepared, and timely file, or cause to be timely filed, all Tax Returns required to be filed on or prior to the Closing Date by the Company or by Seller with respect to the Business. Seller shall report all income, gains, losses or expenses of the Company realized by the Company or by Seller with respect to the Business on or before the Closing Date during Seller's taxable year that includes the Closing Date on Seller's federal, state and local income or franchise Tax Returns for the period ending on or after the Closing Date. Subject to the foregoing sentence, Buyer shall prepare, or cause to be prepared, and file, or cause to be filed, all Tax Returns of the Company required to be filed after the Closing Date. If any such Tax Return relates in whole or in part to a Taxable period that ends on or before the close of business on the Closing Date, or the portion through the close of business on the Closing Date of a Straddle Period, as defined below (each such period or portion, a "Pre-Closing Tax Period"), Buyer shall permit Seller to review and comment on such Tax Return prior to filing.

(b) Seller shall be responsible for and shall pay all Taxes of the Company or relating to the Business for all Pre-Closing Tax Periods. Buyer or the Company shall be responsible for and shall pay all Taxes of the Company or relating to the Business for any Taxable period that begins

after the Closing Date, and for the portion of any Straddle Period that commences after the Closing Date (each such period or portion, a "Post-Closing Tax Period").

(c) Taxes of the Company or with respect to the Business for any Taxable period that includes but does not end on the Closing Date (a "Straddle Period") shall be allocated to Pre-Closing Tax Periods and Post-Closing Tax Periods as follows: (i) Income and franchise Taxes shall be allocated based on an interim closing of the books as of the close of business on the Closing Date; and (ii) all Taxes other than income and franchise Taxes shall be allocated pro-rata to each day in the Straddle Period.

(d) The obligations of Seller, the Company and Buyer in this Section 10 are expressly subject to the terms of the Wartner Assignment.

10.2 COOPERATION ON TAX MATTERS

(a) Seller and the Company will (i) retain all of their books and records with respect to Tax matters pertinent to the Company relating to any Pre-Closing Tax Period to the extent such books and records are in the respective party's possession as of the Closing Date until the expiration of the statute of limitations with respect to such Tax period (including, to the extent notified by Seller or Buyer, as the case may be, of any extensions thereof), and abide by all record retention agreements entered into with any Tax Authority, and (ii) give each other reasonable written notice prior to transferring, destroying or discarding any such books and records and, if the other party so requests, such party will allow the other party to take possession of such books and records.

(b) Buyer, the Company and Seller will, upon the reasonable request from the other party, use their commercially reasonable efforts to obtain any certificate or other document from any Governmental Authority or any other Person that may be necessary to mitigate, reduce or eliminate any Tax that could be imposed (including, without limitation, with respect to the Contemplated Transactions).

(c) Buyer, the Company and Seller shall cooperate fully, as and to the extent reasonably requested by the other parties, in connection with the filing of Tax Returns pursuant to this Section 10 and in any audit, litigation or other proceedings with respect to Taxes; provided that Seller shall have the right to control and settle, in its sole discretion, any audit, litigation or other proceeding to the extent it relates solely to a liability for Taxes for a Pre-Closing Tax Period and does not affect any Taxes or Tax attribute of the Company or Buyer for a Post-Closing Tax Period. Such cooperation shall include the retention and, upon the request of a party, the provision of records and information that are reasonably relevant to any such audit, litigation or other proceeding and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder.

10.3 TRANSFER TAXES

All transfer, documentary, sales, use, stamp, registration duties, recording and other such Taxes and fees (collectively, "Transfer Taxes"), and the costs of filing Tax Returns and other documentation with respect to Transfer Taxes incurred in connection with the consummation of the transactions contemplated by this Agreement shall be borne one-half (1/2) by Buyer and one-half (1/2) by Seller.

Buyer will file, or cause to be filed, all necessary Tax Returns and other documentation with respect to all such Transfer Taxes and, if required by applicable law, Seller will join in the execution of any such Tax Returns and other documentation.

10.4 REFUNDS

Any Tax refunds that are received by the Company that relate to Pre-Closing Tax Periods shall be for the account of Seller, and the Company or Buyer shall pay over to Seller, Seller's pro rata share of any such refund within 15 days after receipt thereof.

10.5 AMENDMENT OF TAX RETURNS

Neither the Company nor Buyer shall, without the prior written consent of Seller file, or cause to be filed any amended Tax Return of the Company relating to a Pre-Closing Tax Period where such amendment would materially adversely alter the Tax liabilities of Seller for such period.

10.6 TAX TREATMENT

(a) Buyer and Seller agree that, based upon Seller's representation in Section 3.9(b), for federal and applicable state and local income and franchise Tax purposes, the Company is a Disregarded Entity and the purchase of the Shares is deemed to be the purchase of all the Company's assets. To the extent applicable, each of Buyer and Seller shall file its respective Tax Returns in accordance with the preceding sentence.

(b) Any indemnification payment made pursuant to Section 9 shall be treated for all Tax purposes as an adjustment to the Purchase Price for the Shares.

11. NON-INDEMNITY CLAIMS AND ADJUSTMENTS; RETURNS

(a) All Trade Adjustments shall be immediately resolved between the parties without resort to the indemnification process set forth in Section 9 hereof. Without regard to the merits of any individual Trade Adjustment, each of Seller and Buyer shall make whole the other party with respect to any Trade Adjustment within three (3) Business Days of receipt of written documentation that such Trade Adjustment has occurred. Each of Seller and Buyer shall be obligated to cooperate fully in the equitable resolution of Trade Adjustments for a period of six months subsequent to the Closing.

(b) All sales of the Product to third parties prior to the Closing are and shall be for the account of Seller which shall have full financial responsibility for any Returns of Products sold prior to the Closing. All sales of Product to third parties subsequent to the Closing are and shall be for the account of Buyer which shall have full financial responsibility for any Returns of Products sold after the Closing. Notwithstanding the foregoing, Buyer shall have responsibility for all of the Returns (i) if such Returns are a direct result of Buyer's (w) modifying or changing the trade dress or formula for a Product; (x) increasing pricing for a Product; (y) eliminating any trade and marketing programs set forth on Schedule 3.20 which are to be launched after the Closing Date; or (z) recommending that a Product be removed from a planogram; or (ii) after the six month anniversary of the Closing Date regardless of the date of original sale to a third-party purchaser.

Notwithstanding the foregoing, all Returns of Wartner Kids product shall be for the account of Seller which shall have full responsibility for same.

## 12. GENERAL PROVISIONS

### 12.1 EXPENSES

Except as otherwise expressly provided in this Agreement, each party to this Agreement will bear its respective expenses incurred in connection with the preparation, negotiation, execution, and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel, and accountants; provided, that Seller shall also bear all expenses incurred by the Company in connection with the preparation, negotiation, execution and performance of this Agreement and the Contemplated Transactions, including all fees and expenses of agents, representatives, counsel and accountant, to or for the Company. Seller will pay all amounts payable to Sawaya Segalas & Co., LLC in connection with this Agreement and the Contemplated Transactions; such amount will be included in the Company Transaction Expenses. In the event of termination of this Agreement, the obligation of each party to pay its own expenses will be subject to any rights of such party arising from a breach of this Agreement by another party.

### 12.2 PUBLIC ANNOUNCEMENTS

Unless consented to by the other party hereto in advance, or required by Legal Requirements (including, without limitation, the rules and regulations of the New York Stock Exchange or any other applicable securities exchange), prior to the Closing Seller and Buyer shall keep this Agreement strictly confidential and may not make any disclosure of this Agreement to any Person. To the extent reasonably practicable under applicable Legal Requirements, the parties will consult with each other before making any public announcement or similar publicity with respect to this Agreement or the Contemplated Transactions. Seller and Buyer will consult with each other concerning the means by which the Company's customers and suppliers and others having dealings with the Company will be informed of the Contemplated Transactions, and Buyer will have the right to be present for any such communication.

### 12.3 NOTICES

All notices, consents, waivers, and other communications under this Agreement must be in writing and will be deemed to have been duly given when (a) delivered by hand (with written confirmation of receipt), (b) sent by telecopier (with written confirmation of receipt), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by a nationally recognized overnight delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth below (or to such other addresses and telecopier numbers as a party may designate by notice to the other parties):

Seller and the Company (prior to the Closing):

Lil' Drug Store Products, Inc.
1201 Continental Place NE
Cedar Rapids, IA 52402
Attn: Christopher D. DeWolf, President
Facsimile No.: (319) 393-3494

with a copy to (which shall not constitute notice):

Bradley & Riley PC
P.O. Box 2804
Cedar Rapids, IA 52406-2804
Attn: Bradley G. Hart
Facsimile No.: (319) 363-9824

Buyer:

Medtech Products Inc.
90 North Broadway
Irvington, NY 10533
Attn: Chief Executive Officer
Facsimile No.: 914-524-6802

with a copy to:

Medtech Products Inc.
90 North Broadway
Irvington, New York 10533
Attn: Charles N. Jolly, Esq.
Facsimile No.: (914) 524-7488

The Company (after the Closing):

Wartner USA B.V.
90 North Broadway
Irvington, NY 10533
Attn: Chief Executive Officer
Facsimile No.: 914-524-6802

with a copy to:

Wartner USA B.V.
90 North Broadway
Irvington, New York 10533
Attn: Charles N. Jolly, Esq.
Facsimile No.: (914) 524-7488

The Shareholders:

To the address and/or facsimile number set forth below each Shareholder's signature on the signature page attached hereto.

12.4 GOVERNING LAW; JURISDICTION; SERVICE OF PROCESS

(a) This Agreement and the legal relations among the parties hereto shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to provisions thereof relating to conflict of laws.

(b) The parties hereto irrevocably and unconditionally consent to submit to the jurisdiction of the United States District Court in Westchester County, New York (or if such court does not have subject matter jurisdiction, then the jurisdiction of the court of the State of New York located in Westchester County, New York), in addition to any other appropriate jurisdictions, for any actions, suits or proceedings arising out of or relating to this Agreement and the transactions contemplated hereby, and waive any objection to venue laid therein, including, without limitation, any objection based on forum non-conveniens.

12.5 FURTHER ASSURANCES

The parties agree (a) to furnish upon request to each other such further information, (b) to execute and deliver to each other such other documents, and (c) to do such other acts and things, all as the other party may reasonably request for the purpose of carrying out the intent of this Agreement and the documents referred to in this Agreement.

12.6 WAIVER

The rights and remedies of the parties to this Agreement are cumulative and not alternative. Neither the failure nor any delay by any party in exercising any right, power, or privilege under this Agreement or the documents referred to in this Agreement will operate as a waiver of such right, power, or privilege, and no single or partial exercise of any such right, power, or privilege will preclude any other or further exercise of such right, power, or privilege or the exercise of any other right, power, or privilege. To the maximum extent permitted by applicable law, (a) no claim or right arising out of this Agreement or the documents referred to in this Agreement can be discharged by one party, in whole or in part, by a waiver or renunciation of the claim or right unless in writing signed by the other applicable parties; (b) no waiver that may be given by a party will be applicable except in the specific instance for which it is given; and (c) no notice to or demand on one party will be deemed to be a waiver of any obligation of such party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in this Agreement or the documents referred to in this Agreement.

12.7 ENTIRE AGREEMENT AND MODIFICATION

This Agreement and the Confidentiality Agreement supersede all prior agreements (whether oral or written) between the parties with respect to the subject matter hereof and thereof (including without limitation the Letter of Intent dated June 9, 2006 between Buyer and Seller) and constitute (along

with the documents referred to in this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to the subject matter hereof and thereof. This Agreement may not be amended except by a written agreement executed by the party to be charged with the amendment.

12.8 DISCLOSURE SCHEDULE

(a) The disclosures in any numbered part of the Disclosure Schedule, and those in any Supplement thereto, must relate only to the representations and warranties in the similarly numbered Section of the Agreement to which they expressly relate and not to any other representation or warranty in this Agreement.

