MORTONS RESTAURANT GROUP INC
Form PRER14A
June 17, 2002

SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 3)

Filed by the Registrant /X/

Filed by a Party other than the Registrant / /

Check the appropriate box:
/X/ Preliminary Proxy Statement
/ / Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
/ / Definitive Proxy Statement
/ / Definitive Additional Materials
/ / Soliciting Material Under Rule Section240.14a-12

MORTON'S RESTAURANT GROUP, INC.

(Name of Registrant as Specified In Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Amount Previously Paid:
----
(2) Form, Schedule or Registration Statement No.:
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(3) Filing Party:
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(4) Date Filed:

PRELIMINARY COPY, SUBJECT TO COMPLETION, DATED JUNE 17, 2002

[INSERT LOGO]

MORTON'S RESTAURANT GROUP, INC.
3333 NEW HYDE PARK ROAD
NEW HYDE PARK, NEW YORK 11042
[ ], 2002

Dear Stockholder:

You are cordially invited to attend a special meeting of stockholders of Morton's Restaurant Group, Inc. ("Morton's") to be held at 9:00 a.m. (local time) on Tuesday, July 23, 2002, at The Garden City Hotel, 45 Seventh Street, Garden City, New York 11530.

At the special meeting, you will be asked to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of March 26, 2002, as amended on June 15, 2002, by and among Morton's Acquisition Company ("Morton's Acquisition"), Morton's Holdings, LLC (formerly known as Morton's Holdings, Inc., "Morton's Holdings") and Morton's, and to approve the merger contemplated by the merger agreement. Morton's Holdings is wholly owned by Castle Harlan Partners III, L.P. ("CHP"), a private investment fund that makes investments identified by its affiliates. Under the merger agreement, Morton's Acquisition, a wholly owned subsidiary of Morton's Holdings, will be merged with and into Morton's, with Morton's as the surviving corporation. Upon completion of the merger, each issued and outstanding share of Morton's common stock will be converted into the right to receive $13.50 in cash without interest (other than shares held by Morton's or any of Morton's subsidiaries, held in Morton's treasury, or held by Morton's Holdings or Morton's Acquisition, or shares held by Morton's stockholders who perfect their appraisal rights under Delaware law). Following completion of the merger, Morton's will continue its operations, but as a privately held company.

The Board of Directors of Morton's formed a Special Committee, which is composed of directors who are not officers or employees of Morton's, Morton's Holdings, Morton's Acquisition or CHP and who have no financial interest in the proposed merger different from Morton's stockholders generally. The Special Committee, acting with the advice and assistance of its own legal and financial advisors, evaluated and negotiated the merger proposal, including the terms of the merger agreement, with Morton's Holdings and Morton's Acquisition. The Special Committee unanimously determined that the proposed merger and merger agreement are fair to and in the best interests of Morton's and its unaffiliated stockholders, approved the merger and the merger agreement and recommended to the Board of Directors to approve and adopt the merger agreement and approve the merger. The Board of Directors, based in part on the unanimous recommendation of the Special Committee, has determined by the unanimous vote of those participating that the merger is fair to and in the best interests of Morton's

and its unaffiliated stockholders and has approved and adopted the merger agreement and approved the merger. THEREFORE, THE BOARD OF DIRECTORS, BASED ON THE UNANIMOUS RECOMMENDATION OF THE SPECIAL COMMITTEE, RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER.

In reaching their decisions, the Board of Directors and the Special Committee considered, among other things, the oral opinion, subsequently confirmed by the written opinion, dated March 26, 2002, of Greenhill & Co., LLC, the Special Committee's financial advisor. This opinion stated that, based on and subject to the considerations, limitations, assumptions and qualifications set forth in the opinion, as of March 26, 2002, the $12.60 per share cash consideration that was to be received by Morton's stockholders in the proposed merger was fair, from a financial point of view, to Morton's stockholders (other than Morton's Holdings and its subsidiaries, including Morton's Acquisition, and CHP and its affiliates). A copy of Greenhill's written opinion is attached to the proxy statement as Appendix B and should be read in its entirety. On June 15, 2002, the cash merger consideration was increased to $13.50 per share.

The enclosed proxy statement provides information about Morton's, Morton's Holdings, Morton's Acquisition, certain of their affiliates, the merger agreement, the proposed merger and the special meeting. A copy of the merger agreement is attached to the proxy statement as Appendix A for your information. You may obtain additional information about Morton's from documents filed with the Securities and Exchange Commission. PLEASE READ THE ENTIRE PROXY STATEMENT CAREFULLY, INCLUDING THE APPENDICES. IN PARTICULAR, BEFORE VOTING, YOU SHOULD CAREFULLY CONSIDER THE DISCUSSION IN THE SECTION OF THE PROXY STATEMENT ENTITLED "SPECIAL FACTORS."

YOUR VOTE IS VERY IMPORTANT. THE MERGER CANNOT BE COMPLETED UNLESS THE HOLDERS OF A MAJORITY OF THE OUTSTANDING SHARES OF MORTON'S COMMON STOCK ENTITLED TO VOTE APPROVE AND ADOPT THE MERGER AGREEMENT AND APPROVE THE MERGER. WHETHER OR NOT YOU PLAN TO ATTEND THE SPECIAL MEETING, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED WHITE PROXY CARD. IF YOU COMPLETE, DATE, SIGN AND RETURN YOUR WHITE PROXY CARD WITHOUT INDICATING HOW YOU WISH TO VOTE, YOUR PROXY WILL BE COUNTED AS A VOTE IN FAVOR OF THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER. IF YOU FAIL TO RETURN YOUR WHITE PROXY CARD AND FAIL TO VOTE AT THE SPECIAL MEETING, THE EFFECT WILL BE THE SAME AS A VOTE AGAINST THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER. RETURNING THE WHITE PROXY CARD DOES NOT DEPRIVE YOU OF YOUR RIGHT TO ATTEND THE SPECIAL MEETING AND VOTE YOUR SHARES IN PERSON.

Sincerely,

Allen J. Bernstein
Chairman of the Board,
President and Chief Executive Officer

New Hyde Park, New York

This proxy statement is dated [, 2002] and is first being mailed to stockholders of Morton's on or about [, 2002].

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THIS TRANSACTION, PASSED UPON THE MERITS OR FAIRNESS OF THIS TRANSACTION OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE INFORMATION CONTAINED IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

PRELIMINARY COPY, SUBJECT TO COMPLETION
DATED JUNE 17, 2002
[INSERT LOGO]

MORTON'S RESTAURANT GROUP, INC.
3333 NEW HYDE PARK ROAD
NEW HYDE PARK, NEW YORK 11042

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 23, 2002

To the Stockholders of
Morton's Restaurant Group, Inc.:

Notice is hereby given that a special meeting of stockholders of Morton's Restaurant Group, Inc., a Delaware corporation ("Morton's"), will be held at The Garden City Hotel, 45 Seventh Street, Garden City, New York 11530, at 9:00 a.m. (local time) on July 23, 2002, for the following purposes:

1. To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of March 26, 2002, as amended on June 15, 2002, by and among Morton's Holdings, LLC (formerly known as Morton's Holdings, Inc., "Morton's Holdings"), Morton's Acquisition Company ("Morton's Acquisition") and Morton's, and to approve the merger contemplated by the merger agreement. Morton's Holdings is wholly owned by Castle Harlan Partners III, L.P., a private investment fund that makes investments identified by its affiliates. Under the merger agreement, Morton's Acquisition, a wholly owned subsidiary of Morton's Holdings, will be merged with and into Morton's, with Morton's as the surviving corporation. Upon completion of the merger, each issued and outstanding share of Morton's common stock will be converted into the right to receive $13.50 in cash without interest (other than shares held by Morton's or any of Morton's subsidiaries, held in Morton's treasury, or held by Morton's Holdings or Morton's Acquisition, or shares held by Morton's stockholders who perfect their appraisal rights under Delaware law).

2. To consider and vote upon such other matters as may properly come before the special meeting, including the approval of any adjournment of the special meeting solely for the purpose of soliciting additional proxies in favor of proposal 1, if necessary.

Only holders of record of Morton's common stock at the close of business on May 29, 2002, the record date, are entitled to notice of, and to vote at, the special meeting or any adjournments or postponements thereof.

THE BOARD OF DIRECTORS, BASED IN PART ON THE UNANIMOUS RECOMMENDATION OF THE SPECIAL COMMITTEE, HAS DETERMINED BY THE UNANIMOUS VOTE OF THOSE PARTICIPATING THAT THE MERGER IS FAIR TO AND IN THE BEST INTERESTS OF MORTON'S AND ITS UNAFFILIATED STOCKHOLDERS AND HAS APPROVED AND ADOPTED THE MERGER AGREEMENT AND APPROVED THE MERGER. THEREFORE, THE BOARD OF DIRECTORS, BASED ON THE UNANIMOUS RECOMMENDATION OF THE SPECIAL COMMITTEE, RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER.

Stockholders of Morton's who do not vote in favor of the approval and adoption of the merger agreement and the approval of the merger will have the right to seek appraisal of the fair value of their shares of Morton's common stock if the merger is completed, but only if they submit a written demand for an appraisal before the vote is taken on the merger agreement and the merger and they comply with Delaware law as explained in the accompanying proxy statement.

YOUR VOTE IS VERY IMPORTANT. THE MERGER CANNOT BE COMPLETED UNLESS THE

HOLDERS OF A MAJORITY OF THE OUTSTANDING SHARES OF MORTON'S COMMON STOCK ENTITLED TO VOTE APPROVE AND ADOPT THE MERGER AGREEMENT AND APPROVE THE MERGER. EVEN IF YOU PLAN TO ATTEND THE SPECIAL MEETING IN PERSON, PLEASE COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED WHITE PROXY CARD TO ENSURE THAT YOUR SHARES WILL BE REPRESENTED AT THE SPECIAL MEETING. A RETURN ENVELOPE (WHICH IS POSTAGE PREPAID IF MAILED IN THE UNITED STATES) IS ENCLOSED FOR THAT PURPOSE. IF YOU ATTEND THE SPECIAL MEETING AND WISH TO VOTE IN PERSON, YOU MAY WITHDRAW YOUR PROXY AND VOTE IN PERSON. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE AT THE SPECIAL MEETING, YOU MUST OBTAIN FROM THE RECORD HOLDER A PROXY ISSUED IN YOUR NAME.

The merger is described in the accompanying proxy statement, which you are urged to read carefully. A copy of the merger agreement is attached to the accompanying proxy statement as Appendix A for your information.

By Order of the Board of Directors,

Agnes Longarzo
Secretary

New Hyde Park, New York
[, 2002]

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APPENDIX A	Agreement and Plan of Merger, dated as of March 26, 2002, as amended on June 15, 2002, by and among Morton's Holdings, LLC (formerly known as Morton's Holdings, Inc.), Morton's Acquisition Company and Morton's Restaurant Group, Inc.

APPENDIX B.................................. Opinion of Greenhill & Co., LLC, dated March 26, 2002.

APPENDIX C.................................. Section 262 of the Delaware General Corporation Law.

APPENDIX D.................................. Information Relating to the Directors and Executive Officers of Morton's Restaurant Group, Inc.

APPENDIX E.................................. Information Relating to Morton's Holdings, LLC, Morton's Acquisition Company, Castle Harlan Partners III, L.P., John K. Castle and David B. Pittaway and Information Relating to the Directors and Executive Officers of Castle Harlan Partners III, G.P., Inc., Morton's Holdings, LLC and Morton's Acquisition Company.

APPENDIX F.................................. Annual Report on Form 10-K/A for the Fiscal Year Ended December 30, 2001.

APPENDIX G.................................. Quarterly Report on Form 10-Q/A for the Fiscal Quarter Ended March 31, 2002.

SUMMARY TERM SHEET

This Summary Term Sheet highlights selected information contained in the proxy statement and may not contain all of the information that is important to you. You are urged to read the entire proxy statement carefully, including the appendices. In the proxy statement, the terms Morton's and the Company refer to Morton's Restaurant Group, Inc.

- STOCKHOLDER VOTE--You are being asked to consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of March 26, 2002, as amended on June 15, 2002, by and among Morton's Acquisition Company, Morton's Holdings, LLC (formerly known as Morton's Holdings, Inc.) and Morton's, and the merger contemplated by the merger agreement. Under the merger agreement, Morton's Acquisition will be merged into Morton's, with Morton's as the surviving corporation. Approval and adoption of the merger agreement and approval of the merger require the affirmative vote of the holders of a majority of the outstanding shares of Morton's common stock. See "The Special Meeting" beginning on page 18.

- PAYMENT--Upon completion of the merger, you will be entitled to receive $13.50 in cash, without interest, for each share of Morton's common stock that you own. You will not own any shares of Morton's common stock or any other interest in Morton's after completion of the merger. Each outstanding option to purchase shares of Morton's common stock will be canceled at the effective time of the merger, and each option holder will be entitled to receive a cash payment, without interest, equal to the difference between $13.50 and the exercise price of the option, multiplied by the number of shares subject to the option. Options with an exercise price equal to or greater than $13.50 per share, however, will be canceled at the effective time of the merger without any payment or other consideration. See "The Merger Agreement" beginning on page 76.