(b) In the event of any inconsistency between the statements in the body of this Agreement and those in the Disclosure Schedule (other than an exception expressly set forth as such in the Disclosure Schedule with respect to a specifically identified representation or warranty), the statements in the body of this Agreement will control.

12.9 ASSIGNMENTS, SUCCESSORS, AND NO THIRD-PARTY RIGHTS

None of the parties hereto may assign any of its rights under this Agreement without the prior consent of the other parties, which will not be unreasonably withheld, delayed or conditioned; provided, however, that from and after the Closing Buyer shall have the right without such consent (i) to assign its rights and obligations hereunder to any Affiliate or to any successor to all or substantially all of the business and assets of Buyer; or (ii) to collaterally assign its rights hereunder to any lender. Subject to the preceding sentence, this Agreement will apply to, be binding in all respects upon, and inure to the benefit of the successors and permitted assigns of the parties. Except as specifically set forth or referred to herein, nothing expressed or referred to in this Agreement will be construed to give any Person other than the parties to this Agreement and the Indemnified Persons any legal or equitable right, remedy, or claim under or with respect to this Agreement or any provision of this Agreement. Except as specifically set forth or referred to herein, this Agreement and all of its provisions and conditions are for the sole and exclusive benefit of the parties to this Agreement, their successors and permitted assigns and the Indemnified Persons.

12.10 SEVERABILITY

If any provision of this Agreement is held invalid or unenforceable by any court of competent jurisdiction, the other provisions of this Agreement will remain in full force and effect. Any provision of this Agreement held invalid or unenforceable only in part or degree will remain in full force and effect to the extent not held invalid or unenforceable.

12.11 SECTION HEADINGS, CONSTRUCTION

The headings of Sections in this Agreement are provided for convenience only and will not affect its construction or interpretation. All references to “Section” or “Sections” refer to the corresponding Section or Sections of this Agreement. All words used in this Agreement will be construed to be of such gender or number as the circumstances require. Unless otherwise expressly provided, the word “including” does not limit the preceding words or terms.

12.12 SPECIFIC PERFORMANCE

Each of the parties shall have and retain all rights and remedies, at law or in equity, including rights to specific performance and injunctive or other equitable relief, arising out of or relating to a breach or threatened breach of this Agreement. Without limiting the generality of the foregoing, each of the parties acknowledges that money damages would not be a sufficient remedy for any breach or threatened breach of this Agreement and that irreparable harm would result if this Agreement were not specifically enforced. Therefore, the rights and obligations of the parties shall be enforceable by a decree of specific performance issued by any court of competent jurisdiction, and appropriate injunctive relief may be applied for and granted in connection therewith, without the necessity of posting a bond or other security or proving actual damages and without regard to the adequacy of any remedy at law. A party's right to specific performance or injunctive relief shall be in addition to all other legal or equitable remedies available to such party.

12.13 COUNTERPARTS

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement.

12.14 COOPERATION, NO DUTY TO MAINTAIN

Buyer, Seller and the Company agree to reasonably cooperate with each other subsequent to Closing to implement the general objectives of this transaction for the mutual benefit of the parties. Notwithstanding the generality of the foregoing, Buyer shall have no obligation to maintain the existence of Company and shall have no responsibility for damage to Seller as a result of the loss of any license, permit, right, entitlement or benefit associated with the termination or wind-up of the Company; provided, however, Buyer shall be solely responsible for any fees and expenses incurred in connection with Buyer's decision to terminate or wind-up the existence of the Company.

IN WITNESS WHEREOF, the parties have executed and delivered this Agreement as of the date first written above.

SELLER: & #160; BUYER:

LIL' DRUG STORE PRODUCTS, INC. MEDTECH PRODUCTS INC.

By: /s/ Christopher D. DeWolf
Name: Christopher D. DeWolf
Title: President

By: /s/ Peter C. Mann
Name: Peter C. Mann
Title: President

COMPANY:

WARTNER USA B.V.

By: /s/ R. T. Devilee
Name: R. T. Devilee
Title: Managing Director

The Shareholders are executing this Agreement solely in connection with their limited obligations set forth in Sections 5.3, 5.4, 5.5 and 9 hereof.

/s/ Christopher D. DeWolf
Christopher D. DeWolf

/s/ Suzanne N. DeWolf
Suzanne N. DeWolf

**EXHIBIT 10.1**

Executive Employment Agreement

1. Employment.

Employer agrees to employ Executive and Executive accepts such employment for the period beginning as of August 21, 2006 and ending upon her separation pursuant to Section 1(c) hereof (the "Employment Period").

(a) Position and Duties.

(i) During the Employment Period, Executive shall serve as the Senior Vice President, Quality and Regulatory Affairs of Employer and shall have the normal duties, responsibilities and authority implied by such position, subject to the power of the Chief Executive Officer of Employer and the Board to expand or limit such duties, responsibilities and authority and to override such actions.

(ii) Executive shall report to the Chief Executive Officer of Employer, and Executive shall devote her best efforts and her full business time and attention to the business and affairs of the Company, Employer and their Subsidiaries.

(b) Salary, Bonus and Benefits. During the Employment Period, Employer will pay Executive a base salary of $225,000 per annum (the "Annual Base Salary"). In addition, the Executive shall be eligible for and participate in the Annual Incentive Compensation Plan (the "Annual Bonus") under which the Executive shall be eligible for an annual Target Bonus payment of 45% of Annual Base Salary. Executive is eligible for the Long Term Incentive Plan of the company and upon execution of this Agreement Executive shall receive an initial award calculated as follows: (a) Restricted Stock in the Company to vest over three years conditioned on the performance criteria specified in Exhibit "A" where the number of shares awarded is determined by dividing $45,000 by the Closing price of the Stock on August 21st 2006. During the Employment Period, Executive will be entitled to such other benefits approved by the Board and made available to the senior management of the Company, Employer and their Subsidiaries, which shall include vacation time (four weeks per year - two weeks for the balance of calendar 2006) and medical, dental, life and disability insurance. The Board, on a basis consistent with past practice, shall review the Annual Base Salary of Executive and may increase the Annual Base Salary by such amount as the Board, in its sole discretion, shall deem appropriate. The term "Annual Base Salary" as used in this Agreement shall refer to the Annual Base Salary as it may be so increased.

(c) Separation. The Employment Period will continue until (i) Executive's death, disability or resignation from employment with the Company, Employer and their respective Subsidiaries or (ii) the Company, Employer and their respective Subsidiaries decide to terminate Executive's employment with or without Cause. If (A) Executive's employment is terminated without Cause pursuant to clause (ii) above or (B) Executive resigns from employment with the Company, Employer or any of their respective Subsidiaries for Good Reason, then during the period commencing on the date of termination of the Employment Period and ending on the first anniversary of the date of termination (the "Severance Period"), Employer shall pay to Executive, in equal installments on the Employer's regular salary payment dates, an aggregate amount equal to (I) her Annual Base Salary, plus (II) an amount equal to the Annual Bonus, if any, paid or payable to Executive by Employer for the last fiscal year ended prior to the date of termination. Notwithstanding the foregoing, during the first year of employment only, for the purposes of this Section 1(c) the Annual Bonus paid or payable to Executive by Employer for the last fiscal year ended prior to the date of termination shall be deemed to be the full Target Bonus. In addition, if Executive is entitled on the date of termination to coverage under the medical and prescription portions of the Welfare Plans, such coverage shall continue for Executive and Executive's covered dependents for a period ending on the first anniversary of the date of termination at the active employee cost payable by Executive with respect to those costs paid by Executive prior to the date of termination; provided, that this coverage will count towards the depletion of any continued health care coverage rights that Executive and Executive's dependents may have pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"); provided further, that Executive's or Executive's covered dependents' rights to continued health care coverage pursuant to this Section 1(c) shall terminate at the time Executive or Executive's covered dependents become covered, as described in COBRA, under another group health plan, and shall also terminate as of the date Employer ceases to provide coverage to its senior executives generally under any such Welfare Plan. Notwithstanding the foregoing, (I) Executive shall not be entitled to receive any payments or benefits pursuant to this Section 1(c) unless Executive has executed and delivered to Employer a general release in form and substance satisfactory to Employer and (II) Executive shall be entitled to receive such payments and benefits only so long as Executive has not breached the provisions of Section 2 or Section 3 hereof. The release described in the foregoing sentence shall not require Executive to release any claims for any vested employee benefits, workers compensation benefits covered by insurance or self-insurance, claims to indemnification to which Executive may be entitled under the Company's or its Subsidiaries' certificate(s) of incorporation, by-laws or under any of the Company's or its Subsidiaries' directors or officers insurance policy(ies) or applicable law, or equity claims to contribution from the Company or its Subsidiaries or any other Person to which Executive is entitled as a matter of law in respect of any claim made against Executive for an alleged act or omission in Executive's official capacity and within the scope of Executive's duties as an officer, director or

employee of the Company or its Subsidiaries. Not later than eighteen (18) months following the termination of Executive's employment, the Company and its Subsidiaries for which the Executive has acted in the capacity of a senior manager, shall sign and deliver to Executive a release of claims that the Company or its Subsidiaries has against Executive; provided that, such release shall not release any claims that the Company or its Subsidiaries commenced prior to the date of the release(s), any claims relating to matters actively concealed by Executive, any claims to contribution from Executive to which the Company or its Subsidiaries are entitled as a matter of law or any claims arising out of mistaken indemnification by the Company or any of its Subsidiaries. Except as otherwise provided in this Section 1(c) or in the Employer's employee benefit plans or as otherwise required by applicable law, Executive shall not be entitled to any other salary, compensation or benefits after termination of Executive's employment with Employer.

2. Confidential Information.

(a) Obligation to Maintain Confidentiality. Executive acknowledges that the information, observations and data (including trade secrets) obtained by her during the course of her performance under this Agreement concerning the business or affairs of the Company, Employer and their respective Subsidiaries and Affiliates ("Confidential Information") are the property of the Company, Employer or such Subsidiaries and Affiliates, including information concerning acquisition opportunities in or reasonably related to the Company's and Employer's business or industry of which Executive becomes aware during the Employment Period. Therefore, Executive agrees that she will not disclose to any unauthorized Person or use for her own account (for his commercial advantage or otherwise) any Confidential Information without the Board's written consent, unless and to the extent that the Confidential Information, (i) becomes generally known to and available for use by the public other than as a result of Executive's acts or omissions to act, (ii) was known to Executive prior to Executive's employment with Employer, the Company or any of their Subsidiaries and Affiliates or (iii) is required to be disclosed pursuant to any applicable law, court order or other governmental decree. Executive shall deliver to the Company at a Separation, or at any other time the Company may request, all memoranda, notes, plans, records, reports, computer tapes, printouts and software and other documents and data (and copies thereof) relating to the Confidential Information, Work Product (as defined below) or the business of the Company, Employer and their respective Subsidiaries and Affiliates (including, without limitation, all acquisition prospects, lists and contact information) which she may then possess or have under her control.

(b) Ownership of Property. Executive acknowledges that all discoveries, concepts, ideas, inventions, innovations, improvements, developments, methods, processes, programs, designs, analyses, drawings, reports, patent applications, copyrightable work and mask work (whether or not including any Confidential Information) and all registrations or applications related thereto, all other proprietary information and all similar or related information (whether or not patentable) that relate to the Company's, Employer's or any of their respective Subsidiaries' or Affiliates' actual or anticipated business, research and development, or existing or future products or services and that are conceived, developed, contributed to, made, or reduced to practice by Executive (either solely or jointly with others) while employed by the Company, Employer or any of their respective Subsidiaries or Affiliates (including any of the foregoing that constitutes any proprietary information or records) ("Work Product") belong to the Company, Employer or such Subsidiary or Affiliate and Executive hereby assigns, and agrees to assign, all of the above Work Product to the Company, Employer or to such Subsidiary or Affiliate. Any copyrightable work prepared in whole or in part by Executive in the course of her work for any of the foregoing entities shall be deemed a "work made for hire" under the copyright laws, and the Company, Employer or such Subsidiary or Affiliate shall own all rights therein. To the extent that any such copyrightable work is not a "work made for hire," Executive hereby assigns and agrees to assign to the Company, Employer or such Subsidiary or Affiliate all right, title, and interest, including without limitation, copyright in and to such copyrightable work. Executive shall promptly disclose such Work Product and copyrightable work to the Board and perform all actions reasonably requested by the Board (whether during or after the Employment Period) to establish and confirm the Company's, Employer's or such Subsidiary's or Affiliate's ownership (including, without limitation, assignments, consents, powers of attorney, and other instruments).

(c) Third Party Information. Executive understands that the Company, Employer and their respective Subsidiaries and Affiliates will receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's, Employer's and their respective Subsidiaries' and Affiliates' part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the Employment Period and thereafter, and without in any way limiting the provisions of Section 2(a) above, Executive will hold Third Party Information in the strictest confidence and will not disclose to anyone (other than personnel and consultants of the Company, Employer or their respective Subsidiaries and Affiliates who need to know such information in connection with their work for the Company, Employer or any of their respective Subsidiaries and Affiliates) or use, except in connection with her work for the Company, Employer or any of their respective Subsidiaries and Affiliates, Third Party Information unless expressly authorized by a member of the Board (other than herself if Executive is on the Board) in writing.

(d) Use of Information of Prior Employers. During the Employment Period and thereafter, Executive will not improperly use or disclose any confidential information or trade secrets, if any, of any former employers or any other Person to whom Executive has an obligation of confidentiality, and will not bring onto the premises of the Company, Employer or any of their respective Subsidiaries or Affiliates any unpublished documents or any property belonging to any former employer or any other Person to whom Executive has an obligation of confidentiality unless consented to in writing by the former employer or Person. Executive will use in the performance of her duties only information which is (i) generally known and used by persons with training and experience comparable to Executive's and which is (x) common knowledge in the industry or (y) otherwise legally in the public domain, (ii) otherwise provided or developed by the Company, Employer or any of their respective Subsidiaries or Affiliates or (iii) in the case of materials, property or information belonging to any former employer or other Person to whom Executive has an obligation of confidentiality, approved for such use in writing by such former employer or Person.

3. Non-competition and No Solicitation. Executive acknowledges that in the course of her employment with Employer she will become familiar with the Company's, Employer's and their respective Subsidiaries' trade secrets and with other confidential information concerning the Company, Employer and such Subsidiaries and that her services will be of special, unique and extraordinary value to the Company, Employer and such Subsidiaries. Therefore, Executive agrees that:

(a) Non-competition. During the Employment Period and also during the period commencing on the date of termination of the Employment Period and ending on the first anniversary of the date of termination, she shall not without the express written consent of the Company, anywhere in the United States, directly or indirectly, own, manage, control, participate in, consult with, render services for, or in any manner engage in any business (i) competing with a brand of the Company, Employer, Medtech Products, Inc., The Denorex Company, The Spic and Span Company, The Comet Products Corporation, Prestige Brands International, Inc., Vetco, Inc., or any business acquired by such Persons, or any Subsidiaries of such Persons, representing 10% or more of the consolidated revenues or EBITDA of the Company and its Subsidiaries for the trailing 12 months ending on the last day of the last completed calendar month immediately preceding the date of termination of the Employment Period (collectively "The Prestige Companies") or (ii) in which The Prestige Companies have conducted discussions or has requested and received information relating to the acquisition of such business by such Person (x) within one year prior to the Separation and (y) during the Severance Period, if any. Nothing herein shall prohibit Executive from being a passive owner of not more than 2% of the outstanding stock of any class of a corporation that is publicly traded, so long as Executive has no active participation in the business of such corporation

(b) No solicitation. During the Employment Period and also during the period commencing on the date of termination of the Employment Period and ending on the first anniversary of the date of termination, Executive shall not directly or indirectly through another entity (i) induce or attempt to induce any employee of The Prestige Companies to leave the employ of the Company, Employer or any subsidiary, or in any way interfere with the relationship between The Prestige Companies and any employee thereof, (ii) hire any person who was an employee of The Prestige Companies within 180 days after such person ceased to be an employee of the Company, Employer or any of their respective Subsidiaries (provided, however, that such restriction shall not apply for a particular employee if the Company has provided its written consent to such hire, which consent, in the case of any person who was not a key employee of The Prestige Companies shall not be unreasonably withheld), (iii) induce or attempt to induce any customer, supplier, licensee or other business relation of The Prestige Companies to cease doing business with The Prestige Companies or in any way interfere with the relationship between any such customer, supplier, licensee or business relation and The Prestige Companies or (iv) directly or indirectly acquire or attempt to acquire an interest in any business relating to the business of The Prestige Companies and with which The Prestige Companies has conducted discussions or has requested and received information relating to the acquisition of such business by The Prestige Companies in the two year period immediately preceding a Separation.

(c) Enforcement. If, at the time of enforcement of Section 2 or this Section 3, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum duration, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum duration, scope and area permitted by law. Because Executive's services are unique and because Executive has access to Confidential Information, the parties hereto agree that money damages would be an inadequate remedy for any breach of this Agreement. Therefore, in the event of a breach or threatened breach of this Agreement, the Company, Employer, their respective Subsidiaries or their successors or assigns may, in addition to other rights and remedies existing in their favor, apply to any court of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce, or prevent any violations of, the provisions hereof (without posting a bond or other security).

(d) Additional Acknowledgments. Executive acknowledges that the provisions of this Section 1 are in consideration of: (i) employment with the Employer, (ii) the prospective issuance of Securities by the Company pursuant to the Long Term Incentive Compensation Program and (iii) additional good and valuable consideration as set forth in this Agreement. In addition, Executive agrees and acknowledges that the restrictions contained in Section 2 and this
Section 3 do not preclude Executive from earning a livelihood, nor do they unreasonably impose limitations on Executive's ability to earn a living. In

addition, Executive acknowledges (i) that the business of the Company, Employer and their respective Subsidiaries will be conducted throughout the United States, (ii) notwithstanding the state of incorporation or principal office of the Company, Employer or any of their respective Subsidiaries, or any of their respective executives or employees (including the Executive), it is expected that the Company and Employer will have business activities and have valuable business relationships within its industry throughout the United States and (iii) as part of her responsibilities, Executive will be traveling throughout the United States in furtherance of Employer's business and its relationships. Executive agrees and acknowledges that the potential harm to the Company and Employer of the non-enforcement of Section 2 and this Section 3 outweighs any potential harm to Executive of its enforcement by injunction or otherwise. Executive acknowledges that she has carefully read this Agreement and has given careful consideration to the restraints imposed upon Executive by this Agreement, and is in full accord as to their necessity for the reasonable and proper protection of confidential and proprietary information of the Company, Employer and their Subsidiaries now existing or to be developed in the future. Executive expressly acknowledges and agrees that each and every restraint imposed by this Agreement is reasonable with respect to subject matter, time period and geographical area.

IN WITNESS WHEREOF, the parties hereto have executed this Executive Employment Agreement on the date first written above.

PRESTIGE BRANDS HOLDINGS, INC.

By: /s/ Peter C. Mann
Name: Peter C. Mann
Title: Chairman and Chief Executive Officer

/s/ Jean A. Boyko
Jean A. Boyko

**DEFINITIONS**

"Cause" is defined as (i) your willful and continued failure to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness) that has not been cured within 10 days after a written demand for substantial performance is delivered to you by the Board, which demand specifically identifies the manner in which the Board believes that you have not substantially performed your duties, (ii) the willful engaging by you in conduct which is demonstrably and materially injurious to the Company or its affiliates, monetarily or otherwise, (iii) your conviction (or plea of nolo contendere) for any felony or any other crime involving dishonesty, fraud or moral turpitude, (iv) your breach of fiduciary duty to the Company or its affiliates, (v) any violation of the Company's policies relating to compliance with applicable laws which have a material adverse effect on the Company or its affiliates or (vi) your breach of any restrictive covenant. For purposes of clauses (i) and (ii) of this definition, (x) no act, or failure to act, on your part shall be deemed "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your act, or failure to act, was in the best interest of the Company.

"Good Reason" is defined as, without your consent, (i) the assignment to you of any duties inconsistent with your status as the Senior Vice President Quality and Regulatory Affairs or a substantial adverse alteration in the nature or status of the your responsibilities, unless the Company has cured such events within 10 business days after the receipt of written notice thereof from you, (ii) a reduction in your annual base salary or target annual bonus percentage, except for across-the-board salary reductions similarly affecting all senior Company executives, or (iii) the relocation of the Company's headquarters by more than 30 miles.

**EXHIBIT 10.2**

**MEDTECH PRODUCTS, INC.**

**AND**

**PHARMACARE LIMITED**

**AND**

**PRESTIGE BRANDS HOLDINGS, INC.**

**AND**

**ASPEN PHARMACARE HOLDINGS LIMITED**

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**Exclusive Supply Agreement**

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**Table of Contents**

1. **PARTIES**

1.1. Medtech Products, Inc., a Delaware Corporation having its principal place of business at 90 North Broadway, Irvington, New York, 10533, United States of America (“Medtech”);

1.2. Pharmacare Limited, a company registered and incorporated in the Republic of South Africa having its principal place of business at Building 8 Healthcare Park, Woodlands Drive, Woodmead, Johannesburg, Republic of South Africa (“Pharmacare”);

1.3. Prestige Brands Holdings, Inc., a Delaware Corporation having its principal office at 90 North Broadway, Irvington, New York 10533, United States of America (“Prestige”);

1.4. Aspen Pharmacare Holdings Limited, a company registered and incorporated in the Republic of South Africa having its principal place of business at Building 8 Healthcare Park, Woodlands Drive, Woodmead, Johannesburg, Republic of South Africa (“Aspen”).

2. **RECITAL**

2.1. Medtech and Pharmacare are entering into this supply agreement with regard to the manufacture and supply by Pharmacare of the products (as defined below) to Medtech and certain ancillary issues. This supply agreement is intended to be exclusive in the United States and Canada except as specifically provided herein. This supply agreement is not intended to be exclusive outside the United States and Canada unless specifically provided herein.

2.2. Pharmacare is a wholly owned subsidiary of Aspen.

2.3. Medtech is a wholly owned subsidiary of Prestige.

3. **INTERPRETATION**

In this Supply Agreement -

3.1. clause headings are for convenience and shall not be used in its interpretation unless the context clearly indicates a contrary intention -

3.1.1. an expression which denotes the singular includes the plural and *vice versa*;

3.1.2. the following expressions bear the meanings assigned to them below and cognate expressions bear corresponding meanings -

3.1.2.1. "this **agreement**" means this agreement and its Exhibits, as amended, from time to time;

3.1.2.2. **"adverse event"** means any untoward medical occurrence that may present during treatment with a medicine, but which does not necessarily have a causal relationship with this treatment;

3.1.2.3. **"affiliate/s"** means an entity, (whether or not incorporated and including without any limitation, a company, corporation, trust, partnership, joint venture or other association of persons) which, presently or in the future -

3.1.2.3.1. is owned or controlled by a party hereto by way of ownership, directly or indirectly, of 20% or more of such entity's share capital or otherwise, and such an entity shall continue to be deemed an affiliate only as long as such ownership or control continues; or

3.1.2.3.2. owns or controls a party hereto by way of ownership, directly or indirectly, of 20% or more of such party's share capital or otherwise, and such an entity shall continue to be an affiliate only for so long as such ownership or control continues;

3.1.2.4. **"Altaire"** means Altaire Pharmaceuticals Inc., a Delaware Corporation having its principal place of business at 91-1 Colin Drive, Holbrook, New York 11741, Voice 516-472-8186; Fax 516-472-8256;

3.1.2.5. **"applicable laws"** means in relation to any person or entity, all or any laws compliance with which is mandatory for that person or entity;

3.1.2.6. **"bulks"** means bulk batches of the manufactured products prior to their primary packaging;

3.1.2.7. **"current good manufacturing practice or cGMP's"** means the regulatory and other standards of good manufacturing practice relating to the manufacture of medicinal products as directed in the Code of Federal Regulations 21 CFR, Parts 210 and 211 and the Guidance for Industry: cGMP's;