- SPECIAL COMMITTEE--The Special Committee is a committee of Morton's Board of Directors that, with the advice and assistance of its own legal and

financial advisors, evaluated and negotiated the merger proposal, including the terms of the merger agreement, with Morton's Holdings and Morton's Acquisition. The Special Committee consists solely of directors who are not officers or employees of Morton's or of Morton's Holdings, Morton's Acquisition or CHP and who have no financial interest in the proposed merger different from Morton's stockholders generally. The members of the Special Committee are Robert L. Barney, Lee M. Cohn (Chairman) and Alan A. Teran.

- MORTON'S HOLDINGS--Morton's Holdings is Morton's Holdings, LLC, a newly formed Delaware limited liability company wholly owned by Castle Harlan Partners III, L.P., referred to as CHP, a private investment fund, organized as a Delaware limited partnership, that makes investments identified by its affiliates. See "The Participants" beginning on page 20.

- MORTON'S ACQUISITION--Morton's Acquisition is Morton's Acquisition Company, a newly formed Delaware corporation and a wholly owned subsidiary of Morton's Holdings, LLC. See "The Participants" beginning on page 20.

- FAIRNESS OF THE MERGER--The Special Committee and, based in part upon the unanimous recommendation of the Special Committee, the Board of Directors of Morton's have each determined that the terms of the merger agreement and the proposed merger are fair to and in the best interests of Morton's and its unaffiliated stockholders. See "Special Factors--Reasons for the Recommendation of the Special Committee and the Board of Directors" beginning on page 43.

- TAX CONSEQUENCES--Generally, the merger will be taxable for U.S. federal income tax purposes for Morton's stockholders. You will recognize taxable gain or loss in the amount of the difference between $13.50 and your adjusted tax basis for each share of Morton's common stock

that you own. See "Special Factors--Material U.S. Federal Income Tax Consequences" beginning on page 71.

- CONDITIONS--The merger agreement and the merger are subject to approval by the holders of a majority of the outstanding shares of Morton's common stock, as well as other conditions, including that the parties obtain required governmental consents and approvals (including liquor licenses necessary to maintain continuity of service of alcoholic beverages post-merger), that no court or governmental entity has imposed an order or injunction prohibiting the merger, that Morton's has received identified third party consents and approvals (including with respect to mortgage financing and equipment leasing contracts) and that no event has occurred that has resulted in or would reasonably be likely to result in a material adverse effect on Morton's. See "The Merger Agreement--Conditions to Completing the Merger" beginning on page 87.

- AFTER THE MERGER--Upon completion of the merger, Morton's Holdings will own 100% of Morton's. You will cease to have ownership interests in Morton's or rights as Morton's stockholders, and, as a result, if the merger is completed, you will not participate in any future earnings, losses, growth or decline of Morton's. See "Special Factors--Effects of the Merger; Plans or Proposals After the Merger" beginning on page 63.

QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: WHAT AM I BEING ASKED TO VOTE UPON? (see page 18)

A: You are being asked to consider and vote upon a proposal to approve and adopt the merger agreement and to approve the merger contemplated by the merger agreement. Under the merger agreement, Morton's Acquisition will be merged with and into Morton's, with Morton's as the surviving corporation. Morton's Acquisition is a newly formed Delaware corporation that is wholly owned by Morton's Holdings, a newly formed Delaware limited liability company. If the merger agreement and the merger are approved and adopted and the merger is completed, Morton's will no longer be a publicly held corporation, and you will no longer own Morton's common stock.

Q: WHAT WILL I RECEIVE IN THE MERGER? (see page 77)

A: Upon completion of the merger, you will be entitled to receive $13.50 in cash, without interest, for each issued and outstanding share of Morton's common stock.

Q: WHY IS THE BOARD OF DIRECTORS RECOMMENDING THAT I VOTE IN FAVOR OF THE MERGER AGREEMENT AND THE MERGER? (see page 43)

A: In the opinion of the Board of Directors, the merger is fair to and in the best interests of Morton's and its unaffiliated stockholders. The Board of Directors has based this opinion, in part, on (1) the unanimous recommendation of the Special Committee of the Board of Directors, which consists solely of directors who are not officers or employees of Morton's, Morton's Holdings, Morton's Acquisition or CHP and who have no financial interest in the proposed merger different from Morton's stockholders generally, that the Board of Directors approve and adopt the merger agreement and approve the merger and (2) the oral opinion, subsequently confirmed by the written opinion, dated March 26, 2002, of Greenhill & Co., LLC, the Special Committee's financial advisor, that, based on and subject to the considerations, limitations, assumptions and qualifications set forth in the opinion, as of March 26, 2002, the $12.60 per share cash consideration that was to be received by Morton's stockholders in the proposed merger was fair, from a financial point of view, to Morton's stockholders (other than Morton's Holdings and its subsidiaries, including Morton's Acquisition, and CHP and its affiliates). On June 15, 2002, the cash merger consideration was increased to $13.50 per share. THEREFORE, THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER. Because of their affiliation with CHP, directors John K. Castle and David B. Pittaway did not participate in or vote at the meeting of the Board of Directors on March 26, 2002 at which the Board of Directors discussed and approved the merger agreement and the

merger, or the meeting of the Board of Directors on June 15, 2002 at which the Board of Directors discussed and

approved the amendment to the merger agreement. They also were not present during any deliberations of the Board of Directors at which Morton's strategic alternatives were discussed from the time that affiliates of Morton's Holdings began exploring a possible transaction with Morton's in August 2001. Because Morton's Holdings informed Morton's after entering into the original merger agreement that Morton's Holdings intends to offer to senior employees, including directors Allen J. Bernstein and Thomas J. Baldwin, the opportunity to subscribe for equity interests in Morton's Holdings of up to an aggregate of approximately 7.5% of the total equity interests of Morton's Holdings, Messrs. Bernstein and Baldwin did not participate in or vote at the meeting of the Board of Directors on June 15, 2002 at which the Board of Directors discussed and approved the amendment to the merger agreement.

Q: ARE THERE RISKS TO BE CONSIDERED? (see page 63)

A: Under the terms of the merger agreement, the cash consideration of $13.50 per share will not change even if the market price of our common stock changes before the merger is completed. Additionally, if the merger is completed, public stockholders of Morton's will not participate in any future earnings, losses, growth or decline of Morton's. For other factors to be considered, see "Special Factors," particularly "--Effects of the Merger; Plans or Proposals After the Merger" and "--Interests of Morton's Directors and Officers in the Merger."

Q: WHEN DO YOU EXPECT THE MERGER TO BE COMPLETED?

A: The parties to the merger agreement are working toward completing the merger as quickly as possible. If Morton's stockholders approve the merger agreement and the other conditions to the merger are satisfied or waived, the merger is expected to be completed in the summer of 2002.

Q: WHAT ARE THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE MERGER TO ME? (see page 71)

A: The receipt of cash for shares of common stock in the merger will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local, foreign or other tax laws. Generally, you will recognize gain or loss for these purposes equal to the difference between $13.50 per share and your tax basis for the shares of common stock that you owned immediately before completion of the merger. For U.S. federal income tax purposes, this gain or loss generally would be a capital gain or loss if you held the shares of common stock as a capital asset.

TAX MATTERS ARE VERY COMPLEX, AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND ON THE FACTS OF YOUR OWN SITUATION. YOU SHOULD CONSULT YOUR TAX ADVISOR FOR A FULL UNDERSTANDING OF THE TAX CONSEQUENCES OF THE MERGER TO YOU.

Q: WHEN AND WHERE IS THE SPECIAL MEETING?

A: The special meeting of Morton's stockholders will be held at The Garden City Hotel, 45 Seventh Street, Garden City, New

York 11530, at 9:00 a.m. (local time) on July 23, 2002.

Q: WHO CAN VOTE ON THE MERGER AGREEMENT?

A: Holders of Morton's common stock at the close of business on May 29, 2002, the record date for the special meeting, may vote in person or by proxy on the merger agreement and the merger at the special meeting.

Q: WHAT VOTE IS REQUIRED TO APPROVE AND ADOPT THE MERGER AGREEMENT AND TO APPROVE THE MERGER?

A: The approval and adoption of the merger agreement and the approval of the merger require the affirmative vote of the holders of at least a majority of the outstanding shares of Morton's common stock. The executive officers of Morton's, owning an aggregate of approximately 6.80% of Morton's common stock, have indicated to us that they intend to vote in favor of the merger agreement and the merger.

Q: WHAT DO I NEED TO DO NOW?

A: You should read this proxy statement carefully, including its appendices, and consider how the merger affects you. Then, mail your completed, dated and signed white proxy card in the enclosed return envelope as soon as possible so that your shares can be voted at the special meeting of Morton's stockholders.

Q: WHAT HAPPENS IF I DO NOT RETURN A WHITE PROXY CARD?

A: The failure to return your white proxy card will have the same effect as voting against the merger agreement and the merger.

Q: MAY I VOTE IN PERSON?

A: Yes. You may attend the special meeting of Morton's stockholders and vote your shares in person whether or not you sign and return your proxy card. If your shares are held of record by a broker, bank or other nominee and you wish to vote at the special meeting, you must obtain a proxy from the record holder.

Q: MAY I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD?

A: Yes. You may change your vote at any time before your proxy card is voted at the special meeting. You can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy card. Third, you can attend the special meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions.

Q: IF MY SHARES ARE HELD IN "STREET NAME" BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME?

A: Your broker will not be able to vote your shares without instructions from you. You should instruct your broker to vote your shares, following the procedures provided by your broker.

Q: SHOULD I SEND IN MY STOCK CERTIFICATES NOW?

A: No. After the merger is completed, you will receive written

instructions for exchanging your shares of Morton's common stock for a cash payment of $13.50 per share, without interest.

Q: WHAT RIGHTS DO I HAVE TO SEEK AN APPRAISAL OF MY SHARES? (see page 73)

A: If you wish, you may seek an appraisal of the fair value of your shares, but only if you comply with all requirements of Delaware law as described on pages 73 through 76 and in Appendix C of this proxy statement. Depending upon the determination of the Delaware Court of Chancery, the appraised fair value of your shares of Morton's common stock, which you will receive if you seek an appraisal, may be less than, equal to or more than the $13.50 per share to be paid in the merger.

Q: WHO CAN HELP ANSWER MY QUESTIONS?

A: The information provided above in question-and-answer format is for your convenience only and is merely a summary of the information contained in this proxy statement. You should carefully read the entire proxy statement, including the appendices. If you would like additional copies, without charge, of this proxy statement or if you have questions about the merger, including the procedures for voting your shares, you should contact:

Morton's Restaurant Group, Inc.
Attention: Thomas J. Baldwin
3333 New Hyde Park Road
New Hyde Park, New York 11042
Telephone: (516) 627-1515
OR
Georgeson Shareholder Communications Inc.
17 State Street, 10th Floor
New York, New York 10004
Telephone: (866) 300-8590

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SUMMARY

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. For a more complete understanding of the merger, you should carefully read this entire document and the documents that it references. In particular, you should read the documents that are part of the proxy statement, including the merger agreement that is attached to the proxy statement as Appendix A for your information. In addition, important information about Morton's is provided in the Annual Report on Form 10K/A for the fiscal year ended December 30, 2001 and the Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2002, included as Appendix F and Appendix G, respectively, to the proxy statement. Page references are included in parentheses at various points in this summary to direct you to a more detailed description in the proxy statement of the topics presented.

THE MERGER (see page 76)

Under the merger agreement, Morton's Acquisition will merge with and into Morton's, and each issued and outstanding share of Morton's common stock will be converted into the right to receive $13.50 in cash, without interest (other than shares held by Morton's or any of Morton's subsidiaries, held in Morton's treasury, or held by Morton's Holdings or Morton's Acquisition, or shares held by Morton's stockholders who perfect their appraisal rights under Delaware law).

Each outstanding option to purchase shares of Morton's common stock will be canceled at the effective time of the merger, and each option holder will be entitled to receive a cash payment, without interest, equal to the difference between $13.50 and the exercise price of the option, multiplied by the number of shares subject to the option. Options with an exercise price equal to or greater than $13.50 per share, however, will be canceled at the effective time of the merger without any payment or other consideration. The merger will become effective upon the filing of a certificate of merger with the Secretary of State of the State of Delaware. The parties intend to complete the merger as soon as practicable once all conditions to the merger have been satisfied or waived, which they anticipate will be in the summer of 2002. Upon completion of the merger, Morton's will be the surviving corporation and will be a wholly-owned subsidiary of Morton's Holdings, and Morton's Acquisition will cease to exist. Unless otherwise specified, references in this proxy statement to the merger agreement are to the merger agreement as amended through the date of this proxy statement.