3.1.2.8. **"commission/commissioned"** means the stage at which government or regulatory authority has been granted and the facility is capable of commencing manufacture of the products;

3.1.2.9. **"confidential information"** means information of a confidential and proprietary nature as defined in **clause 9**;

3.1.2.10. **"effective date"**means the date upon which this agreement is signed by the party which signs it last in time;

3.1.2.11. **"exclusive supply term"** means the period commencing on 1 January 2009 and terminating on 31 December 2013 and the extended period/s (if any);

3.1.2.12. **"extended period/s"** has the meaning given to that term in **clause 3.1.2.44**;

3.1.2.13. **"ex-works"** means ex-works as determined in accordance with INCOTERMS 2000;

3.1.2.14. **"facility"** means the eye drop manufacturing facility which is in the process of being constructed by Pharmacare in Port Elizabeth, Republic of South Africa, for the purposes of, *inter alia*, manufacturing the products;

3.1.2.15. **"FDA"** means the United States Department of Health and Human Services, Food and Drug Administration;

3.1.2.16. **"firm order"**has the meaning given to that term in **clause 7.4;**

3.1.2.17. **"firm order period"** has the meaning given to that term in **clause 7.4;**

3.1.2.18. **"force majeure event"** means an event which interferes with the ability of a party to perform its obligations or duties under the supply agreement which is not within the reasonable control of the party affected, not due to malfeasance, and which could not with the exercise of due diligence have been avoided, including fire, accident, labour difficulty, strike, riot, civil commotion, act of God, delay or change in law;

3.1.2.19. **"governmental or regulatory authority"** means any court, tribunal, arbitrator, agency, commission, official, department, inspectorate, ministry, parliament or public or statutory person or other instrumentality of any relevant country, state, province, county, city or other political subdivision having jurisdiction over any of the activities contemplated by the supply agreement and for the avoidance of doubt shall include the FDA;

3.1.2.20. **"interim period"** means the period from the effective date until 31 December 2008;

3.1.2.21. **"intellectual property"** means the body of technical information that is secret and substantial and comprises the formulae, specific manufacturing and packaging instructions (including but not limited to information, formulations, instructions, specifications and methods of quality control) but excluding the trademarks and patents;

3.1.2.22. **"inventory"** means raw materials and packaging components for the products;

3.1.2.23. **“know-how”** means the scientific and technical practices developed or owned by Medtech that are secret and substantial as well as any knowledge or the right to have the knowledge relating to the intellectual property imparted and comprises techniques and processes which are inherent and necessary to manufacture the products so as to enable Pharmacare to so manufacture the products;

3.1.2.24. **“laws”** means all laws, statutes, rules, regulations, ordinances, guidelines and other pronouncements having the effect of law of any relevant governmental or regulatory authority;

3.1.2.25. **“latent defect”** means a defect (a) existing at the time of receipt of the products by Medtech which is not discovered by visual inspection of the products by Medtech (or could not have been discovered by visual inspection in accordance with **clause 7.8.1** of this agreement); but excluding (b) (i) a defect arising after the transfer of risk in the products including a defect resulting from the storage, handling or transport of the products following the transfer of risk; and (ii) a defect which is attributable to any specifications or instructions received from Medtech;

3.1.2.26. **“manufacture”**means all the activities relating to the production of each product spanning from purchasing the inventory to production, quality control and assurance, filling, labelling, packaging and finishing, release, holding and storage and the tests and analyses conducted in connection therewith;

3.1.2.27. **“manufacturing authorisation”** means the authorisation to manufacture the products as granted by the relevant governmental or regulatory authorities;

3.1.2.28. **“marketing authorisation”** means those product licences and product authorisations relating to the products which enable the sale of the products in any part of the territory as granted by the relevant governmental or regulatory authorities;

3.1.2.29. **"Medtech's requirements of the products"** means the total volume of the products which Medtech and/or its affiliates, directly or indirectly, market, distribute and/or sell in the territory;

3.1.2.30. **"party"** means either Medtech or Pharmacare and **"parties"** shall mean both Medtech and Pharmacare;

3.1.2.31. **"patents"**means any unexpired and otherwise valid patent issued by the United States Patent and trademark Office licensed, owned or applied for by Medtech or its affiliates pertaining to the products and used in their manufacture;

3.1.2.32. **"primary packaging"** means the packaging that constitutes the final packed individual product unit in a form suitable for sale to retailers which, as at the effective date, consist of the packaging specifications set out in **Exhibit A;**

3.1.2.33. **"prime rate"** means the minimum overdraft rate (percent per annum, compounded monthly) from time to time published by the Standard Bank of South Africa Limited as being its minimum overdraft rate to its prime customers in the private sector, as certified by any manager of that bank, whose designation need not be proved;

3.1.2.34 **"product"**means the products described in **column 1** of **Exhibit B;**

3.1.2.35. **"quality agreement"**means the quality agreement which stands to be executed between the parties in relation to the delineation of technical and quality assurance responsibilities of the parties, which agreement will be substantially in accordance with the pro-forma quality agreement, annexed hereto marked **Exhibit C;**

3.1.2.36. **"regulatory support"** means the allocation, in the Republic of South Africa, of one suitably qualified representative of Pharmacare to assist Medtech in undertaking the compliance activities and processes relating to the maintenance and updating

of the marketing authorisations in so far as the activities relate to the purchasing of inventory, production, quality control and assurance, filling, labelling, packaging and finishing, release, holding and storage of the products; under the direct supervision, instruction and control and at the risk of Medtech and which includes the grant of the rights of use to Medtech of Pharmacare's equipment and consumables incidental thereto;

3.1.2.37. **"rolling forecast"** has the meaning given to that term in **clause 7.4.1;**

3.1.2.38. **"secondary packaging"** means the packaging that constitutes the outer packaging (including but not limited to shrink wrap and pallets) used to transport and store the products;

3.1.2.39. **"serious adverse event"** means any untoward medical occurrence that at any dose:

3.1.2.39.1. results in death;

3.1.2.39.2. is life-threatening, in that the patient is at risk of death at any time of the event;

3.1.2.39.3. requires patient hospitalisation or prolongation of existing hospitalisation;

3.1.2.39.4. results in persistent or significant disability/incapacity; or

3.1.2.39.5. results in a congenital abnormality/birth defect;

3.1.2.40. **"specifications"** means the specifications applicable to the products as recorded in their respective marketing authorisations;

3.1.2.41. **"stability services"** means all activities and processes necessary to validate the products shelf life in accordance with the stability protocol recorded in the technical agreement;

3.1.2.42. **"strategic plan"** means the strategic plan referred to in **clause 7.16;**

3.1.2.43. **"territory"** means the United States and Canada. The territory may be expanded or contracted from time to time by written agreement between the parties;

3.1.2.44. **"term"** means the period commencing on the effective date and terminating on 31 December 2013 ("the initial period") which agreement will be automatically extended for consecutive periods of 5 (five) years each ("the extended periods") on the same terms and subject to the same conditions set out in the supply agreement unless either party gives the other party written notice of its intention to terminate the supply agreement, which notice shall be given at least 18 (eighteen) months prior to the expiry of the initial period or any of the extended periods (as the case may be);

3.1.2.45. **"trademarks"** means Medtech's name and logo and other trademarks (including but not limited to Murine and Clear Eyes) it wishes to include on the products;

3.1.2.46. **"validation/validated"** means the process of establishing documented evidence which produces a high degree of assurance that a specific process will consistently produce the bulks in a form which will meet their pre-determined specifications and quality attributes.

4. **PREREQUISITE CONDITIONS**

4.1. This agreement (other than 1, 2, 3, this 4 and 9 to 19, by which the parties shall immediately be bound) is subject to fulfilment of the prerequisite antecedent conditions that by no later than midnight (South African time) on 21 September 2006 -

4.1.1. the board of directors of Aspen approves the transaction contemplated in this agreement; and

4.1.2. the board of directors of Prestige approves the transaction contemplated in this agreement.

4.2. Each of the parties shall, insofar as may be applicable, use all reasonable commercial endeavours to procure the fulfilment of the prerequisite conditions.

4.3. Each of the prerequisite conditions are expressed to be for the benefit of both parties and may be waived only by unanimous written agreement between the parties at any time prior to the date for the fulfilment thereof, provided that such waiver is competent in terms of the applicable laws.

4.4. The parties shall be entitled to extend the time period for the fulfilment of any of the prerequisite conditions by written agreement prior to the expiry of any time period for fulfilment of any of the unfulfilled prerequisite condition/s, provided that such extension of time is competent in terms of the applicable laws.

4.5. If any prerequisite condition is validly waived, it shall be deemed to have been fulfilled.

4.6. If any prerequisite condition is not fulfilled for any reason other than as a result of a breach of 4.2 -

4.6.1. the whole of this agreement (other than 1, 2, 3, this 4 and 9 to 19 by which the parties shall continue to be bound) shall have no force or effect; and

4.6.2. no party shall have any claim against any other in terms of this agreement except for such claims, if any, as may arise from a breach of any provision of this agreement by which the parties remain bound.

5. **FACILITY**

5.1. Pharmacare will construct and commission the facility so as to enable Pharmacare to manufacture the products in accordance with the terms and subject to the conditions set out in this agreement.

5.2. Pharmacare undertakes to use its best endeavours to procure that:

5.2.1. by 1 January 2008, the facility will be capable of commencing the process of validating the bulks;

5.2.2. by 1 July 2008, the bulks will be validated; and

5.2.3. by 1 January 2009, the facility will be commissioned and capable of manufacturing the products in those quantities set out in **clause 7.5.1**.

5.3. Notwithstanding the aforesaid, Pharmacare will use its best endeavours to commence manufacturing the products as early as is practically possible.

6. **INTERIM PERIOD AND ALTAIRE**

6.1. Medtech acknowledges that it is unlikely that Pharmacare will be capable of:

6.1.1. manufacturing the products for commercial sale prior to 1 July 2008; and

6.1.2. meeting all of Medtech's requirements for the products prior to 1 January 2009.

6.2. Accordingly, Medtech will be obliged to secure its own supply of the products during the interim period, this by:

6.2.1. attending to a stock build-up of the products and extending the products shelf life; and/or

6.2.2. purchasing the products from Altaire or another supplier.

6.3. During the interim period, Medtech may elect to purchase certain of its requirements of the products from Pharmacare, on the terms and subject to the conditions set out in this agreement, to the extent agreed between the parties, in writing, from time to time. During the interim period Medtech shall not be required to purchase its requirements from Pharmacare if such purchase would violate the terms of any agreement with Altaire or another supplier.

6.4 Pharmacare shall contribute the maximum sum of US$250,000.00 (two hundred and fifty thousand United States Dollars) towards Altaire's process validation

costs in relation to the products so as to facilitate Altaire's ability to act as a back-up supplier in accordance with the provisions of **clause 6.6.2** and thereafter during the entire term. The aforesaid sum of US$250,000.00 (two hundred and fifty thouseand United States Dollars) shall constitute the maximum amount payable by Pharmacare to Medtech in reimbursement of such costs and such payment shall be subject to -

6.4.1. Altaire's costs being reasonable, necessary and directly in relation to the process validation of the products by Altaire; and

6.4.2. Medtech issuing a valid invoice on Pharmacare and providing Pharmacare with copies of documents in support of the relevant costs and evidencing the successful process validation of the products by Altaire.

6.5 Medtech undertakes to maintain Altaire, or other suitable vendor as its back-up supplier of the Products during the entire term.

7. **MATERIAL TERMS OF THE SUPPLY AGREEMENT**

7.1. ***Supply***

7.1.1. Subject to **clauses 7.5** and/or **7.19.1**, during the exclusive supply term and the extended period/s (if any), Pharmacare will exclusively sell and supply the products to Medtech, which will exclusively purchase all of Medtech and its affiliates' requirements of the products for the territory from Pharmacare on the terms and subject to the conditions set out hereunder.

7.1.2. For clarification purposes it is recorded that neither party has any rights and/or obligations against the other party in relation to -

7.1.2.1. the manufacture, supply and/or purchase of any products which will be marketed, distributed and/or sold in any geographical area, other than the territory (unless the territory is expanded by written agreement between the parties); and/or

7.1.2.2. any products, other than the products as defined (unless Pharmacare exercises its rights of first refusal in terms of **clause 7.2**).

7.2. ***Right of First Refusal***

7.2.1. Should Medtech and/or its affiliates at any time during the term -

7.2.1.1. intend to market, distribute and/or sell additional sterile liquid eye care products or extensions to the products anywhere in the territory ("the **new products**"); and/or

7.2.1.2. require the manufacture of the products and/or new products for marketing, distribution and/or sale outside of the territory ("the **external territory**")

then Medtech shall give notice, in writing ("the **offer notice**") to Pharmacare of it and/or its affiliates intention to so develop, market,

distribute and/or sell the new products and/or its requirements for the products in relation to the external territory.

7.2.2. The offer notice shall -

7.2.2.1. set out the precise specifications of the new products and their primary packaging and/or the intended jurisdiction of their sale; and

7.2.2.2. state the price at which Medtech proposes to purchase the new products and/or the products in relation to the external territory.

7.2.3. For a period of 90 (ninety) days from the receipt of the offer notice, Pharmacare shall have the irrevocable right and option to elect to manufacture, supply and sell the new products and/or the products in relation to the external territory at the price set out in the offer notice read together with the terms and conditions set out in this agreement.

7.2.4. In the event of Pharmacare not accepting its irrevocable right and option set out in the offer notice within the aforesaid period of 90 (ninety) days, it shall be deemed to have declined the same and Medtech and/or its affiliates shall then have the right to purchase the new products and/or the products in relation to the external territory from a third party of its choice, provided that the price thereof shall not be higher than the price set out in the offer notice.

7.2.5. The provisions of this **clause 7** shall not apply in circumstances where Medtech and/or its affiliates do not have the legal and/or contractual competence to procure the manufacture of the new products and/or the manufacture of the products for marketing, distribution and/or sale in the external territory by Pharmacare. Medtech hereby undertakes to Pharmacare to use its best endeavours, in all circumstances, to obtain such legal and/or contractual competence.

7.3. ***Purchase price/s***

7.3.1. Medtech shall purchase the products from Pharmacare at the purchase price/s ("the **purchase price/s**") set out in **Exhibit D**.

7.3.2. The purchase price/s are ex-works.

7.3.3. The purchase price/s shall -

7.3.3.1. include

7.3.3.1.1. the costs of conversion as set out in **Exhibit D** as adjusted, from time to time, in accordance with the provisions of **clauses 7.3.4** and/or **7.3.5**;

7.3.3.1.2. the costs of primary packaging;

7.3.3.1.3. the costs of raw material;

7.3.3.1.4. the costs of providing stability services; and

7.3.3.1.5. the costs of providing the regulatory support;

7.3.3.2. exclude

7.3.3.2.1. the costs of secondary packaging; and

7.3.3.2.2. the costs of delivery.

7.3.4. The purchase price/s shall be increased -

7.3.4.1. in relation to the costs of conversion on 1 January 2010 and on 1 January of each succeeding year taking into account price affecting factors, such as variations in Pharmacare's costs of labour, energy, increases in taxes and all other relevant factors affecting Pharmacare's conversion costs in manufacturing the products;

7.3.4.2. in relation to the costs of all other components as set out in **clauses 7.3.3.1.2, 7.3.3.1.3, 7.3.3.1.4 and 7.3.3.1.5** on the earlier of 1 January 2009 or the date of first supply of the products to Medtech and on 1 January of each succeeding year taking into

account the actual increase in Pharmacare's costs of procuring and/or rendering the same.

7.3.5. No later than 60 (sixty) days prior to each purchase price increase, Pharmacare shall submit reasonable documentary proof of the factors affecting such increases to Medtech and enter into consultations with Medtech in relation thereto.

7.3.6. Notwithstanding the provisions of **clause 7.3.4** increases in the purchase price/s shall be moderated ("the moderation") by -

7.3.6.1. manufacturing process improvements achieved, from time to time, by Pharmacare in relation to the manufacture of the products. Pharmacare undertakes to use its best endeavours to achieve such improvements; and

7.3.6.2. those cost efficiencies which will accrue to Pharmacare in the event of Medtech purchasing more than 28 000 000 (twenty eight million) units of the products from Pharmacare during any calendar year of the term.

The moderation will be tabled by Pharmacare on an annual basis and determined in consultation with Medtech.

7.3.7 No price increase shall be effective unless and until Pharmacare has provided at least 60 days notice in writing to Medtech.

7.4. ***Forecasts/Firm Orders***

7.4.1. Unless otherwise agreed in writing by the parties, Medtech shall on a monthly basis provide Pharmacare with a rolling forecast of its requirements for the products for an 18 (eighteen) month period (the "**rolling forecast**"). All rolling forecasts and any updates to such rolling forecasts shall be updated on a monthly basis and provided to Pharmacare by the 10 (tenth) business day of each month, for the 18 (eighteen) month period commencing on the first day of the immediately following month.

7.4.2. Medtech's requirements of the products during the first 3 (three) months of the rolling forecast ("the **firm order period**") shall be considered a firm order (in that Medtech will be required to purchase and Pharmacare shall be required to supply the products) (the "**firm order**") unless agreed otherwise by the parties in writing. Firm orders each month shall be in accordance with the multiple order quantity of that product's manufacture batch size (that is, in whole multiple manufacture batch sizes and not fractions thereof).

7.4.3. Pharmacare shall order sufficient quantities of the inventory to enable it to manufacture the products in accordance with Medtech's requirements for firm orders.

7.5. ***Quantities of Supply and Exclusive Purchase***

7.5.1. Notwithstanding any other provisions of this agreement during each calendar year Pharmacare shall not be obliged to supply more than 30 000 000 (thirty million) units of the products and, in any event, not more than -

7.5.1.1. 9 000 000 (nine million) units of the products which are 0.2 (nought point two) ounces and/or 10 (ten) millilitres in size;

7.5.1.2. 3 000 0000 (three million) units of the products which are 1 (one) ounce in size;

7.5.1.3. 24 000 000 (twenty four million) units of the products which are 0.5 (nought point five) ounces in size.

7.5.2. Subject to **clauses 7.5** and **7.19.1**, Medtech shall, during the exclusive supply term and the extended period/s (if any), be obliged to purchase all of Medtech and its affiliates' requirements of the products for the territory exclusively from Pharmacare on the terms and subject to the conditions set out in this agreement.

7.5.3. Notwithstanding any other provision of this agreement, should Medtech require in excess of 30 000 000 (thirty million) units of the products during

any calendar year and/or products in excess of the threshold set out in **clause 7.5.1** ("the **additional products**"), then Medtech shall give notice, in writing (the**invitation notice**") to Pharmacare of its requirements for the additional products and Pharmacare shall, for a period of 30 (thirty) days from the date of receipt of the invitation notice, have the irrevocable right and option to elect to manufacture, sell and supply the additional products to Medtech on the terms and subject to the conditions set out in this agreement. In the event of Pharmacare failing to accept the irrevocable right and option set out in the invitation notice, then it shall be deemed to have declined the same and Medtech shall be entitled to purchase the additional products from a third party of its choice.

7.6. ***Delivery***

7.6.1. Pharmacare shall deliver each firm order of each product in the quantities and within the delivery dates directed by Medtech as specified in the firm order, at Medtech's expense. A firm order will be considered complete if it is within a tolerance of + or - 5% (five percent) of the ordered quantity. Any deviation greater than + or - 5% (five percent) needs to be agreed in writing between the parties.

7.6.2. Pharmacare shall ensure that all products supplied under this agreement, other than validation batches, shall have their relevant registered shelf-life, less a maximum of 90 (ninety) days, at the date of delivery thereof (ex-works) unless otherwise agreed in writing between the parties.

7.6.3. Delivery will be considered on time if the products are delivered (as determined in accordance with INCOTERM ex-works) at anytime during the month for delivery.

7.6.4. Pharmacare shall arrange the delivery of each order of the product to the location as agreed, in writing, between the parties.

7.7. ***Specifications***

7.7.1. Changes may be made in the specifications as required to maintain the product for sale in the territory, subject to written agreement between the

parties and compliance with cGMP's. Medtech shall notify Pharmacare as far in advance as is practicable prior to the effectiveness of such amendment or change and Pharmacare shall promptly notify Medtech of the implementation of any such amendment or change. To the extent that such amendment or change results in an increase or reduction in the cost of manufacturing a product, the parties shall jointly examine and mutually agree upon the consequences thereof and shall make appropriate adjustments to the purchase price/s, save as otherwise agreed in writing any such increase in the purchase price/s shall be borne by Medtech.

7.7.2. Changes in the specifications requested by Medtech in relation to product improvements and the like shall require Pharmacare's prior written consent, which consent shall not be unreasonably withheld. To the extent that such changes result in an increase or reduction in the costs of manufacturing a product, the parties shall jointly examine and mutually agree upon the consequences thereof and shall make appropriate adjustments to the purchase price/s. Save as is otherwise agreed in writing any such increase in purchase price/s shall be borne by Medtech. Medtech shall also be liable for and shall pay for the costs of amending the know-how and/or intellectual property as a consequence of such changes to the specifications, including but not limited to validation and stability.

7.7.3. Medtech and Pharmacare shall cooperate to ensure that the specifications and other instructions provided by Medtech are and shall, at all times, be in accordance with the marketing authorisations for each product. Notwithstanding the aforesaid, Medtech shall be solely responsible for ensuring that the specifications and all instructions given to Pharmacare are, at all times, in accordance with the marketing authorisation for each product and the applicable laws. Medtech shall be solely liable for any omissions and/or shortcomings in relation to the marketing authorisations for each product.

7.8. ***Acceptance of Delivery***

7.8.1. Medtech shall, within a period of 30 (thirty) business days of receipt of products delivered to it (or its nominee) by Pharmacare have the right to

reject any such products as a consequence of them being defective or where the products delivered are outside the quantity tolerance specified in **clause 7.6.1**. If Medtech does not notify Pharmacare of its election to reject the products within the aforesaid period of 30 (thirty) business days, then the products delivered will be deemed to have been accepted by Medtech unless the defect is latent.

7.8.2. In addition to the rights to return defective products in **clause 7.8.1**, following the date of delivery of a product to Medtech (or its nominee), Medtech shall be entitled to return products still in the possession or under the control of Medtech in the event that latent defects in such products later become evident.

7.8.3. Any quantities of the products which are properly rejected and/or returned by Medtech in accordance with the provisions of this agreement shall be returned to Pharmacare at Pharmacare's expense and at Pharmacare's option:

7.8.3.1. the products shall be replaced by Pharmacare as quickly as possible at Pharmacare's sole expense; or

7.8.3.2. Pharmacare shall refund the purchase price/s then paid to it by Medtech in respect of those products.

7.9. ***Terms of Sale***

7.9.1. The products shall be delivered ex-works and accordingly the purchase price/s therefor excludes the costs and expenses associated with delivery and secondary packaging. The parties undertake to co-operate to do all things reasonably practicable to ensure the reliable and economic delivery of the products to Medtech.

7.9.2. Unless otherwise agreed by the parties in writing, Pharmacare shall be responsible for making the delivery arrangements on behalf of Medtech. The parties shall annually in advance (or at such other times as agreed) agree delivery arrangements for the supply during that year (or other relevant following period).

7.9.3. All or any direct costs and expenses incurred by Pharmacare in respect of the actual delivery of the products and in relation to secondary packaging shall be reimbursed by Medtech to Pharmacare simultaneously with the payment of the purchase price/s for the products in question.

7.9.4. Pharmacare shall issue an invoice with each delivery of product in respect of the purchase price/s of such products which invoice will include the costs and expenses of delivery and/or secondary packaging referred to in **clause 7.9.3** above and Medtech agrees to pay such invoice by wire transfer arranged through an United States bank, payable within 60 (sixty) days from the issue of the invoice.