THE PARTICIPANTS (see page 20)

MORTON'S RESTAURANT GROUP, INC.

Morton's owns and operates 61 Morton's of Chicago Steakhouse restaurants and 4 Bertolini's Authentic Trattoria restaurants. These concepts appeal to a broad spectrum of consumer tastes and target separate price points and dining experiences. Morton's provides strategic support and direction to its subsidiary companies and evaluates and analyzes potential locations for new restaurants. Morton's was incorporated in Delaware in October 1988 and its executive offices are located at 3333 New Hyde Park Road, New Hyde Park, New York 11042. Information about the directors and executive officers of Morton's is set forth in Appendix D to this proxy statement.

MORTON'S HOLDINGS, LLC AND
MORTON'S ACQUISITION COMPANY

Morton's Holdings, LLC, referred to as Morton's Holdings, is a Delaware limited liability company that is wholly owned by its sole member, Castle Harlan Partners III, L.P., referred to as CHP. Morton's Holdings was originally formed as a Delaware corporation under the name of "Morton's Holdings, Inc." and was recently converted into a Delaware limited liability company. Morton's Acquisition Company, referred to as Morton's Acquisition, is a Delaware corporation that is wholly owned by Morton's Holdings. Both Morton's Holdings and Morton's Acquisition were formed solely for purposes of completing the merger and have not participated in any activities to date other than those

incident to their formation and the transactions contemplated by the merger agreement. Morton's Holdings and Morton's Acquisition were incorporated in Delaware in March 2002. Morton's Holdings was converted into a Delaware limited liability company in April 2002. Additional information about Morton's Holdings and Morton's Acquisition and information about the directors and executive officers of Morton's Holdings and Morton's Acquisition is set forth in Appendix E to this proxy statement.

CASTLE HARLAN PARTNERS III, L.P.

Castle Harlan Partners III, L.P., referred to as CHP, is a private investment fund, organized as a limited partnership under the laws of the State of Delaware, which makes investments identified by its affiliates. CHP and its affiliates have approximately $630 million of committed capital. Since 1987, CHP and its predecessor investment funds have completed acquisitions of approximately $5 billion. CHP and its affiliates are highly experienced

investors that have successfully completed 35 transactions in a wide variety of industries, including aviation services, consumer products, energy services, general manufacturing and restaurants. Additional information about CHP is set forth in Appendix E to this proxy statement.

JOHN K. CASTLE

John K. Castle is a natural person and a United States citizen. John K. Castle's principal business address is c/o Castle Harlan Partners III, L.P., 150 East 58th Street, New York, New York 10155 and his business telephone number is (212) 644-8600. John K. Castle is an executive officer of certain affiliates of CHP and is a member of the Board of Directors of Morton's. Additional information about the foregoing individual is set forth in Appendix E to this proxy statement.

DAVID B. PITTAWAY

David B. Pittaway is a natural person and a United States citizen. David B. Pittaway's principal business address is c/o Castle Harlan Partners III, L.P., 150 East 58th Street, New York, New York 10155 and his business telephone number is (212) 644-8600. David B. Pittaway is an executive officer of certain affiliates of CHP and is a member of the Board of Directors of Morton's. Additional information about the foregoing individual is set forth in Appendix E to this proxy statement.

REASONS FOR THE RECOMMENDATION OF THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS (see page 43)

The Board of Directors of Morton's formed a Special Committee, which is composed of directors who are not officers or employees of Morton's, Morton's Holdings, Morton's Acquisition or CHP and who have no financial interest in the proposed merger different from Morton's stockholders generally. The Special Committee, acting with the advice and assistance of its own legal and financial advisors, evaluated and negotiated the merger proposal, including the terms of the merger agreement, with Morton's Holdings and Morton's Acquisition. The Special Committee unanimously determined that the proposed merger and merger agreement are fair to and in the best interests of Morton's and its unaffiliated stockholders, approved the merger and the merger agreement and recommended to the Board of Directors to approve and adopt the merger agreement and approve the merger. The Board of Directors, based in part on the unanimous recommendation of the Special Committee, has determined by unanimous vote of those participating that the merger is fair to and in the best interests of Morton's and its unaffiliated stockholders and has approved and adopted the merger agreement and approved the merger. THEREFORE, THE BOARD OF DIRECTORS, BASED ON THE UNANIMOUS RECOMMENDATION OF THE SPECIAL COMMITTEE, RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT AND THE APPROVAL OF THE MERGER. Each of the Board of Directors and the Special Committee based its decision on a number of factors, including the oral opinion, subsequently confirmed by the written opinion, dated March 26, 2002, of Greenhill & Co., LLC, the Special Committee's financial advisor, referred to as Greenhill, that, based on and subject to the considerations, limitations, assumptions and qualifications set forth in the opinion, as of March 26, 2002, the $12.60 per share cash consideration that was to be received by Morton's stockholders in the proposed merger was fair, from a financial

point of view, to Morton's stockholders (other than Morton's Holdings and its subsidiaries, including Morton's Acquisition, and CHP and its affiliates). On June 15, 2002, the cash merger consideration was increased to $13.50 per share.

Because of their affiliation with CHP, directors John K. Castle and David B.

Pittaway did not participate in or vote at the meeting of the Board of Directors on March 26, 2002 at which the Board of Directors discussed and approved the merger agreement and the merger, or the meeting of the Board of Directors on June 15, 2002 at which the Board of Directors discussed and approved the amendment to the merger agreement. They also were not present during any deliberations of the Board of Directors at which Morton's strategic alternatives were discussed from the time that affiliates of Morton's Holdings began exploring a possible transaction with Morton's in August 2001. Because Morton's Holdings informed Morton's after entering into the original merger agreement that Morton's Holdings intends to offer to senior employees, including directors Allen J. Bernstein and Thomas J. Baldwin, the opportunity to subscribe for equity interests in Morton's Holdings of up to an aggregate of approximately 7.5% of the total equity interests of Morton's Holdings, Messrs. Bernstein and Baldwin did not participate in or vote at the meeting of the Board of Directors on June 15, 2002 at which the Board of Directors discussed and approved the amendment to the merger agreement.

POSITION OF MORTON'S HOLDINGS, MORTON'S ACQUISITION, CHP, JOHN K. CASTLE AND DAVID B. PITTAWAY AS TO THE FAIRNESS OF THE MERGER (see page 50)

Each of Morton's Holdings, Morton's Acquisition, CHP, John K. Castle and David B. Pittaway (we refer to Morton's Holdings, Morton's Acquisition, CHP and Messrs. Castle and Pittaway as the "CH Parties") believes that the consideration to be received in the merger by Morton's unaffiliated stockholders is fair to such stockholders from a financial point of view and that the merger is procedurally fair to Morton's unaffiliated stockholders.

OPINION OF FINANCIAL ADVISOR TO THE SPECIAL COMMITTEE (see page 56)

In deciding to approve the terms of the merger agreement and the merger, one of the factors that the Board of Directors and the Special Committee considered was the oral opinion, subsequently confirmed by the written opinion, dated March 26, 2002, of Greenhill, the Special Committee's financial advisor, that, based on and subject to the considerations, limitations, assumptions and qualifications set forth in the opinion, as of March 26, 2002, the $12.60 per share cash consideration that was to be received by Morton's stockholders in the proposed merger was fair, from a financial point of view, to Morton's stockholders (other than Morton's Holdings and its subsidiaries, including Morton's Acquisition, and CHP and its affiliates). The complete Greenhill opinion, including applicable considerations, limitations, assumptions and qualifications, describes the basis for the opinion and is attached as Appendix B to this proxy statement. YOU ARE URGED TO READ THE ENTIRE OPINION CAREFULLY. GREENHILL'S OPINION WAS ADDRESSED TO THE SPECIAL COMMITTEE AND THE BOARD OF DIRECTORS FOR THE PURPOSES OF THEIR EVALUATION OF THE MERGER AND DOES NOT CONSTITUTE A RECOMMENDATION TO ANY MORTON'S STOCKHOLDER AS TO HOW TO VOTE WITH RESPECT TO THE PROPOSED MERGER.

INTERESTS OF MORTON'S DIRECTORS AND OFFICERS IN THE MERGER (see page 65)

The merger is not conditioned on any agreement or transaction with the current management of Morton's. Prior to the execution of the merger agreement, neither Morton's Holdings nor any of its affiliates (including Messrs. Castle and Pittaway) had any discussions or negotiations with the executive officers of Morton's regarding any proposed changes to their employment or other compensation arrangements or the terms of any investment in Morton's Holdings or Morton's following the completion of the merger. When considering the recommendation of the Board of Directors that you vote for approval and adoption of the merger agreement and approval of the merger, however, you

should be aware that a number of Morton's directors and officers have interests

in the merger that are different from, or in addition to, yours. These interests include the following:

- John K. Castle and David B. Pittaway are executive officers of certain affiliates of CHP, and each has an indirect financial interest in Morton's Holdings;

- the merger agreement provides that the current officers of Morton's, including Allen J. Bernstein and Thomas J. Baldwin, will continue as the officers of Morton's immediately following the merger until their successors are duly elected or appointed and qualified or until their earlier death, resignation or removal;

- Allen J. Bernstein, Thomas J. Baldwin, John K. Castle, Lee M. Cohn, Alan A. Teran, Dr. John J. Connolly and David B. Pittaway also serve on the boards of directors of one or more private companies controlled by CHP and its affiliates. Dr. Connolly and Mr. Castle are principals in several medical publishing ventures. Dianne H. Russell is also an officer of one of the Company's lenders;

- Morton's Holdings has informed Morton's that Morton's Holdings intends to offer to certain senior employees, including Allen J. Bernstein and Thomas J. Baldwin, the opportunity to subscribe for equity interests in Morton's Holdings of up to an aggregate of approximately 7.5% of the total equity interests of Morton's Holdings. It is expected that the subscription by these individuals for equity interests in Morton's Holdings, if any, would be on substantially the same terms as the subscription by CHP for equity interests in Morton's Holdings at the time of completion of the merger. Any such investment will reduce, on a dollar-for-dollar basis, the amount of cash merger consideration to be received by any such individual in exchange for such individual's shares of Morton's common stock in the merger. The identity of the individuals who may subscribe for equity interests in Morton's Holdings, and the percentage ownership of Morton's Holdings that such individuals may hold following the merger in this connection (not to exceed 7.5% in the aggregate), may vary and may not be finally determined until shortly prior to completion of the merger. The opportunities to invest in Morton's Holdings provides these individuals with interests in the merger that are different from, or in addition to, your interests as a Morton's stockholder;

- Morton's Holdings has informed Morton's that Morton's Holdings expects that, following completion of the merger, an aggregate of approximately 10-15% of the common equity interests of Morton's Holdings will be reserved pursuant to an employee equity incentive program that provides for the issuance to employees of the surviving corporation of options to purchase equity interests in Morton's Holdings and/or restricted equity interests in Morton's Holdings. Morton's Holdings has not determined the details of the employee equity incentive program and has not determined who may be eligible to participate in the program or the conditions for eligibility for and vesting of such awards;

- there are currently no plans, proposals or negotiations that relate to, or would result in, a change in the terms of the employment or other compensation arrangements of Morton's executive officers. All of these employment or other compensation arrangements were entered into prior to, and not in anticipation of, the negotiation of the merger agreement;

- pursuant to change of control agreements that were entered into prior to, and not in anticipation of, the negotiation of the merger agreement, each of the seven executive officers will receive payments of up to three times their current compensation, which amounts range from approximately $440,000 to approximately $4,546,000, if their employment is terminated

within three years of the merger by the employee for good reason or by the employer without cause;

- all options for shares of Morton's common stock, specifically options for 843,475 shares held by Morton's executive officers and options for 287,799 shares held by other Morton's employees, will be fully vested immediately prior to the effective time of the merger; and

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- the merger agreement provides, as is customary for transactions of this type, that indemnification and insurance arrangements will be maintained for Morton's directors and officers.

Upon consummation of the merger, it is expected that Castle Harlan, Inc., an affiliate of CHP which identifies and manages investments on behalf of certain affiliated private investment funds, will enter into a consulting agreement with Morton's. Pursuant to the consulting agreement, Morton's will agree to pay Castle Harlan, Inc. an annual fee for management and consulting services to be rendered to Morton's following the merger in an amount of up to $2.8 million per year, subject to certain performance-based conditions being satisfied. The first such annual fee in the amount of approximately $2.8 million will be paid in advance to Castle Harlan, Inc. upon completion of the merger.

MERGER FINANCING (see page 69)

Morton's and Morton's Holdings estimate that the total amount of new funds necessary to consummate the merger and related transactions will be approximately $78.0 million. Approximately $10.0 million of this amount will be used to retire existing bank debt of Morton's, and the remainder will be used to pay the merger consideration and to pay fees and expenses necessary to complete the merger and related transactions. CHP has committed to provide $78.0 million of equity financing to Morton's Holdings at the time of completion of the Merger. CHP and Morton's Holdings have agreed not to amend, modify or terminate that commitment in any respect that would adversely affect the probability that the transactions contemplated by the merger agreement will close, or that will delay the closing, without the prior written consent of Morton's (which consent requires the approval of the Special Committee).

Completion of the merger is not contingent on obtaining any additional financing (other than the repayment of $10.0 million of bank debt contemplated by the amendment to the credit agreement described below) to repay Morton's existing bank debt. Morton's Holdings has negotiated on behalf of Morton's, and Morton's and its bank lenders have executed, an amendment (which will only become binding and effective concurrently with completion of the merger) to Morton's credit agreement to allow the merger to take place. The amendment is subject to completion of the merger, repayment of $10.0 million of bank debt and other customary conditions for amendments of this type.

THE SPECIAL MEETING (see page 18)

TIME, DATE AND PLACE. A special meeting of the stockholders of Morton's will be held at The Garden City Hotel, 45 Seventh Street, Garden City, New York 11530, at 9:00 a.m. (local time) on July 23, 2002, to consider and vote upon the proposal to approve and adopt the merger agreement and approve the merger.

RECORD DATE AND VOTING INFORMATION. You are entitled to vote at the special meeting if you owned shares of Morton's common stock at the close of business on May 29, 2002, which is the record date for the special meeting. You will have one vote at the special meeting for each share of Morton's common stock you owned at the close of business on the record date. On the record date, there were 4,189,711 shares of Morton's common stock entitled to be voted at the

special meeting.

REQUIRED VOTE. The approval and adoption of the merger agreement and the approval of the merger require the affirmative vote of the holders of a majority of the shares of Morton's common stock outstanding at the close of business on the record date. Abstentions and broker non-votes are equivalent to votes cast against the proposal.

SHARES HELD BY MANAGEMENT. The executive officers of Morton's collectively hold, as of the record date, approximately 6.80% of the Company's outstanding common stock. These stockholders have indicated to Morton's their intention to vote their shares in favor of approving and adopting the merger agreement and approving the merger.

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APPRAISAL RIGHTS (see page 73)

Morton's is a corporation organized under Delaware law. Under Delaware law, if you do not vote in favor of the merger and instead follow the appropriate procedures for demanding appraisal rights as described on pages 73 through 76 and in Appendix C, you will receive a cash payment for the "fair value" of your shares of Morton's common stock, as determined by the Delaware Court of Chancery. The price determined by the Delaware Court of Chancery may be less than, equal to or more than the $13.50 in cash you would have received for each of your shares in the merger if you had not exercised your appraisal rights. Generally, in order to exercise appraisal rights, among other things:

- you must not vote for approval and adoption of the merger agreement and approval of the merger; and

- you must make written demand for appraisal in compliance with Delaware law before the vote on the merger agreement and the merger.

Merely voting against the merger agreement and the merger will not perfect your appraisal rights under Delaware law. Appendix C to this proxy statement contains the Delaware statute relating to your appraisal rights. IF YOU WANT TO EXERCISE YOUR APPRAISAL RIGHTS, PLEASE READ AND CAREFULLY FOLLOW THE PROCEDURES DESCRIBED ON PAGES 73 THROUGH 76 AND IN APPENDIX C. FAILURE TO TAKE ALL OF THE STEPS REQUIRED UNDER DELAWARE LAW MAY RESULT IN THE LOSS OF YOUR APPRAISAL RIGHTS.

THE MERGER AGREEMENT (see page 76)

The merger agreement, including the conditions to the closing of the merger, is described on pages 76 through 92 and is attached to this proxy statement as Appendix A for your information. You should read carefully the entire merger agreement as it is the legal document that governs the merger.

CONDITIONS TO COMPLETING THE MERGER (see page 87)

The merger agreement and the merger are subject to approval by the holders of a majority of the outstanding shares of Morton's common stock, as well as other conditions, including that the parties obtain required governmental consents and approvals (including liquor licenses necessary to maintain continuity of service of alcoholic beverages post-merger), that no court or governmental entity has imposed an order or injunction prohibiting the merger, that Morton's has received identified third party consents and approvals (including with respect to certain mortgage financing and equipment leasing contracts) and that no event has occurred that has resulted in or would reasonably be likely to result in a material adverse effect on Morton's.

LIMITATION ON CONSIDERING OTHER ACQUISITION PROPOSALS (see page 83)

Morton's has agreed that it, including its subsidiaries, its affiliates and each of its and their respective officers, directors, employees, representatives, consultants, investment bankers, attorneys, accountants and other agents, will not take specified actions relating to other proposals to acquire Morton's, including that it will not encourage, solicit, initiate or facilitate, directly or indirectly, the making or submission of any acquisition proposal or except in accordance with the terms of the merger agreement as described below, enter into any agreement, arrangement or understanding with respect to any acquisition proposal, or to agree to approve or endorse any acquisition proposal or enter into any agreement, arrangement or understanding that would require Morton's to abandon, terminate or fail to consummate the merger or any other transaction contemplated by the merger agreement.

So long as Morton's has not breached the applicable provisions of the merger agreement, prior to the special meeting, Morton's, in response to an unsolicited acquisition proposal, may, subject to compliance with certain conditions, take specified actions, including, if the acquisition proposal is or is reasonably likely to lead to a superior proposal (as defined in the merger agreement), requesting clarifications from, or furnishing information to, and if the acquisition proposal is a superior proposal, participating in discussions with, any person making such unsolicited acquisition proposal.

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Morton's has agreed that neither the Board of Directors nor any Board committee will (a) withdraw, modify or amend, or propose to withdraw, modify or amend, in a manner adverse to Morton's Holdings or Morton's Acquisition, the approval, adoption or recommendation, as the case may be, of the merger, the merger agreement or any of the other transactions contemplated by the merger agreement, (b) approve or recommend, or propose to approve or recommend, any acquisition proposal, (c) cause Morton's to accept the acquisition proposal and/or enter into any letter of intent, agreement in principle, acquisition agreement or other similar agreement, related to the acquisition proposal, or (d) resolve to do any of the foregoing; unless the Board of Directors has complied with the requirements of the merger agreement and, based on the recommendation of the Special Committee, (a) the acquisition proposal is a superior proposal, (b) the Board of Directors reasonably determines in accordance with the terms of the merger agreement that it is necessary to take these actions in order to comply with its fiduciary duties under applicable law and all of the conditions to Morton's right to terminate the merger agreement in accordance with the merger agreement have been satisfied and (c) simultaneously or substantially simultaneously with the withdrawal, modification or recommendation, Morton's terminates the merger agreement.

TERMINATION (see page 89)

Morton's or Morton's Holdings may terminate the merger agreement at any time prior to the effective time of the merger, whether before or after the stockholders of Morton's have approved and adopted the merger agreement, if:

- both parties agree by mutual written consent;

- the merger has not been consummated by September 23, 2002, so long as the party attempting to terminate has not willfully and materially breached a representation, warranty, obligation, covenant or agreement set forth in the merger agreement; provided, that Morton's Holdings may extend the termination date to December 21, 2002, if the only condition to closing not met is with respect to authorizations, approvals and consents necessary or required for the sale of alcoholic beverages;

- a governmental entity or court of competent jurisdiction has taken any nonappealable final action that permanently restrains, enjoins or otherwise prohibits the merger or the other transactions contemplated by the merger agreement, so long as a material failure to fulfill any obligation under the merger agreement by the party attempting to terminate was not the principal cause of or did not result in such action;

- the holders of a majority of shares of Morton's outstanding common stock do not adopt and approve the merger agreement and approve the merger at the special meeting; or

- the other party has materially breached or failed to perform any of its representations, warranties, covenants or agreements set forth in the merger agreement.

Morton's Holdings may terminate the merger agreement if:

- (a) Morton's (1) withdraws, modifies or amends, or proposes to withdraw, modify or amend, in a manner adverse to Morton's Holdings or Morton's Acquisition, the approval, adoption or recommendation, as the case may be, of the merger, the merger agreement or any of the other transactions contemplated by the merger agreement or (2) approves or recommends, or proposes to approve or recommend, or enters into any agreement, arrangement or understanding with respect to, any acquisition proposal; (b) the Board of Directors or any Board committee resolves to take any of the actions set forth in preceding subclause (a); (c) if after an acquisition proposal has been made, the Board of Directors or the Special Committee fails to affirm its recommendation and approval of the merger and the merger agreement within three business days of any request by Morton's Holdings to do so; or (d) if a tender offer or exchange offer constituting an acquisition proposal is commenced and the Board of Directors or the Special Committee does not recommend against acceptance of such offer by Morton's stockholders; or

- Morton's has breached the limitations on its consideration of other acquisition proposals (See "--Limitation on Considering Other Acquisition Proposals").

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Morton's may terminate the merger agreement if Morton's receives a superior proposal, and the Board of Directors reasonably determines in accordance with the merger agreement that it is necessary to terminate the merger agreement and enter into an agreement to effect the superior proposal in order to comply with its fiduciary duties under applicable law.

TERMINATION FEE; EXPENSE REIMBURSEMENT (see page 90)

If the merger agreement is terminated then Morton's may be obligated to pay to Morton's Holdings an amount equal to (a) the out-of-pocket expenses of Morton's Holdings and Morton's Acquisition related to the merger and any related financing up to $1,320,000 and (b) a fee equal to (1) $1,320,000 minus (2) the amount paid as reimbursement of out-of-pocket expenses of Morton's Holdings and Morton's Acquisition or an amount equal to the out-of-pocket expenses of Morton's Holdings and Morton's Acquisition related to the merger and any related financing up to $1,320,000.

CERTAIN EFFECTS OF THE MERGER (see page 63)

Upon completion of the merger, Morton's Holdings will own 100% of Morton's. Subsequent to the merger, Morton's current stockholders (other than the members of management, if any, that make an equity investment in Morton's Holdings) will

cease to have ownership interests in Morton's or rights as Morton's stockholders and, as a result, if the merger is completed, such stockholders of Morton's will not participate in any future earnings, losses, growth or decline of Morton's. In addition, Morton's will be a privately held corporation, and there will be no public market for its common stock. The common stock will cease to be quoted on the New York Stock Exchange, and price quotations with respect to sales of shares of Morton's common stock in the public market will no longer be available. In addition, registration of the common stock under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act, will be terminated.

FEDERAL REGULATORY MATTERS (see page 70)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976 and the rules and regulations promulgated thereunder, referred to as the HSR Act, require that Morton's and the ultimate parent entity of Morton's Acquisition file notification and report forms with respect to the merger and related transactions with the Antitrust Division of the U.S. Department of Justice and the U.S. Federal Trade Commission and observe a waiting period before completing the merger. In compliance with the HSR Act, Morton's filed the necessary forms with the U.S. Department of Justice and the U.S. Federal Trade Commission on April 11, 2002, and CHP filed them on April 9, 2002. On April 19, 2002, the U.S. Federal Trade Commission granted early termination of the waiting period under the HSR Act. However, the U.S. Department of Justice and the U.S. Federal Trade Commission, state antitrust authorities or a private person or entity could seek to enjoin the merger under antitrust laws at any time before its completion or to compel rescission or divestiture at any time subsequent to the merger.

LIQUOR LICENSES (see page 71)

As a condition to the completion of the merger, Morton's and Morton's Holdings must have filed and/or obtained any and all authorizations, approvals, consents or orders from any governmental entity necessary or required in order to obtain and maintain in effect for a reasonable period of time following the consummation of the merger all liquor licenses and other permits necessary to maintain continuity of service of alcoholic beverages at each restaurant of the Company, and all authorizations, approvals, consents and orders must be effective and binding in accordance with their terms and may not have expired or been withdrawn.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES (see page 71)

The receipt of cash for shares of common stock in the merger will be a taxable transaction for U.S. federal income tax purposes and may also be a taxable transaction under applicable state, local,

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foreign or other tax laws. Generally, you will recognize gain or loss for these purposes equal to the difference between $13.50 per share and your tax basis for the shares of common stock that you owned immediately before completion of the merger. TAX MATTERS ARE VERY COMPLEX AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND ON THE FACTS OF YOUR OWN SITUATION. YOU SHOULD CONSULT YOUR TAX ADVISOR FOR A FULL UNDERSTANDING OF THE TAX CONSEQUENCES OF THE MERGER TO YOU.

LITIGATION CHALLENGING THE MERGER (see page 72)

Between March 27, 2002 and April 3, 2002, five substantially identical civil actions were commenced, four of which were commenced in the Court of Chancery of the State of Delaware in New Castle County and one of which was commenced in the Supreme Court of the State of New York in Nassau County. The plaintiff in each action seeks to represent a putative class consisting of the public stockholders

of Morton's (excluding officers and directors of Morton's). Named as defendants in each of the complaints are Morton's, members of Morton's Board of Directors and Castle Harlan, Inc. The plaintiffs allege, among other things, that the proposed merger is unfair; the Morton's directors breached their fiduciary duties by failing to disclose material non-public information related to the value of Morton's and by engaging in self-dealing; Castle Harlan, Inc. aided and abetted the Morton's directors' breaches of fiduciary duty; the price contemplated in the merger agreement is inadequate; the merger agreement is a product of a conflict of interest between the directors of Morton's and Morton's public stockholders; and information regarding the value and prospects of Morton's has not been publicly disclosed although that information is known to the defendants. The complaints seek an injunction, damages and other relief. Morton's believes that these lawsuits are without merit and intends to defend against them vigorously.