7.9.5. All payments of the purchase price/s or other sums payable by Medtech shall be made without any set-off in a timely fashion. Any amount due to Pharmacare and not paid within the required period shall be subject to interest charged at the prime rate (both before and after any judgement) calculated from the date the payment of the relevant sum was due to the date it is paid in full (inclusive).

7.9.6. The risk of loss, damage, destruction of products shall pass to Medtech when the products are delivered (as determined in accordance with the INCOTERM ex-works).

7.9.7. The legal and beneficial title to the products shall transfer to Medtech on the date Pharmacare has received payment in full and in cleared funds of the purchase price/s for the products.

7.10. ***Medtech's Intellectual Property***

In order to avoid the infringement of Medtech's intellectual property and solely for the purposes of Pharmacare manufacturing the products for Medtech, Medtech grants to Pharmacare non-transferable, royalty-free, non-exclusive license to use the:

7.10.1. trademarks; and

7.10.2. the intellectual property.

7.11. ***Manufacturing Issues***

7.11.1. If it is necessary for the purposes of compliance with any applicable laws for Pharmacare to make any change to the manufacturing process, procedures or facilities including changes in or replacement of equipment it shall so notify Medtech and Medtech shall as soon as possible make all such changes to the marketing authorisation, through application to the relevant governmental or regulatory authority and Pharmacare shall, at Medtech's cost and expense (which costs and expenses shall be paid for by Medtech and/or reimbursed to Pharmacare by Medtech against demand), supply data which Medtech reasonably requires for such purpose.

7.11.2. Pharmacare warrants to Medtech that it will manufacture each product in compliance with the specifications for such product and in accordance with good manufacturing practices, the marketing authorisations and the provisions of the technical agreement.

7.11.3. Pharmacare will, at its cost and expense, maintain all necessary manufacturing authorisations to manufacture the products.

7.11.4. Pharmacare will be responsible for creating and retaining all records relating to the manufacture of the product as required by the applicable laws and confirmed in the technical agreement.

7.11.5. Pharmacare shall, at its cost and expense, conduct all necessary validation and routine maintenance stability studies in respect of the products.

7.11.6. Pharmacare shall be responsible for procuring all inventory for each product. All inventory procured by Pharmacare and used in the products shall be tested (by Pharmacare or the supplier thereof) to assure that they meet the specifications and quality standards.

7.11.7. Pharmacare shall supply products bearing the trademarks and Medtech's marketing authorisation number and Medtech shall be responsible for determining the contents and appearance of the product containers,

labels, inserts and packaging materials in relation to the primary packaging.

7.11.8. Pharmacare shall make changes to the appearance of the primary packaging as requested by Medtech from time to time. Pharmacare will make no change to the primary packaging without the prior written approval of Medtech. All increases in costs associated with changes to the primary packaging, including but not limited to stability tests to support such changes, shall be added to and incorporated into the purchase price/s of the products.

7.11.9. In order that Pharmacare can make the necessary preparations for the commencement of manufacture of each product (and primary packaging) bearing Medtech's name and logo Medtech shall provide Pharmacare with copies of the necessary artwork, materials and other information required by Pharmacare a reasonable period prior to the commencement of their production in accordance with Pharmacare's reasonable lead-times.

7.12. ***Product Optimisation and Line Extensions***

7.12.1. The parties will meet twice annually in order to evaluate Medtech's requirements for the development of product optimisations and line extensions ("the **development work**") for the ensuing 12 (twelve) month period. The meeting site will alternate between Port Elizabeth, South Africa and Irvington, New York.

7.12.2. Within 30 (thirty) days of Medtech's requirements for the development work having been determined, Pharmacare shall have the right to submit a quote to Medtech to undertake the whole or part of the development work and simultaneously therewith Pharmacare shall give to Medtech the anticipated date/s by which Pharmacare will be in a position to complete the same.

7.12.3. In the event of Medtech and Pharmacare failing to reach agreement on any issue relevant to the development work and/or Pharmacare failing to timely submit its proposals to Medtech in that regard, Medtech shall be

entitled to engage a third party of its choice to undertake the development work without recourse to or from Pharmacare.

7.13. ***Adverse Drug Reaction, Competent Authorities and Product Recall***

7.13.1. Medtech will be responsible for reporting any adverse event in particular, without limiting the generality of the aforegoing, any serious adverse event unless otherwise agreed, in writing, between the parties.

7.13.2. Pharmacare shall, immediately upon receipt of any communication from any governmental or regulatory authority relating to each product, forward a copy or description of the same to Medtech and respond to all inquiries by Medtech relating thereto. If Pharmacare must communicate with any governmental or regulatory authority, then Pharmacare shall so advise Medtech immediately, and, unless prohibited by the applicable law, provide Medtech in advance with a copy of any proposed written communication and comply with any and all reasonable direction of Medtech concerning any meeting or written or oral communication with any governmental or regulatory authority.

7.13.3. Medtech shall have sole responsibility for and shall make all decisions with respect to any complaint, recall, market withdrawals or any other corrective action related to the products.

7.14. ***Delivery of Know-How and Intellectual Property***

The parties shall agree, in the strategic plan, the process and timing of the delivery of the know-how and intellectual property by Medtech to Pharmacare which know-how and intellectual property shall include but not be limited to a technical data pack in respect of each of the products containing at least the vendor details, specifications and test methods for active pharmaceutical ingredients and excipients, vendor details, specifications and test methods for primary packaging, detailed requirements of printed primary packaging, detailed manufacturing and primary packing instructions, secondary packaging instructions, validation parameters and previous reports, finished product specifications and test methods, validations and/or system suitability data, stability

protocols and results of previous stability tests, complete batch manufacturing records for past batches and product samples.

7.15. ***Warranties by Medtech***

Medtech warrant to Pharmacare that -

7.15.1. the know-how and/or knowledge relating to the intellectual property will be disclosed and/or imparted to Pharmacare on the date/s set out in the strategic plan and will be sufficient, without the necessity of Pharmacare undertaking further work thereon other than process validation and expiration dating, to manufacture the products in accordance with the manufacturing authorisations, the marketing authorisations and the applicable laws;

7.15.2. neither the trademarks or the primary packaging will, throughout the term, infringe the rights, including the intellectual property rights, of any person or entity when delivered to Medtech for sale in the territory;

7.15.3. the transfer of the know-how and intellectual property to Pharmacare will not infringe the rights, including the intellectual property rights, of any person or entity and it will, throughout the term, have the exclusive legal and beneficial interest in the know-how and related information;

7.15.4. provided that the products have been manufactured by Pharmacare in compliance with their specifications and in accordance with good manufacturing practices and all applicable laws will not whether, by their use or administration or otherwise, cause any adverse event and, in particular, without limiting the generality of the aforegoing, any serious adverse event; and

7.15.5. it will purchase from Pharmacare no less than those quantities of the products as set out in **clause 7.5.2.**

7.16. ***Strategic Plan***

7.16.1. As soon as is practicably possible after the effective date, the parties will meet and do all things necessary, in good faith, to develop a strategic plan in relation to, *inter alia* -

7.16.1.1. the method and timing of the delivery and transfer of the know-how and intellectual property to Pharmacare;

7.16.1.2. the transitional plan incorporating the supply of the products by Pharmacare to Medtech during the interim period and the transfer of the manufacture of the products from Abbott Laboratories Inc. to Pharmacare and where necessary Altaire;

7.16.1.3. the method and timing of the commissioning of the facility and each part of that facility;

7.16.1.4. the method and timing of the validation and the proposed order of such validation; and

7.16.1.5. the arrangements for the delivery of the products to the locations agreed, in writing, between the parties.

7.16.2. The parties shall be obliged to allocate and dedicate, at their respective cost and expense, sufficient resources and skilled personnel to ensure that the strategic plan promotes and establishes a sound and enduring business relationship between the parties on the terms and subject to the conditions set out in this agreement.

7.17. ***Regulatory Support***

7.17.1. Notwithstanding the purchase price/s being inclusive of regulatory support, Medtech shall, at all times, and without limitation be solely responsible to ensure that all activities and processes relating to the maintenance and updating of the marketing authorisations are timely and comprehensively undertaken in accordance with the applicable laws.

7.17.2. Pharmacare's obligations in relation to regulatory support shall include allocation, in the Republic of South Africa, of one of its suitably qualified representatives to assist Medtech in undertaking the compliance activities and processes relating to the maintenance and updating of the marketing authorisations in so far as the activities relate to the purchasing of inventory, production, quality control and assurance, filling, labelling, packaging and finishing, release, holding and storage of the products; under the direct supervision, instruction and control and at the risk of Medtech and which includes the grant of the rights of use to Medtech of Pharmacare's equipment and consumables incidental thereto. In no event shall Pharmacare be liable in contract, tort (including negligence) or breach of statutory duty or otherwise, including pursuant to an indemnity for any loss or damage of whatever nature whatsoever arising out of or in connection with the failure to maintain and/or update the marketing authorisations in accordance with the applicable laws.

7.17.3. Medtech hereby indemnifies Pharmacare against any liability for loss (excluding economic loss), damage or injury (including death) whether direct, indirect or consequential suffered by any person or entity not being a party to this agreement resulting from or arising out of the failure to maintain and/or update the marketing authorisations in accordance with the applicable laws.

7.17.4. Pharmacare hereby indemnifies Medtech against any liability for loss (excluding economic loss), damage or injury (including death) whether direct, indirect or consequential suffered by any person or entity not being a party to this agreement resulting from or arising out of the failure of Pharmacare to meet specifications or to follow the requirements of cGMP's.

7.18. ***Liability***

In no event shall Medtech or Pharmacare be liable to each other in contract, tort (including negligence), breach of statutory duty, under any indemnity or otherwise for:

7.18.1. any indirect or consequential loss of or damage of any nature whatsoever; or

7.18.2. save as is expressly provided for in **clauses 7.19.2**, any loss of profit, pure economic loss, depletion of goodwill, loss of business or like loss (whether direct or indirect); or

7.18.3. any claim/s by the other party (inclusive of indemnities by either party) irrespective of the nature or cause of such claim/s which alone or in aggregate exceed US$50,000,000.00 (fifty million United States Dollars),

arising out of or in connection with this agreement.

7.19. ***Remedies***

7.19.1. Provided that Pharmacare has used its best endeavours to timeously deliver the products to Medtech on the terms and subject to the conditions set out in this agreement, then Medtech shall have no claims against Pharmacare arising out of or flowing from such non-delivery. In all instances where Pharmacare fails to timeously deliver any of the products to Medtech ("the **undelivered products**"), Medtech shall be obliged to use its best endeavours (for so long as Pharmacare remains in breach of its obligations to so supply the products), to purchase the undelivered products from Altaire and/or another supplier of its choice.

7.19.2. Subject to **clause 7.19.4**, in the event of Medtech failing to purchase all of Medtech and its affiliates' requirements of the products exclusively from Pharmacare -

7.19.2.1. during the 12 (twelve) month period commencing on 1 January 2009 and terminating on 31 December 2009, then Medtech shall pay to Pharmacare a compensation fee in the sum of US$5,000,000.00 (five million United States Dollars);

7.19.2.2. during the 12 (twelve) month period commencing on 1 January 2010 and terminating on 31 December 2010, then Medtech shall

pay to Pharmacare a compensation fee in the sum of US$4,000,000.00 (four million United States Dollars);

7.19.2.3. during the 12 (twelve) month period commencing on 1 January 2011 and terminating on 31 December 2011, then Medtech shall pay to Pharmacare a compensation fee in the sum of US$4,000,000.00 (four million United States Dollars);

7.19.2.4. during the 12 (twelve) month period commencing on 1 January 2012 and terminating on 31 December 2012, then Medtech shall pay to Pharmacare a compensation fee in the sum of US$3,000,000.00 (three million United States Dollars);

7.19.2.5. during the 12 (twelve) month period commencing on 1 January 2013 and terminating on 31 December 2013, then Medtech shall pay to Pharmacare a compensation fee in the sum of US$3,000,000.00 (three million United States Dollars).