On April 18, 2002, a civil action was commenced in the Court of Chancery in the State of Delaware in New Castle County. The plaintiff in this action seeks to represent a putative class consisting of the public stockholders of Morton's (excluding those named as defendants in the suit). Named as defendants are Morton's and the members of Morton's Board of Directors. The plaintiff alleges, among other things, that the proposed merger is unfair; the Morton's directors breached their fiduciary duties by engaging in self-dealing and unfairly excluded BFMA Holding Corporation from participating in the bidding process for Morton's; the price contemplated in the merger agreement is inadequate; and the merger agreement is a product of a conflict of interest between the directors of Morton's and Morton's public stockholders. The complaint seeks an injunction, damages and other relief. Morton's believes that this lawsuit is without merit and intends to defend against it vigorously.

All of the Delaware suits described above were consolidated in a single action entitled "In Re Morton's Restaurant Group Shareholder Litigation" by order of a Delaware Chancery Court on May 9, 2002. The consolidated action adopted the allegations of the March 27, 2002 Delaware suit described above.

On June 12, 2002, BFMA Holding Corporation commenced a civil action in the Court of Chancery in the State of Delaware in New Castle County. Named as defendants are Morton's, members of Morton's Board of Directors, and Castle Harlan, Inc. and a number of its affiliates. As part of this action, BFMA has filed a motion for expedited proceedings as well as a motion for preliminary injunction which seeks to prohibit the Special Meeting set for July 23, 2002 unless the meeting is held in conjunction with Morton's annual meeting for the election of directors. In addition, BFMA alleges, among other things, that Morton's directors breached their fiduciary duties under Delaware law by failing to negotiate with BFMA in good faith, by approving the merger agreement with Morton's Holdings and Morton's Acquisition, by adopting unreasonable corporate measures against BFMA, and by interfering with the shareholder franchise without justification. BFMA also alleges that Morton's directors breached their fiduciary duties by failing to disclose material information relevant to the stockholders' decision whether to approve the merger agreement with Morton's Holdings and Morton's Acquisition, to set up a fair bidding process for the acquisition of the Company, and to conduct an annual meeting as required by Delaware law. It is further alleged that Castle Harlan, Inc. and its

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affiliates aided and abetted Morton's directors' breaches of fiduciary duty. Apart from seeking damages and other relief, the complaint seeks a declaration that Morton's stockholders rights agreement will not be triggered by BFMA and one or more other persons jointly soliciting proxies from stockholders for the election of directors or against approval of the merger agreement with Morton's Holdings and Morton's Acquisition, or, in the alternative, an injunction that prohibits the Special Meeting until such time as Morton's Board of Directors

redeems or amends the stockholders rights agreement to permit joint solicitations or that affirmatively requires the Company to permit joint solicitations. Morton's believes that this lawsuit is without merit and intends to defend against it vigorously.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement includes statements that are not historical facts. These forward-looking statements are based on Morton's and/or, where applicable, the CH Parties' current estimates and assumptions and, as such, involve uncertainty and risk. Forward-looking statements include the information concerning possible or assumed future results of operations and also include those preceded or followed by words such as "anticipates," "believes," "thinks," "could," "estimates," "expects," "intends," "may," "should," "plans," "targets" and/or similar expressions.

The forward-looking statements are not guarantees of future performance, events or circumstances, and actual results may differ materially from those contemplated by the forward-looking statements. In addition to the factors discussed elsewhere in this proxy statement, including risks that stockholder approval and regulatory and third party clearances may not be obtained in a timely manner or at all, that an order or injunction may be imposed prohibiting or delaying the merger and that any other conditions to the merger may not be satisfied or waived, other factors that could cause actual results to differ materially include risks of the restaurant industry, including a highly competitive industry with many well-established competitors with greater financial and other resources than the Company, and the impact of changes in consumer tastes, local, regional and national economic and market conditions, restaurant profitability levels, expansion plans, demographic trends, traffic patterns, employee availability and benefits, cost increases and regulatory developments. In addition, the Company's ability to expand is dependent upon various factors, such as contractual restrictions imposed by the Company's credit agreement, the availability of attractive sites for new restaurants, the ability to negotiate suitable lease terms, the ability to generate or borrow funds to develop new restaurants and obtain various government permits and licenses and the recruitment and training of skilled management and restaurant employees. These and other factors are discussed elsewhere in this proxy statement, and in the Company's Annual Report on Form 10-K/A for the fiscal year ended December 30, 2001, which is included in this proxy statement as Appendix F and incorporated herein by reference.

Except to the extent required under the federal securities laws, neither Morton's nor any of the CH Parties intends to update or revise the forward-looking statements to reflect circumstances arising after the date of the preparation of the forward-looking statements.

MORTON'S SELECTED HISTORICAL FINANCIAL DATA

Morton's selected historical financial data presented below as of and for the five fiscal years ended December 30, 2001 are derived from Morton's audited financial statements. The following selected historical financial data should be read in conjunction with Morton's financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Morton's Annual Report on Form 10-K/A for the fiscal year ended December 30, 2001 and Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2002, which are included in this proxy statement as Appendix F and Appendix G, respectively, and are incorporated by reference.

STATEMENT OF OPERATIONS INFORMATION

	FISCAL YEARS				
	2001	2000	1999	1998	1
	(DOLLARS IN MILLIONS, EXCEPT PER SHAR				
Revenues............................	$237.1	$248.4	$206.9	$189.8	$1
Income (Loss) Before Income Taxes and Cumulative Effect of a Change in an Accounting Principle........	0.3(1)	14.4	14.3(2)	(6.1)(4)	
Income (Loss) Before Cumulative Effect of a Change in an Accounting Principle..............	1.0(1)	10.1	10.7(2)	(1.9)(4)	
Net Income (Loss)...................	1.0(1)	10.1	8.5(2)(3)	(1.9)(4)	
Net Income (Loss) Per Share Before Cumulative Effect of a Change in an Accounting Principle:					
Basic..........................	0.24(1)	2.20	1.81(2)	(0.28)(4)	
Diluted........................	0.23(1)	2.12	1.77(2)	(0.28)(4)	
Net Income (Loss) Per Share:					
Basic..........................	0.24(1)	2.20	1.42(2)(3)	(0.28)(4)	
Diluted........................	$ 0.23(1)	$ 2.12	$ 1.39(2)(3)	$(0.28)(4)	$

BALANCE SHEET INFORMATION

	AS OF FISCAL YEAR ENDED				
	2001	2000	1999	1998	1997
	(DOLLARS IN MILLIONS, EXCEPT PER S				
Current Assets...............................	$ 24.7	$ 23.8	$ 22.5	$19.3	$18.6
Property and Equipment, Net.................	82.9	78.0	66.7	45.8	34.6
Total Assets................................	134.7	124.4	114.4	95.0	81.9
Current Liabilities.........................	30.6	35.8	34.5	28.2	21.4
Obligations to Financial Institutions and Capital Leases, Less Current Maturities....	100.2	85.0	61.0	40.3	28.7
Stockholders' Equity (Deficit)..............	$ (0.2)	$ (0.9)	$ 12.1	$23.0	$28.6

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(1) Includes pre-tax charge of $1.6 million representing restaurant closing costs, pre-tax charge of $0.7 million for costs associated with strategic alternatives and proxy contest and an income tax benefit of $0.7 million.

(2) Includes nonrecurring, pre-tax litigation benefit of $0.2 million.

(3) Includes a $2.3 million charge, net of income taxes, representing the cumulative effect of the requisite change in accounting for pre-opening costs.

(4) Includes nonrecurring, pre-tax charge of $19.9 million representing the write-down of impaired Bertolini's restaurant assets and the write-down and

accrual of lease exit costs associated with the closure of specified Bertolini's restaurants, as well as the remaining interests in Mick's and Peasant restaurants.

(5) Includes Mick's and Peasant revenues of $8.4 million.

(6) Includes nonrecurring, pre-tax litigation charge of $2.3 million.

(7) Includes pre-tax charge of $1.2 million for costs associated with strategic alternatives and proxy contest and a $1.3 million pre-tax gain on insurance proceeds.

Morton's book value per share of common stock was $(0.05) at December 30, 2001. No pro forma data giving effect to the proposed merger is provided. Morton's does not believe that pro forma data is material to stockholders in evaluating the merger and the merger agreement because the merger consideration is all cash and, if the merger is completed, Morton's common stock will not be publicly traded and Morton's stockholders will no longer have any equity interest in Morton's. No separate financial data is provided for Morton's Acquisition since it is a special purpose entity formed in connection with the proposed merger and has no independent operations.

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TRADING MARKETS AND MARKET PRICE

Shares of Morton's common stock are listed and traded on the New York Stock Exchange, referred to as the NYSE, under the symbol "MRG." The following table shows, for the periods indicated, the reported high and low sale prices per share on the NYSE for Morton's common stock.

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2000		
First Quarter	$ 19.81	$ 15.00
Second Quarter	21.75	17.75
Third Quarter	21.50	19.88
Fourth Quarter	23.50	18.69
FISCAL YEAR ENDED DECEMBER 30, 2001		
First Quarter	24.15	19.15
Second Quarter	28.00	18.70
Third Quarter	20.30	7.60
Fourth Quarter	14.15	8.50
FISCAL YEAR ENDING DECEMBER 29, 2002		
First Quarter	14.30	6.60
Second Quarter (through June 12, 2002)	15.75	12.89

On February 14, 2002, the last full trading day before Morton's Holdings initially submitted its formal proposal to acquire Morton's (then at the proposed price of $12.00 per share), the closing price per share of Morton's common stock as reported on the NYSE was $6.60. On March 26, 2002, the last full trading day before the public announcement of the merger agreement, the high and low sale prices for Morton's common stock as reported on the NYSE were $11.55 and $11.30 per share, respectively, and the closing sale price on that date was $11.55 per share. On June 12, 2002, the last practicable trading day for which

information was available prior to the date of the first mailing of this proxy statement, the closing price per share of Morton's common stock as reported on the NYSE was $13.95, and there were 4,189,711 shares of common stock outstanding. Stockholders should obtain a current market quotation for Morton's common stock before making any decision with respect to the merger. On May 29, 2002, the record date, there were approximately 111 holders of record of Morton's common stock.

Morton's has received notice from the NYSE that Morton's is below the NYSE continued listing standards regarding total market capitalization and stockholders' equity. Morton's has submitted a business plan to the NYSE demonstrating its plan to comply with such continued listing standards if the merger is not completed. The plan proposed that Morton's achieve compliance with the market capitalization standard based on a general expectation of a moderate economic recovery, Morton's achievement of management's projections described under "Special Factors--Forward-Looking Information" beginning on page 53 and a return to historical trading multiples for its stock. The plan proposed that Morton's achieve compliance with the stockholders' equity standard as a result of an increase in net income earned in accordance with management's projections described under "Special Factors--Forward-Looking Information" beginning on page 53 and a possible issuance of common or preferred equity, either in the public or private markets. The NYSE has advised Morton's that its listing and compliance committee has agreed to continue the listing of Morton's common stock on the NYSE through completion of the merger. If the merger does not close by early summer of 2002, however, the NYSE plans to review the circumstances causing the delay and to reassess its decision to continue the listing of Morton's common stock. Further, if the merger agreement is terminated, the NYSE listing and compliance committee would either accept the Company's submitted business plan and subject Morton's to quarterly monitoring for compliance with the listing standards or would not accept the Company's submitted business plan and subject Morton's to suspension and delisting of its

common stock. If the merger is completed, Morton's will be a private company, and its common stock will no longer trade on the NYSE.

Morton's has never declared or paid cash dividends on its common stock and does not plan to pay any cash dividends in the foreseeable future. Morton's credit agreement prohibits the Company from paying dividends on its common stock. In addition, under the merger agreement, the Company has agreed not to pay any cash dividends on its common stock before the closing of the merger.

THE SPECIAL MEETING

GENERAL

The enclosed white proxy is solicited on behalf of the Board of Directors of Morton's for use at a special meeting of stockholders to be held on Tuesday, July 23, 2002, at 9:00 a.m. local time, or at any adjournments or postponements thereof, for the purposes set forth in this proxy statement and in the accompanying notice of special meeting. The special meeting will be held at The Garden City Hotel, 45 Seventh Street, Garden City, New York 11530. Morton's intends to mail this proxy statement and accompanying white proxy card on or about [date] to all stockholders entitled to vote at the special meeting.

At the special meeting, the stockholders of Morton's are being asked to consider and vote upon a proposal to approve and adopt the merger agreement and to approve the merger contemplated by the merger agreement. Under the merger agreement, Morton's Acquisition will merge with and into Morton's, and each issued and outstanding share of Morton's common stock will be converted into the right to receive $13.50 in cash without interest (other than shares held by

Morton's or any of Morton's subsidiaries, held in Morton's treasury, or held by Morton's Holdings or Morton's Acquisition, or shares held by Morton's stockholders who perfect their appraisal rights under Delaware law). Upon completion of the merger, Morton's will be the surviving corporation and will be a wholly-owned subsidiary of Morton's Holdings.

Morton's is also soliciting proxies to grant discretionary authority to vote in favor of any adjournment of the special meeting solely for the purpose of soliciting additional proxies in favor of voting to approve and adopt the merger agreement and approve the merger, if necessary. Morton's does not expect a vote to be taken on any other matters at the special meeting. However, if any other matters are properly presented at the special meeting for consideration, the holders of the proxies will have discretion to vote on these matters in accordance with their best judgment.

RECORD DATE AND VOTING INFORMATION

Only holders of record of common stock at the close of business on May 29, 2002 are entitled to notice of and to vote at the special meeting. At the close of business on May 29, 2002, there were outstanding and entitled to vote 4,189,711 shares of Morton's common stock. A list of Morton's stockholders will be available for review at Morton's executive offices during regular business hours for a period of 10 days before the special meeting. Each holder of record of common stock on the record date will be entitled to one vote for each share held. The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Morton's common stock entitled to vote at the special meeting is necessary to constitute a quorum for the transaction of business at the special meeting.

All votes will be tabulated by the inspector of election appointed for the special meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes. Brokers who hold shares in street name for clients typically have the authority to vote on "routine" proposals when they have not received instructions from beneficial owners. However, absent specific instructions from the beneficial owner of the shares, brokers are not allowed to exercise their voting discretion with respect to the approval and adoption of non-routine matters, such as the merger agreement and the merger;

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proxies submitted without a vote by the brokers on these matters are referred to as broker non-votes. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the special meeting.

The merger agreement and Delaware law provide that the affirmative vote of the holders of a majority of the outstanding shares of Morton's common stock is required to approve and adopt the merger agreement and approve the merger. Accordingly, proxies that reflect abstentions and broker non-votes, as well as proxies that are not returned, will have the same effect as a vote AGAINST approval and adoption of the merger agreement and approval of the merger.

Stockholders who do not vote in favor of approval and adoption of the merger agreement and approval of the merger, and who otherwise comply with the applicable statutory procedures of the Delaware General Corporation Law summarized elsewhere in this proxy statement, will be entitled to seek appraisal of the value of their Morton's common stock as set forth in Section 262 of the Delaware General Corporation Law. See "Special Factors--Appraisal Rights."

PROXIES; REVOCATION

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the

Secretary of Morton's at the Company's executive offices located at 3333 New Hyde Park Road, New Hyde Park, New York 11042, a written notice of revocation or a duly executed proxy bearing a later date, or it may be revoked by attending the special meeting and voting in person. Attendance at the special meeting will not, by itself, revoke a proxy. Furthermore, if a stockholder's shares are held of record by a broker, bank or other nominee and the stockholder wishes to vote at the special meeting, the stockholder must obtain from the record holder a proxy issued in the stockholder's name.

EXPENSES OF PROXY SOLICITATION

Morton's will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of this proxy statement, the proxy and any additional information furnished to stockholders. Morton's has retained Georgeson Shareholder Communications Inc., at an estimated cost of $40,000 plus reimbursement of expenses, to assist in the solicitation of proxies. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of common stock beneficially owned by others to forward to these beneficial owners. Morton's may reimburse persons representing beneficial owners of common stock for their costs of forwarding solicitation materials to such beneficial owners. Original solicitation of proxies by mail may be supplemented by telephone, facsimile, telegram or personal solicitation by directors, officers or other regular employees of Morton's and of Georgeson Shareholder Communications Inc. No additional compensation will be paid to Morton's directors, officers or other regular employees for their services.

ADJOURNMENTS

Although it is not expected, the special meeting may be adjourned for the purpose of soliciting additional proxies in favor of voting to approve and adopt the merger agreement and approve the merger, if necessary. Any adjournment of the special meeting may be made without notice, other than by an announcement made at the special meeting, by approval of the holders of a majority of the outstanding shares of Morton's common stock present in person or represented by proxy at the special meeting, whether or not a quorum exists. Morton's is soliciting proxies to grant discretionary authority to vote in favor of adjournment of the special meeting. In particular, discretionary authority is expected to be exercised if the purpose of the adjournment is to provide additional time to solicit votes to approve and adopt the merger agreement and approve the merger. THE BOARD OF DIRECTORS RECOMMENDS THAT MORTON'S STOCKHOLDERS VOTE IN FAVOR OF THE PROPOSAL TO GRANT DISCRETIONARY AUTHORITY

TO VOTE ON OTHER MATTERS AS MAY PROPERLY COME BEFORE THE SPECIAL MEETING, INCLUDING TO ADJOURN THE SPECIAL MEETING.

PLEASE DO NOT SEND IN STOCK CERTIFICATES AT THIS TIME. IN THE EVENT THE MERGER IS COMPLETED, MORTON'S WILL DISTRIBUTE INSTRUCTIONS REGARDING THE PROCEDURES FOR EXCHANGING EXISTING MORTON'S STOCK CERTIFICATES FOR THE $13.50 PER SHARE CASH PAYMENT.

THE PARTICIPANTS

MORTON'S RESTAURANT GROUP, INC.
3333 New Hyde Park Road
New Hyde Park, New York 11042
(516) 627-1515

Morton's owns and operates 62 Morton's of Chicago Steakhouse restaurants (54 in the continental United States; one each in Honolulu, Hawaii; San Juan, Puerto

Rico; Toronto and Vancouver, Canada; Singapore; and two in Hong Kong) and four Bertolini's Authentic Trattoria restaurants located in 57 cities. These concepts appeal to a broad spectrum of consumer tastes and target separate price points and dining experiences. The Company provides strategic support and direction to its subsidiary companies and evaluates and analyzes potential locations for new restaurants. Management consists of Allen J. Bernstein, chairman of the board, president and chief executive officer, and vice presidents responsible for site selection and development, finance, communications and administration.

Morton's of Chicago offers its clientele a combination of excellent service and large quantities of the highest quality menu items. Morton's of Chicago has received awards in many locations for the quality of its food and hospitality. Morton's of Chicago serves USDA prime aged beef, including, among others, a 24 oz. porterhouse, a 20 oz. NY strip sirloin and a 16 oz. ribeye. Morton's of Chicago also offers fresh fish, lobster, veal and chicken. All Morton's of Chicago restaurants have identical dinner menu items. While the emphasis is on beef, the menu selection is broad enough to appeal to many taste preferences. The Morton's of Chicago's dinner menu consists of a tableside presentation by the server of many of the dinner items, including a 48 oz. porterhouse steak and a live Maine lobster, and all Morton's of Chicago restaurants feature an open display kitchen where steaks are prepared. Each restaurant has a fully stocked bar with a complete list of name brands and an extensive premium wine list that offers approximately 175 selections.

Morton's of Chicago caters primarily to high-end, business-oriented clientele. During the fiscal year ended December 30, 2001, the average per-person check, including dinner and lunch, was approximately $72.75. Management believes that a vast majority of Morton's of Chicago weekday revenues and a substantial portion of its weekend revenues are derived from business people using expense accounts. Sales of alcoholic beverages accounted for approximately 32% of Morton's of Chicago's revenues during fiscal 2001. In the Morton's of Chicago restaurants serving both dinner and lunch during fiscal 2001, dinner service accounted for approximately 85% of revenues and lunch service accounted for approximately 15%. All Morton's of Chicago restaurants are open seven days a week. Those Morton's of Chicago serving only dinner are typically open from 5:30 p.m. to 11:30 p.m., while those Morton's of Chicago serving both dinner and lunch typically open at 11:30 a.m. for the lunch period. All except for one Morton's of Chicago (including all restaurants opened since the 1989 acquisition) have on-premises, private dining and meeting facilities referred to as boardrooms. During fiscal 2001, boardroom revenues were approximately 19% of sales in those locations offering boardrooms.

At December 30, 2001, the Company owned and operated four Bertolini's, located in three cities. Bertolini's is a white tablecloth, authentic Italian trattoria, which provides table service in a casual dining atmosphere. For the fiscal year ended December 30, 2001, Bertolini's average per-person check, including dinner and lunch, was approximately $22.50. Bertolini's restaurants are open seven days a week, for dinner and lunch, with typical hours of 11:00 a.m. to 12:00 midnight. During fiscal 2001,

dinner service accounted for approximately 68% of revenues and lunch service accounted for approximately 32%. Sales of alcoholic beverages accounted for approximately 22% of Bertolini's revenues during fiscal 2001.

If the merger agreement is approved and adopted and the merger is approved by the requisite vote of Morton's stockholders at the special meeting and the merger is completed, Morton's will continue its operations following the merger as a private company. The Company was incorporated in Delaware on October 3, 1988.

A more detailed description of Morton's business and financial results is contained in the Company's Annual Report on Form 10-K/A for the fiscal year ended December 30, 2001 and Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2002, which are included in this proxy statement as Appendix F and Appendix G, respectively, and are incorporated herein by reference. Unless explicitly stated otherwise, the information contained in Morton's Annual Report on Form 10-K/A for the fiscal year ended December 30, 2001 and Quarterly Report on Form 10-Q/A for the fiscal quarter ended March 31, 2002 is as of March 29, 2002, and May 14, 2002, respectively, the respective dates of filing of the initial Form 10-K and Form 10-Q with the Securities and Exchange Commission, referred to as the SEC. See also "Where Stockholders Can Find More Information."

MORTON'S HOLDINGS, LLC AND
MORTON'S ACQUISITION COMPANY
c/o Castle Harlan Partners III, L.P.
150 East 58th Street
New York, New York 10155
(212) 644-8600

Morton's Holdings, LLC, referred to as Morton's Holdings, is a Delaware limited liability company that is wholly owned by its sole member, Castle Harlan Partners III, L.P., referred to as CHP. Morton's Holdings was originally formed as a Delaware corporation under the name of "Morton's Holdings, Inc." and was recently converted into a Delaware limited liability company. Morton's Acquisition Company, referred to as Morton's Acquisition, is a Delaware corporation that is wholly owned by Morton's Holdings. Both of Morton's Holdings and Morton's Acquisition were formed solely for purposes of completing the merger and have not participated in any activities to date other than those incident to their formation and the transactions contemplated by the merger agreement. At the effective time of the merger, Morton's Acquisition will be merged with and into Morton's, with Morton's as the surviving corporation. Morton's Holdings and Morton's Acquisition were incorporated in Delaware in March 2002. Morton's Holdings was converted into a Delaware limited liability company in April 2002. Additional information about Morton's Holdings and Morton's Acquisition and information about the directors and executive officers of Morton's Holdings and Morton's Acquisition is set forth in Appendix E to this proxy statement.

CASTLE HARLAN PARTNERS III, L.P.
150 East 58th Street
New York, New York 10155
(212) 644-8600

Castle Harlan Partners III, L.P., referred to as CHP, is a private investment fund, organized as a limited partnership under the laws of the State of Delaware, which makes investments identified by its affiliates. CHP and its affiliates have approximately $630 million of committed capital. Since 1987, CHP and its predecessor investment funds have completed acquisitions of approximately $5 billion. CHP and its affiliates are highly experienced investors that have successfully completed 35 transactions in a wide variety of industries, including aviation services, consumer products, energy services, general manufacturing and restaurants. Additional information about CHP is set forth in Appendix E to this proxy statement.

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JOHN K. CASTLE
c/o Castle Harlan Partners III, L.P.
150 East 58th Street
New York, New York 10155
(212) 644-8600

John K. Castle is a natural person and a United States citizen. John K. Castle's principal business address is c/o Castle Harlan Partners III, L.P., 150 East 58th Street, New York, New York 10155 and his business telephone number is (212) 644-8600. John K. Castle is an executive officer of certain affiliates of CHP and is a member of the Board of Directors of Morton's. Additional information about the foregoing individual is set forth in Appendix E to this proxy statement.

DAVID B. PITTAWAY
c/o Castle Harlan Partners III, L.P.
150 East 58th Street
New York, New York 10155
(212) 644-8600

David B. Pittaway is a natural person and a United States citizen. David B. Pittaway's principal business address is c/o Castle Harlan Partners III, L.P., 150 East 58th Street, New York, New York 10155 and his business telephone number is (212) 644-8600. David B. Pittaway is an executive officer of certain affiliates of CHP and is a member of the Board of Directors of Morton's. Additional information about the foregoing individual is set forth in Appendix E to this proxy statement.