7.19.3. The compensation fee/s referred to in **clause 7.19.2.1** to **clause 7.19.2.5** shall be jointly and/or individually referred to as "the **Pharmacare compensation fee/s**". Medtech agrees that the Pharmacare compensation fee/s is in consideration for, amongst other things, the construction of the facility by Pharmacare in order to supply the products to Medtech on the terms and subject to the conditions set out in this agreement.

7.19.4. The Pharmacare compensation fee/s shall not be payable -

7.19.4.1. should Medtech and/or its affiliates have purchased 30,000,000 (thirty million) units of the products from Pharmacare during any of the relevant calendar years or such greater volumes as may have been agreed to between the parties, from time to time; and/or

7.19.4.2. in circumstances where Pharmacare is not able to supply the relevant products to Medtech.

7.19.5. The Pharmacare compensation fee shall be due, owing and payable by Medtech to Pharmacare within 30 (thirty) days of the date of Medtech and/or its affiliates' breach of the provisions of **clause 7.19.2** and shall be payable without demand, deduction or set-off.

7.19.6. In the event of Pharmacare not being able to fulfil its obligations to Medtech in terms of this agreement as a consequence of Pharmacare allocating the manufacturing capacity of the facility for the purposes of manufacturing products for any third party -

7.19.6.1. during the 12 (twelve) month period commencing on 1 January 2009 and terminating on 31 December 2009, then Pharmacare shall pay to Medtech a compensation fee in the sum of US$5,000,000.00 (five million United States Dollars);

7.19.6.2. during the 12 (twelve) month period commencing on 1 January 2010 and terminating on 31 December 2010, then Pharmacare shall pay to Medtech a compensation fee in the sum of US$4,000,000.00 (four million United States Dollars);

7.19.6.3. during the 12 (twelve) month period commencing on 1 January 2011 and terminating on 31 December 2011, then Pharmacare shall pay to Medtech a compensation fee in the sum of US$4,000,000.00 (four million United States Dollars);

7.19.6.4. during the 12 (twelve) month period commencing on 1 January 2012 and terminating on 31 December 2012, then Pharmacare shall pay to Medtech a compensation fee in the sum of US$3,000,000.00 (three million United States Dollars);

7.19.6.5. .during the 12 (twelve) month period commencing on 1 January 2013 and terminating on 31 December 2013, then Pharmacare shall pay to Medtech a compensation fee in the sum of US$3,000,000.00 (three million United States Dollars).

7.19.7. The compensation fee/s payable by Pharmacare to Medtech in terms of **clause 7.19.6** shall jointly and/or individually be referred to as "the **Medtech compensation fee/s**".

7.19.8. The Medtech compensation fee shall be due, owing and payable by Pharmacare to Medtech within 30 (thirty) days of the date of Pharmacare breaching the provisions of **clause 7.19.6** and shall be payable without demand, deduction or set-off.

7.19.9. In the event of Medtech failing to pay the full purchase price/s for the products and/or the Pharmacare compensation to Pharmacare on due date, then Pharmacare shall be entitled to immediately suspend the further supply of the products ("the **suspended products**") to Medtech, on written notice to Medtech, this until such time as the outstanding purchase price/s and/or the Pharmacare compensation, together with accrued interest thereon, has been paid in full. The failure by Pharmacare to deliver the suspended products shall not give rise to a breach of this agreement by Pharmacare.

7.19.10. Any amounts which are due by one party to the other party in terms of this agreement which are not paid on due date shall accrue interest at the prime rate, calculated from due date to date of payment (inclusive).

7.19.11. A failure by either party to perform or observe any of their remaining obligations set out in this agreement shall entitle the other party to only claim specific performance and damages (subject to the limitations set out in **clause 7.18**) and the parties hereby waive and abandon all or any other rights and remedies against the other party not expressly set out in this **clause 7.19.**

7.20. ***Subcontracting***

Pharmacare may subcontract its obligations to any third party provided that such subcontracting does not cause a breach of any applicable laws, and provided that Pharmacare remains responsible for and liable for the acts, errors and omissions of its subcontractor. Any intention to subcontract shall be noticed to Medtech, in writing, not less than 90 days in advance.

7.21. ***Sale of Business by Medtech***

In the event of Medtech, at any time during the term, selling, disposing of or otherwise alienating its business of marketing, selling and/or distributing the products, it will procure that the third party acquirer of that business takes assignment of this agreement and Medtech will, notwithstanding such sale, alienation or other disposal, bind itself in favour of Pharmacare as surety for and co-principal debtor in solidum with the third party for the due and punctual payment and performance by the third party of all of the assigned obligations and for the payment of any damages which Pharmacare may suffer as a result of, or in connection with, any breach by the third party of any provisions of this agreement.

8. **EFFECT OF TERMINATION OR EXPIRATION**

8.1. Upon expiration or prior termination of this agreement, for any reason, it shall not release either party from any liability which at the said time it has already incurred to the other party nor affect in any way the survival of any rights, duties or obligations of either party.

8.2. Upon earlier termination of this agreement, Pharmacare shall supply to Medtech and Medtech shall purchase the finished products at their purchase price/s and any inventory then in Pharmacare’s possession (or on order by Pharmacare), this at the cost price/s thereof.

8.3. Medtech shall be liable to pay Pharmacare the purchase price/s for the finished products and the cost price of the inventory within 14 (fourteen) days of the date of expiration or earlier termination of this agreement or in respect of part termination.

8.4. Delivery of the finished products and inventory pursuant to the provisions of this **clause 8** shall be made ex-works.

8.5. Pharmacare's non-transferable, royalty-free, non-exclusive license to use the trademarks and the intellectual property shall immediately terminate and Pharmacare shall have no further rights, title or interest in and to the said trademarks or intellectual property and it shall immediately cease exercising any rights in relation thereto.

9. **CONFIDENTIALITY**

9.1. All confidential and/or proprietary information of Pharmacare disclosed to Medtech and all confidential and/or proprietary information of Medtech disclosed to Pharmacare including, but not limited to, information relating to any product or the business affairs or finances of either party, information contained in the know-how and the terms of this agreement and/or the supply agreement known hereafter as the "**confidential information**" shall be held in confidence and not disclosed by the other party to any third party or used, for any reason whatsoever, outside the scope of this agreement and/or the supply agreement; provided, that the definition of "**confidential information**" and the obligation of confidentiality assumed by Medtech and Pharmacare hereunder shall not apply to any confidential or proprietary information which was or becomes available to Medtech or Pharmacare, as the case may be, on a non-confidential basis from a source that is not under an obligation (whether contractual, legal or fiduciary) to the other party to keep such information confidential. If the party receiving information of the other party (the "**receiving party**") is requested in any judicial or administrative proceeding or by any governmental or regulatory authority to disclose any information of the other party (the "**disclosing party**"), the receiving party shall give the disclosing party prompt notice of such request so that the disclosing party may seek an appropriate protective order. The receiving party shall cooperate fully with the disclosing party in obtaining such an order. If in the absence of a protective order the receiving party is nonetheless compelled to disclose confidential information of the disclosing party, the receiving party may make such disclosure without liability hereunder, provided that the receiving party gives the disclosing party written notice of the confidential information to be disclosed as far in advance of its disclosure as is practicable and, upon the disclosing party's request and at its expense, the receiving party will use its best

efforts to obtain reasonable assurances that confidential treatment will be accorded to such confidential information.

9.2. This **clause 9** shall survive the expiration or termination of this agreement for a period of five (5) years.

10. **RELATIONSHIP OF PARTIES**

The parties shall be considered independent contractors, and neither the conclusion of this agreement nor the performance of any of the provisions hereof shall be construed to make either party an agent, employee or legal representative of the other, nor shall this agreement be deemed to establish a joint venture or partnership.

11. **ASSIGNMENT**

Neither party shall cede its rights or assign its obligations under this agreement without the prior written consent of the other party (such consent not to be unreasonably withheld).

12. **FORCE MAJEURE**

The occurrence of a force majeure event shall not excuse a party from the performance of its obligations or duties under this agreement, but shall merely suspend such performance during the continuation of force majeure event. The party prevented from performing its obligations or duties because of force majeure shall promptly notify the other party hereto (the "**other party**") of the occurrence and particulars of such force majeure event and shall provide the other party, from time to time, with its best estimate of the duration of such force majeure event and with notice of the termination thereof. The party so affected shall use its best efforts to avoid or remove such causes of non-performance. Upon termination of the force majeure event, the performance of any suspended obligation or duty shall promptly recommence. Neither party shall be liable to the other party for any direct, indirect, consequential, incidental, special, punitive or exemplary damages arising out of or relating to the suspension or termination of any of its obligations or duties under this agreement by reason of the occurrence of force majeure event. In the event that force majeure event has occurred and is

continuing for a period of at least 6 (six) months, the other party shall have the right to terminate this agreement upon 30 (thirty) days written notice.

13. **GOVERNING LAW AND JURISDICTION**

13.1. The construction, validity and performance of this agreement shall be governed by the laws of the State of New York, United States of America.

13.2. It is irrevocably agreed that the State and Federal courts located in the State of New York, United States of America, are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with this agreement and accordingly that any action or proceeding so arising may be brought in such courts.

14. **NOTICES**

14.1. Any notice to be given under this agreement shall be in writing and delivered personally or sent by first class recorded delivery post or facsimile to the address for service of the other party as set out in **clause 13.4**, or such other address as may have been notified in writing to the other party.

14.2. A notice shall be deemed to have been served as follows if personally delivered, at the time of delivery; if posted, at the expiration of 96 (ninety six) hours after the envelope containing the same was delivered into the custody of the postal authorities; or if sent by facsimile at the expiration of 24 (twenty four) hours after the same was transmitted.

14.3. In proving service of a notice: by delivery by hand: it shall be sufficient to show that delivery by hand was made; by post: it shall be sufficient to show the envelope containing the communication was properly sent by first class recorded delivery post; by facsimile transmission: it shall be sufficient to show that the facsimile was despatched and a confirmatory transmission report received.

14.4. Addresses for service:

| | |
|---|---|
| Pharmacare and Aspen:<br><br>Building 8 Healthcare Park<br>Woodlands Drive<br>Woodmead<br>JOHANNESBURG<br>Telefax No. (011) 2396100<br><br>**With copy to:**<br><br>Aspen Pharmacare Holdings Limited<br>1st Floor Aspen House<br>Aspen Park<br>98 Armstrong Avenue<br>La Lucia Ridge<br>Durban<br>Telefax No. (031) 5808640<br><br>Marked for the attention of **The Deputy Group Chief Executive** | Medtech:<br><br>Medtech Products, Inc.<br>Attn: CEO<br>90 North Broadway<br>Irvington, New York 10533<br>Telefax (No 001) 914-524-6810<br><br>**With a copy to:**<br><br>Prestige Brands Holdings, Inc.<br>Attn: General Counsel<br>90 North Broadway<br>Irvington, New York 10533<br>Telefax (No. 001) 914-524-7488 |

15. **ANNOUNCEMENT**

Neither party shall issue or make any public statement with respect to this agreement without the prior consent of the other party, which consent shall not be unreasonably withheld or delayed. No approval shall be required to the extent disclosure may be required by the applicable law.

16. **PRESTIGE SURETYSHIP**

16.1. By its signature hereto, Prestige hereby binds itself in favour of Pharmacare as surety for and co-principal debtor *in solidum* with Medtech for the due and punctual payment and performance by Medtech of all of its obligations pursuant to this agreement and/or any suretyship which Medtech may exercise in favour of Pharmacare in accordance with the provisions of **clause 7.21** and, without restricting the generality of the aforegoing -

16.1.1. for any claim/s under any indemnity given by Medtech to Pharmacare;

16.1.2. for the payment of the Pharmacare compensation (**clause 7.19.2**); and/or

16.1.3. for the payment of any damages which Pharmacare may suffer as a result of, or in connection with any breach by Medtech of any provisions of this agreement and/or any suretyship which may be given by Medtech in

favour of Pharmacare in accordance with the provision of **clause 7.21**.