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SPECIAL FACTORS

BACKGROUND OF THE MERGER

Morton's entered into the merger agreement following an extensive evaluation of strategic alternatives that began in May 2001. This evaluation initially was undertaken in the context of a proxy contest, later coupled with an unsolicited acquisition proposal, at Morton's 2001 annual meeting of stockholders and in response to indications from several of Morton's then largest stockholders of a desire for a liquidity event. This evaluation included a formal process run by the Special Committee and its legal and financial advisors in which Morton's Holdings emerged as the only firm and final bidder.

On February 5, 2001, Barry Florescue, BFMA Holding Corporation and other related parties, collectively referred to as BFMA, jointly filed a Schedule 13D with the SEC reporting collective beneficial ownership of approximately 9.3% of Morton's common stock. They stated in this joint filing that their intention was to "increase their shareholder position" and that they were "considering various alternatives with respect to their shareholder position." From time to time thereafter, they amended their Schedule 13D to report increased holdings of Morton's common stock, changes in their stated intention regarding Morton's and various communications regarding Morton's.

On February 15, 2001, the Board of Directors authorized Morton's to enter into employment contracts with Mr. Baldwin, executive vice president and chief financial officer, and Ms. Longarzo, vice president, administration and secretary, in a form similar to Mr. Bernstein's existing employment contract. The Board of Directors also authorized the execution of change of control agreements with Ms. Longarzo and five other officers, in each case in a form similar to existing agreements with Messrs. Bernstein and Baldwin. The Board of Directors authorized these employment contracts and change of control agreements after having determined that it was in the best interests of Morton's and its stockholders to encourage the Company's key officers' full attention and dedication to the Company's business notwithstanding the possibility, threat or occurrence of a change of control, and to diminish the inevitable distraction of these officers by virtue of the personal uncertainties and risks created by a pending or threatened change of control. Also on February 15, 2001, the Board of

Directors authorized amendments to Morton's stockholders rights agreement, originally adopted on December 15, 1994, to remove provisions that permitted only certain directors to redeem the rights and to take certain other actions.

In late February and early March of 2001, Messrs. Bernstein and Baldwin, along with Morton's primary legal counsel, Schulte Roth & Zabel LLP, a New York, New York law firm, referred to as SRZ, met with four nationally known investment banks to discuss Morton's possible retention of a financial advisor. Morton's ultimately selected Greenhill, based primarily on Greenhill's reputation, expertise in the food and beverage industry and proposed terms of engagement. Morton's and Greenhill executed an engagement letter as of March 13, 2001.

On March 15, 2001, Mr. Baldwin met with Barry Florescue and Richard Bloom of BFMA at their request, at which time Messrs. Florescue and Bloom asked Mr. Baldwin to convey to the Board of Directors, on an informal basis, their interest in joining the Board of Directors. Mr. Baldwin promptly relayed this information to the Board's nominating committee, which met by telephone on March 20, 2001 to consider the request. The nominating committee responded to Messrs. Florescue and Bloom by letter, dated March 21, 2001, which stated that the Board of Directors was already at the nine-member limit permitted by Morton's certificate of incorporation and bylaws, that expanding the size of the Board of Directors would require stockholder approval and that the nominating committee had already recommended, and the Board of Directors had already approved, the Board of Directors' nominees for election at the May 10, 2001 annual meeting of stockholders. The Board of Directors' nominees for re-election as directors were Messrs. Bernstein, Baldwin and Castle.

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In a letter dated March 20, 2001, received by Morton's after the nominating committee had sent its March 21, 2001 letter, BFMA notified Morton's of a proposed slate of three nominees for election to the Board of Directors, and later solicited proxies in support of those nominees.

BFMA made no proposal to Morton's regarding a possible strategic transaction until May 1, 2001, when Morton's received an unsolicited letter from BFMA, referred to as the BFMA proposal, seeking to negotiate the purchase of Morton's by BFMA. The BFMA proposal purported to offer, subject to various conditions, to acquire all outstanding shares of Morton's common stock for $28.25 per share in cash. BFMA included a copy of a letter from Icahn Associates Corp., referred to as IAC, purportedly committing, subject to various conditions, to provide temporary bridge financing for all but $20 million of BFMA's proposal. The next day, Morton's publicly announced that it would give due consideration to the proposal, and that it had retained Greenhill to advise the Board of Directors in its deliberations.

On May 7, 2001, the Board of Directors met by telephone. SRZ also attended this meeting. The Board of Directors discussed the possibility of postponing or adjourning Morton's annual meeting of stockholders scheduled for May 10, 2001, and authorized the Board's executive committee (consisting of Messrs. Bernstein, Castle and Pittaway) to recommend, subject to full Board approval, the postponement or adjournment of the annual meeting if, and only if, the executive committee determined that it was in the best interests of Morton's stockholders and legally permissible to do so. After Greenhill was invited into the meeting, the Board of Directors informed Greenhill that the Board of Directors intended to give the BFMA proposal full and fair consideration, and requested that Greenhill carefully review the proposal. The Board of Directors discussed preliminarily the BFMA proposal, alternatives to enhance stockholder value that could be considered, such as recapitalization, acquisition or sale, and, in view of the weakening economy, potential cost-cutting measures.

On May 8, 2001, the Board of Directors met by telephone. SRZ also attended

this meeting. The executive committee of the Board of Directors recommended that the annual meeting of stockholders proceed as planned on the publicly announced date without postponement or adjournment. The Board of Directors affirmed its intention to give full and fair consideration to the BFMA proposal and any offer that may be received for the acquisition of Morton's. The Board of Directors also determined not to issue additional stock options to senior executives of Morton's until further notice, and suspended Morton's stock repurchase program. The Board of Directors discussed the possibility of exploring value-enhancing strategic alternatives, and determined to direct Greenhill to assist Morton's in evaluating the full range of strategic alternatives, including a potential sale of Morton's. The Board of Directors then discussed Morton's financial performance and the financial outlook for the rest of the fiscal quarter. Also on May 8, 2001, Morton's issued a press release announcing the actions the Board of Directors had taken, including its decision to evaluate the full range of strategic alternatives, including a potential sale, and that, due to the weakened economic environment, unfavorable business conditions and reduced business travel, as well as investment banking, legal and other costs associated with evaluating strategic alternatives and with the BFMA-initiated proxy contest, it expected revenues and operating results to be adversely affected. From time to time thereafter, Morton's received inquiries from potential interested parties, which Morton's referred to Greenhill.

At Morton's annual meeting of stockholders on May 10, 2001, the stockholders voted to re-elect Messrs. Bernstein, Baldwin and Castle to the Board of Directors, and did not elect any of the candidates proposed by BFMA. At a Board of Directors meeting immediately following the annual meeting of stockholders, the Board of Directors formed a Special Committee of directors to lead the Board of Directors in its evaluation of strategic alternatives, including consideration of the BFMA proposal and any offers that Morton's might receive, with any final decision with respect to undertaking any particular strategic alternative to be subject to full Board approval. Four directors who were not officers of Morton's, Robert L. Barney, John K. Castle, Lee M. Cohn and Alan A. Teran, were named to the Special Committee, with Mr. Castle as Chairman. Mr. Castle had informed the Board of

Directors at that time that he was not aware of any plan by CHP or any of its affiliates to make any offer or proposal to purchase Morton's. Greenhill was invited into the meeting and discussed its preliminary views on, among other things, the restaurant industry, the stand-alone value of Morton's, and the range of possible strategic alternatives. Greenhill identified possible strategic alternatives for Morton's, including merger with or acquisition by Morton's of another company or business, recapitalization, leveraged buyout or other sale of Morton's (including pursuant to the BFMA proposal) and a preferred equity infusion. The discussion of the BFMA proposal included a preliminary analysis of the disclosed financing terms from IAC and contingencies involved in the proposal and the financing, as well as historical information on Mr. Florescue and Carl Icahn. For a description of the Greenhill presentation at the May 10, 2001 Board of Directors meeting, see "Other Matters--Presentation by Greenhill at the May 10, 2001 Board of Directors Meeting" beginning on page 97.

The Special Committee held its first meeting on May 10, 2001 immediately following the Board of Directors meeting. Greenhill and SRZ also attended this meeting. The Special Committee directed Greenhill to contact BFMA promptly and request a meeting between BFMA, Greenhill and SRZ in order to provide BFMA with an opportunity to demonstrate to the Special Committee's representatives that it was serious about completing its proposed acquisition and could reasonably complete the financing of its proposal on the terms outlined in its proposal. In particular, the Special Committee wanted to give BFMA an opportunity to provide appropriate evidence of the sources of its purported equity and debt financing. The Special Committee agreed to consider providing Morton's proprietary

non-public information to BFMA subject to BFMA signing a customary form of confidentiality agreement. The Special Committee also discussed how to proceed with the evaluation of Morton's strategic alternatives. As a result of this discussion, the Special Committee directed Greenhill to prepare a preliminary analysis of possible strategic alternatives for Morton's that would enhance stockholder value. In order to proceed in a timely manner, the participants agreed that Greenhill would develop the analysis at the same time that the Special Committee was evaluating the BFMA proposal.

On May 15, 2001, Greenhill called BFMA to request a meeting. By letter to Greenhill dated May 16, 2001, Mr. Bloom of BFMA provided a preliminary due diligence request list and expressed BFMA's interest in executing a confidentiality agreement and beginning a due diligence review of Morton's. On May 21, 2001, Greenhill and SRZ met with BFMA and its counsel to gain further information regarding, and to assess the quality of, BFMA's proposal and financing on a preliminary basis. BFMA disclosed that the IAC financing was a bridge loan from IAC with a one-year term, and that BFMA did not have any permanent financing arranged to replace the IAC bridge loan upon its one-year maturity. BFMA stated that, in view of the IAC financing's fees, rates and other terms, if the opportunity arose it would seek alternative sources of financing, and indicated (without providing any supporting information) that other financing sources might be available. BFMA explicitly clarified that its proposal and the IAC financing were each contingent on the respective entity's satisfaction with due diligence, which in each case appeared to be more comprehensive than the "limited due diligence" that BFMA had publicly stated it would need. BFMA also stated that it was not planning to launch a tender offer for Morton's, including a negotiated tender offer linked to a back-end merger. When asked to provide evidence that IAC and BFMA were capable of funding their respective commitments under the proposed financing, BFMA declined to do so at that time and responded that at some time in the future each entity would be prepared to do so. Greenhill and SRZ indicated that they would report the results of this meeting to the Special Committee at the June 6, 2001 Special Committee meeting.

During late May and early June of 2001, three private equity firms, Investcorp International Inc., referred to as Investcorp, Ripplewood Holdings L.L.C., referred to as Ripplewood, and Bruckmann, Rosser, Sherrill & Co., referred to as Bruckmann Rosser, initiated contact with Greenhill regarding potential transactions with Morton's should the Board of Directors determine that Morton's was for sale. Additionally, Greenhill had separate conversations with three of Morton's institutional stockholders, who indicated that they would like the Board of Directors to engage in a good faith

process to analyze Morton's strategic alternatives, to be receptive to offers to purchase and to give serious consideration to the BFMA proposal. They also indicated that they had a desire for Morton's to engage in a transaction that would provide value realization for the stockholders. During this time, Greenhill also had separate conversations with two nationally recognized banks with extensive experience in the leveraged acquisition financing area regarding the market for financing acquisitions in the restaurant industry. The banks indicated that it was generally difficult at that time to arrange financing for highly leveraged acquisitions, although limited financing opportunities would be available. Greenhill also met with Morton's management, including the Company's Chief Financial Officer, and had several follow-up telephone calls as part of Greenhill's due diligence effort to gain a better understanding of the Company's operations and financial outlook.

On June 6, 2001, the Special Committee met by telephone. Greenhill and SRZ also attended this meeting. Greenhill discussed with the Special Committee actions that Greenhill had taken since the Special Committee's meeting on

May 10, 2001, as described above. Greenhill outlined on a preliminary basis, and the participants discussed, five potential strategic alternatives for Morton's: maintaining the status quo, acquiring another company or business, recapitalizing Morton's capital structure, creating a minority equity position and selling Morton's. Greenhill also reviewed certain preliminary valuation analyses.

The Special Committee members further discussed, and expressed their general discomfort with the financing for, the BFMA proposal. The Special Committee discussed the possibility that the BFMA proposal was nothing more than an attempt to put Morton's "in play" in the hope that a third party buyer would come forward. The Special Committee was reluctant to provide commercially sensitive information about Morton's to a party that was unwilling to agree to keep the information confidential, particularly where the Special Committee did not have sufficient information concerning the party's ability to finance and complete a transaction. Nonetheless, the Special Committee supported the Board of Directors' commitment to give full and fair consideration to the BFMA proposal, and indicated that it would support providing due diligence material to BFMA so long as BFMA first provided satisfactory evidence of its ability to finance its proposal and signed a confidentiality agreement in customary form. For a description of the Greenhill presentation at the June 6, 2001 Special Committe0;padding-left:2px;padding-top:2px;padding-bottom:2px;">52,676

Diluted53,345
53,151
53,329
53,055

Comprehensive income, net of tax:
Currency translation adjustments2,703
(11,079) (3,121) (11,484)
Total other comprehensive (loss) income2,703
(11,079) (3,121) (11,484)
Comprehensive income$34,898
$20,724
$23,543
$46,492

See accompanying notes.