16.2. The suretyship referred to in **clause 16.1** shall remain of full force and effect and fully binding notwithstanding -

16.2.1. any amendment/s to this agreement and/or any other agreement from time to time subsisting between the parties;

16.2.2. any indulgence, concession, leniency or extension of time which may be shown or given by Pharmacare to Medtech;

16.2.3. the receipt by Pharmacare of any dividends, or other benefits in any liquidation, judicial management or other similar disability of Medtech;

16.2.4. any additional suretyships, guarantees, securities or indemnities acquired by Pharmacare in connection with the obligations of Medtech; and

16.2.5. the liquidation, judicial management or deregistration of Medtech or any compromise by Medtech with its creditors generally.

16.3. Prestige hereby renounces the benefits of the legal exceptions "*non causa debiti*", "*errore calculi*", "excussion", "division", "no value received", and "revision of accounts", with the meaning and effect of all of which it declares itself to be fully acquainted.

16.4. Prestige hereby warrants that it has a material interest in binding itself as aforesaid in favour of Pharmacare.

17. **ASPEN SURETYSHIP**

17.1. By its signature hereto, Aspen hereby binds itself in favour of Medtech as surety for and co-principal debtor *in solidum* with Pharmacare for the due and punctual payment and performance by Pharmacare of all of its obligations pursuant to this agreement and without restricting the generality of the aforegoing -

17.1.1. for any claim/s under any indemnity given by Pharmacare to Medtech;

17.1.2. for the payment of the Medtech compensation (**clause 7.19.5**); and/or

17.1.3. for the payment of any damages which Medtech may suffer as a result of, or in connection with any breach by Pharmacare of any provisions of this agreement.

17.2. The suretyship referred to in **clause 17.1** shall remain of full force and effect and fully binding notwithstanding -

17.2.1. any amendment/s to this agreement and/or any other agreement from time to time subsisting between the parties;

17.2.2. any indulgence, concession, leniency or extension of time which may be shown or given by Medtech to Pharmacare;

17.2.3. the receipt by Medtech of any dividends, or other benefits in any liquidation, judicial management or other similar disability of Pharmacare;

17.2.4. any additional suretyships, guarantees, securities or indemnities acquired by Medtech in connection with the obligations of Pharmacare; and

17.2.5. the liquidation, judicial management or deregistration of Pharmacare or any compromise by Pharmacare with its creditors generally.

17.3. Aspen hereby renounces the benefits of the legal exceptions "*non causa debiti*", "*errore calculi*", "excussion", "division", "no value received", and "revision of accounts", with the meaning and effect of all of which it declares itself to be fully acquainted.

17.4. Aspen hereby warrants that it has a material interest in binding itself as aforesaid in favour of Medtech.

18. **AFFILIATES**

18.1. Medtech undertakes to Pharmacare that it shall procure that all of its affiliates are bound by and that they comply with the provisions of this agreement.

18.2. Prestige undertakes to Pharmacare that it shall procure that all of its affiliates are bound by and that they comply with the provisions of this agreement.

19. **COSTS**

Each party shall be liable for its own costs incurred in relation to the negotiation, preparation and execution of this agreement.

[The remainder of this page deliberately left blank]

SIGNED by Pharmacare at …… on this 18th day of September, 2006

**For and on behalf of PHARMACARE LIMITED**

/s/ Stephen Bradley Saad

**STEPHEN BRADLEY SAAD,** Group Chief Executive, he warranting by his signature that he is duly authorised hereto

SIGNED by Medtech at Irvington, on this 18th day of September, 2006

**For and on behalf of MEDTECH PRODUCTS, INC.**

/s/ Peter C. Mann

**PETER C. MANN**, President, he warranting by his signature that he is duly authorised hereto

SIGNED by Prestige at Irvington, New York on this 18th day of September, 2006

**For and on behalf of PRESTIGE BRANDS HOLDINGS, INC.**

/s/ Peter C. Mann

**PETER C. MANN**, Chief Executive Officer, he warranting by his signature that he is duly authorized hereto

SIGNED BY Aspen at ..... on this 18th day of September, 2006

**For and on behalf of ASPEN PHARMACARE HOLDINGS LIMITED**

/s/ Stephen Bradley Saad

**STEPHEN BRADLEY SAAD**, Group Chief Executive, he warranting by his signature that he is duly authorised hereto

**EXHIBIT 10.3**

**PERFORMANCE SHARE GRANT AGREEMENT**

**[DATE]**

**[GRANTEE]**

Re: **Prestige Brands Holdings, Inc. Grant of Performance Shares**

Dear **[GRANTEE]**:

Prestige Brands Holdings, Inc. (the "Company") is pleased to advise you that, pursuant to the Company's 2005 Long-Term Equity Incentive Plan (the "Plan"), the Company's Compensation Committee and Board of Directors have granted to you performance shares, as set forth below (the "Performance Shares"), subject to the terms and conditions set forth herein. Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Plan.

As of the date hereof, you have been granted a performance share award in an aggregate amount equal to $_____ (the "Performance Award"). In order to calculate the amount of shares of common stock underlying the Performance Award (the "Performance Share Amount"), the Company has divided the Performance Award by $_____ (the "Initial Valuation Price"), the closing price of the Company's common stock on [DATE]. The term of the Performance Award shall be from [DATE] through [DATE] (the "Performance Cycle"). Upon the expiration of the Performance Cycle, the Company shall calculate the value of the Performance Award in accordance with the formula set forth below (the "Formula"). To the extent the number calculated pursuant to the Formula is greater than zero, such value shall be paid to you in shares of the Company's common stock, cash, other securities of the Company or any combination thereof, as the Compensation Committee may determine. For purposes of the Formula, the "Final Valuation Price" shall be the closing price of the Company's common stock on the New York Stock Exchange or any other exchange on which such shares may then be traded on the last business day of the Performance Cycle.

| | |
|---|---|
| Grant Date | [DATE] |
| Performance Award | $_____ |
| Initial Valuation Price | $_____ |
| Performance Share Amount | _____ |
| Performance Cycle | _____ |
| Formula | Performance Share Amount X (Final Valuation Price- Initial Valuation Price) |

If the Company decides to pay the value calculated pursuant to the Formula, or a portion thereof, in shares of the Company's common stock, the number of shares to be paid to you will equal such value divided by the Final Valuation Price. In order to be eligible to receive a payment pursuant to the Performance Award as described herein, you must be an employee of the Company on the date of expiration of the Performance Cycle. However, upon death, Retirement or Disability prior to the expiration of the Performance Cycle, you shall earn a Performance Award calculated by using the closing

stock price of the Company's common stock on the date your employment with the Company terminated as the Final Valuation Price; provided, that the value calculated pursuant to the Formula is greater than zero.

1. Conformity with Plan. The grant of Performance Shares is intended to conform in all respects with, and is subject to all applicable provisions of, the Plan (which is incorporated herein by reference). Inconsistencies between this Agreement and the Plan shall be resolved in accordance with the terms of the Plan. By executing and returning the enclosed copy of this Agreement, you acknowledge your receipt of this Agreement, the Plan and the other documents delivered herewith and agree to be bound by all of the terms of this Agreement and the Plan.

2. Change in Control. In the event of a Change in Control, the terms of the Plan shall govern the treatment of the Performance Award.

3. Rights of Participants. Nothing in this Agreement shall interfere with or limit in any way the right of the Company or its stockholders to terminate your duties as an employee at any time (with or without Cause), nor confer upon you any right to continue as an employee of the Company for any period of time, or to continue your present (or any other) rate of compensation.

4. Remedies. The parties hereto shall be entitled to enforce their rights under this Agreement specifically, to recover damages by reason of any breach of any provision of this Agreement and to exercise all other rights existing in their favor. The parties hereto acknowledge and agree that money damages would not be an adequate remedy for any breach of the provisions of this Agreement and that any party hereto may, in its sole discretion, apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive relief (without posting bond or other security) in order to enforce or prevent any violation of the provisions of this Agreement.

5. Successors and Assigns. Except as otherwise expressly provided herein, all covenants and agreements contained in this Agreement by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto whether so expressed or not.

6. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Agreement.

7. Counterparts. This Agreement may be executed simultaneously in two or more counterparts, each of which shall constitute an original, but all of which taken together shall constitute one and the same Agreement.

8. Descriptive Headings. The descriptive headings of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

9. Governing Law. THE VALIDITY, CONSTRUCTION, INTERPRETATION, ADMINISTRATION AND EFFECT OF THE PLAN, AND OF ITS RULES AND REGULATIONS, AND RIGHTS RELATING TO THE PLAN AND TO THIS AGREEMENT, SHALL BE GOVERNED BY THE SUBSTANTIVE LAWS, BUT NOT THE CHOICE OF LAW RULES, OF THE STATE OF DELAWARE

10. Notices. All notices, demands or other communications to be given or delivered under or by reason of the provisions of this Agreement shall be in writing and shall be deemed to have been given when delivered personally or mailed by certified or registered mail, return receipt requested and postage prepaid, to the recipient. Such notices, demands and other communications shall be sent to you at the address appearing on the signature page to this Agreement and to the Company at Prestige Brands Holdings, Inc., 90 North Broadway, Irvington, New York 10533, Attn: Secretary, or to such other address or to the attention of such other person as the recipient party has specified by prior written notice to the sending party.

11. Entire Agreement. This Agreement, together with the Exhibits attached hereto, constitute the entire understanding between you and the Company, and supersede all other agreements, whether written or oral, with respect to your Performance Shares.

* * * * *

**Signature Page to Performance Shares Grant Agreement**

Please execute the extra copy of this Agreement in the space below and return it to the Secretary at Prestige Brands Holdings, Inc. to confirm your understanding and acceptance of the agreements contained in this Agreement.

Very truly yours,
< font id="TAB2" style="LETTER-SPACING: 9pt">
Prestige Brands Holdings, Inc.

By:_____
Name:
&# 160; Title:

Enclosures: Agreement
Extra copy of this Agreement
Frequently Asked Questions
2005 Long-Term Equity Incentive Plan
Registration Statement on Form S-8

The undersigned hereby acknowledges having received and read all of the Enclosures referenced above. The Undersigned hereby agrees to be bound by all of the provisions set forth herein and in the Plan.

Dated as of _____

_____
**[GRANTEE]**

Address:

**Exhibit 31.1**

**CERTIFICATIONS**

I, Peter C. Mann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prestige Brands Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

**/s/ Peter C. Mann**
Peter C. Mann
President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATIONS**

I, Peter J. Anderson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prestige Brands Holdings, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

**/s/ Peter J. Anderson**
Peter J. Anderson
Chief Financial Officer

**Exhibit 31.3**

**CERTIFICATIONS**

I, Peter C. Mann, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prestige Brands International, LLC;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

**/s/ Peter C. Mann**
Peter C. Mann
President

**Exhibit 31.4**

**CERTIFICATIONS**

I, Peter J. Anderson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Prestige Brands International, LLC;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2006

**/s/ Peter J. Anderson**
Peter J. Anderson
Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter C. Mann, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Prestige Brands Holdings, Inc. on Form 10-Q for the quarter ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable, and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Prestige Brands Holdings, Inc.

**/s/ Peter C. Mann**

Name: Peter C. Mann
Title: President and Chief Executive Officer
Date: November 9, 2006

**EXHIBIT 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter J. Anderson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Prestige Brands Holdings, Inc. on Form 10-Q for the quarter ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable, and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Prestige Brands Holdings, Inc.

**/s/ Peter J. Anderson**
Name: Peter J. Anderson
Title: Chief Financial Officer
Date: November 9, 2006

**EXHIBIT 32.3**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter C. Mann, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Prestige Brands International, LLC on Form 10-Q for the quarter ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable, and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Prestige Brands International, LLC.

**/s/ Peter C. Mann**

Name: Peter C. Mann
Title: President
Date: November 9, 2006

**EXHIBIT 32.4**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**
**PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter J. Anderson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Prestige Brands International, LLC on Form 10-Q for the quarter ended September 30, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as applicable, and that information contained in such Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of Prestige Brands International, LLC.

**/s/ Peter J. Anderson**
Name: Peter J. Anderson
Title: Chief Financial Officer
Date: November 9, 2006