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

(In thousands)	September 30, 2016	March 31, 2016
Assets		
Current assets		
Cash and cash equivalents	$30,458	$27,230
Accounts receivable, net	92,869	95,247
Inventories	97,959	91,263
Deferred income tax assets	10,646	10,108
Prepaid expenses and other current assets	11,341	25,165
Assets held for sale	36,400	—
Total current assets	279,673	249,013
Property and equipment, net	13,732	15,540
Goodwill	351,662	360,191
Intangible assets, net	2,181,128	2,322,723
Other long-term assets	4,783	1,324
Total Assets	$2,830,978	$2,948,791
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$39,041	$38,296
Accrued interest payable	8,264	8,664
Other accrued liabilities	67,006	59,724
Total current liabilities	114,311	106,684
Long-term debt		
Principal amount	1,502,000	1,652,500
Less unamortized debt costs	(22,337)	(27,191)
Long-term debt, net	1,479,663	1,625,309
Deferred income tax liabilities	459,527	469,622
Other long-term liabilities	2,837	2,840
Total Liabilities	2,056,338	2,204,455
Commitments and Contingencies — Note 17		
Stockholders' Equity		
Preferred stock - $0.01 par value		
Authorized - 5,000 shares		
Issued and outstanding - None	—	—
Common stock - $0.01 par value		
Authorized - 250,000 shares		
Issued - 53,265 shares at September 30, 2016 and 53,066 shares at March 31, 2016	532	530
Additional paid-in capital	453,336	445,182

Treasury stock, at cost - 331 shares at September 30, 2016 and 306 shares at March 31, 2016	(6,558)	(5,163)
Accumulated other comprehensive loss, net of tax	(26,646)	(23,525)
Retained earnings	353,976	327,312
Total Stockholders' Equity	774,640	744,336
Total Liabilities and Stockholders' Equity	$2,830,978	$2,948,791

See accompanying notes.

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

(In thousands)	Six Months Ended September 30, 2016			2015		
Operating Activities						
Net income	$	26,664		$	57,976	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	12,848			11,407		
Loss (gain) on sales of intangible assets and property and equipment	55,112			(36		)
Deferred income taxes	(10,602		)	21,985		
Amortization of debt origination costs	5,097			4,055		
Stock-based compensation costs	3,933			5,034		
Loss on extinguishment of debt	—			451		
Changes in operating assets and liabilities, net of effects from acquisitions						
Accounts receivable	356			(3,918		)
Inventories	(10,663		)	(3,838		)
Prepaid expenses and other current assets	10,112			3,436		
Accounts payable	820			(4,519		)
Accrued liabilities	6,605			(1,443		)
Net cash provided by operating activities	100,282			90,590		
Investing Activities						
Purchases of property and equipment	(1,404		)	(1,683		)
Proceeds from sales of intangible assets	52,353			—		
Proceeds from the sale of property and equipment	75			344		
Net cash provided by (used in) investing activities	51,024			(1,339		)
Financing Activities						

Term loan repayments	(130,500	)	(50,000	)
Borrowings under revolving credit agreement	20,000		15,000	
Repayments under revolving credit agreement	(40,000	)	(55,000	)
Payments of debt origination costs	(9	)	(4,211	)
Proceeds from exercise of stock options	3,423		6,398	
Proceeds from restricted stock exercises	—		544	
Excess tax benefits from share-based awards	800		1,850	
Fair value of shares surrendered as payment of tax withholding	(1,395	)	(2,187	)
Net cash used in financing activities	(147,681	)	(87,606	)
Effects of exchange rate changes on cash and cash equivalents	(397	)	(811	)
Increase in cash and cash equivalents	3,228		834	
Cash and cash equivalents - beginning of period	27,230		21,318	
Cash and cash equivalents - end of period	$ 30,458		$ 22,152	
Interest paid	$ 37,259		$ 40,550	
Income taxes paid	$ 6,743		$ 3,707	

See accompanying notes.

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

1. Business and Basis of Presentation

Nature of Business
Prestige Brands Holdings, Inc. (referred to herein as the “Company” or “we”, which reference shall, unless the context requires otherwise, be deemed to refer to Prestige Brands Holdings, Inc. and all of its direct and indirect 100% owned subsidiaries on a consolidated basis) is engaged in the marketing, sales and distribution of over-the-counter (“OTC”) healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets, and club, convenience, and dollar stores in North America (the United States and Canada) and in Australia and certain other international markets. Prestige Brands Holdings, Inc. is a holding company with no operations and is also the parent guarantor of the senior credit facility and the senior notes described in Note 10 to these Consolidated Financial Statements.

Basis of Presentation
The unaudited Consolidated Financial Statements presented herein have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial reporting and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. All significant intercompany transactions and balances have been eliminated in these Consolidated Financial Statements. In the opinion of management, these Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, that are considered necessary for a fair statement of our consolidated financial position, results of operations and cash flows for the interim periods presented. Our fiscal year ends on March 31st of each year. References in these Consolidated Financial Statements or related notes to a year (e.g., “2017”) mean our fiscal year ending or ended on March 31st of that year. Operating results for the three and six months ended September 30, 2016 are not necessarily indicative of results that may be expected for the fiscal year ending March 31, 2017. These unaudited Consolidated Financial Statements and related notes should be read in conjunction with our audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016.

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

Cash and Cash Equivalents
We consider all short-term deposits and investments with original maturities of three months or less to be cash equivalents. Substantially all of our cash is held by a large regional bank with headquarters in California. We do not believe that, as a result of this concentration, we are subject to any unusual financial risk beyond the normal risk associated with commercial banking relationships. The Federal Deposit Insurance Corporation (“FDIC”) and Securities Investor Protection Corporation (“SIPC”) insure these balances up to $250,000 and $500,000, with a $250,000 limit for cash, respectively. Substantially all of the Company's cash balances at September 30, 2016 are uninsured, and approximately 27.8% of our consolidated cash balances at September 30, 2016 are located in the United States.

Accounts Receivable

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

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

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

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

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

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

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

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

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

Indefinite-lived intangible assets are tested for impairment at least annually in the fourth fiscal quarter of each year, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may exceed their fair values and may not be recoverable. An impairment loss is recognized if the carrying amount of the asset exceeds its fair value.

Debt Origination Costs
We have incurred debt origination costs in connection with the issuance of our long-term debt. These costs are amortized over the term of the related debt, using the effective interest method for our bonds and our term loan facility

and the straight-line method for our revolving credit facility.

Revenue Recognition

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

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These promotional programs consist of direct-to-consumer incentives, such as coupons and temporary price reductions,

as well as incentives to our customers, such as allowances for new distribution, including slotting fees, and cooperative advertising. Estimates of the costs of these promotional programs are based on (i) historical sales experience, (ii) the current promotional offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. We recognize the cost of such sales incentives by recording an estimate of such cost as a reduction of revenue, at the later of (a) the date the related revenue is recognized, or (b) the date when a particular sales incentive is offered. At the completion of a promotional program, the estimated amounts are adjusted to actual results.

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

Cost of Sales
Cost of sales includes product costs, warehousing costs, inbound and outbound shipping costs, and handling and storage costs. Warehousing, shipping and handling and storage costs were $10.9 million and $21.4 million for the three and six months ended September 30, 2016, respectively, and $10.4 million and $19.1 million for the three and six months ended September 30, 2015, respectively.

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

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

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

The Income Taxes topic of the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 740 prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The guidance only allows the recognition of those tax benefits that have a greater than 50% likelihood of being sustained upon examination by the various taxing authorities. As a result, we have applied such guidance in determining our tax uncertainties.

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

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

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

available to common stockholders and the weighted-average number of common and potential common shares outstanding during the reporting period. Potential common shares, composed of the incremental common shares issuable upon the exercise of outstanding stock options and unvested restricted stock units, are included in the earnings per share calculation to the extent that they are dilutive. In loss periods, the assumed exercise of in-the-money stock options and restricted stock units has an anti-dilutive effect, and therefore these instruments are excluded from the computation of diluted earnings per share.

Recently Issued Accounting Standards

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

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

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

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

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

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

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

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

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

2. Acquisitions

Acquisition of DenTek

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

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

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

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

Based on this preliminary analysis, we allocated $179.8 million to non-amortizable intangible assets and $26.9 million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average useful life of 18.5 years. The weighted average remaining life for amortizable intangible assets at September 30, 2016 was 18.0 years.

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

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

3. Divestitures and Assets Held for Sale

Divestitures
Late in the first quarter of fiscal 2017, the Company was approached and discussed the potential to sell certain assets. Prior to these discussions, the Company did not contemplate any divestitures, and the Company did not commit to any course of action to divest any of the assets until entering into an agreement on June 29, 2016 to sell Pediacare, New Skin and Fiber Choice, which

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were reported under the North American OTC Healthcare segment in the Cough & Cold, Dermatologicals and Gastrointestinal product groups, respectively.

On July 7, 2016, we completed the sale of the Pediacare, New Skin and Fiber Choice brands for $40.0 million plus the cost of inventory. As a result, we received approximately $40.1 million including the cost of preliminary inventory of $2.6 million, less certain immaterial holdbacks, which will be paid upon meeting certain criteria as defined in the agreement and within approximately 18 months following the closing date of the transaction. During the six months ended September 30, 2016, we recorded a preliminary pre-tax loss on sale of $56.2 million. The proceeds were used to repay debt and related income taxes due on the disposition.

The following table sets forth the components of the assets sold and the pre-tax loss recognized on the sale.

(In thousands)	July 7, 2016
Components of assets sold:	
Inventory	$2,380
Intangible assets, net	91,208
Goodwill	2,920
Assets sold	96,508
Total purchase price to be received	42,380
	54,128
Costs to sell	2,018
Pre-tax loss on sale	$56,146

Concurrent with the completion of the sale of these brands, we entered into a transitional services agreement with the buyer, whereby we agreed to provide the buyer with various services, including marketing, operations, finance and other services, from the date of the acquisition through January 7, 2017. We also entered into an option agreement with the buyer to purchase Dermoplast at a specified earnings multiple as defined in the agreement. The buyer paid a $1.25 million deposit in September 2016, and has recently notified us of its election to exercise the option. We currently expect that this transaction will be completed by March 31, 2017, although the buyer has until December 31, 2017 to complete the transaction. Accordingly, the Dermoplast transaction is not included in the table above and the $1.25 million option deposit is included in our other accrued liabilities at September 30, 2016. The inventory and other assets related to Dermoplast are included in the assets held for sale table below.

Assets Held for Sale

In connection with the divestiture above, the buyer recently notified us of its intention to exercise its option and purchase the Dermoplast brand. As such, we expect to conclude this transaction by March 31, 2017 and the following table sets forth the assets held for sale as of September 30, 2016 related to our Dermoplast brand.

(In thousands)	September 30, 2016
Components of assets held for sale:	
Inventory	$ 619
Intangible assets, net	31,030
Goodwill	4,751
Assets Held for Sale	$ 36,400

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4. Accounts Receivable

Accounts receivable consist of the following:

(In thousands)	September 30, 2016	March 31, 2016
Components of Accounts Receivable		
Trade accounts receivable	$103,744	$105,592
Other receivables	1,011	1,261
	104,755	106,853
Less allowances for discounts, returns and uncollectible accounts	(11,886)	(11,606)
Accounts receivable, net	$92,869	$95,247

5. Inventories

Inventories consist of the following:

(In thousands)	September 30, 2016	March 31, 2016
Components of Inventories		
Packaging and raw materials	$ 7,552	$7,563
Finished goods	90,407	83,700
Inventories	$ 97,959	$91,263

Inventories are carried and depicted above at the lower of cost or market value, which includes a reduction in inventory values of $4.5 million and $4.8 million at September 30, 2016 and March 31, 2016, respectively, related to obsolete and slow-moving inventory.

6. Property and Equipment

Property and equipment consist of the following:

(In thousands)	September 30, 2016	March 31, 2016
Components of Property and Equipment		
Machinery	$ 8,122	$7,734
Computer equipment	12,928	12,793
Furniture and fixtures	2,501	2,445
Leasehold improvements	7,372	7,389
	30,923	30,361
Accumulated depreciation	(17,191)	(14,821)
Property and equipment, net	$ 13,732	$15,540

We recorded depreciation expense of $1.5 million and $3.0 million for the three and six months ended September 30, 2016, respectively. We recorded depreciation expense of $1.2 million and $2.5 million for the three and six months ended September 30, 2015, respectively.

7. Goodwill

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

(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Balance — March 31, 2016	$330,615	$ 22,776	$ 6,800	$ 360,191
Reductions	(7,670)	—	(555)	(8,225)
Effects of foreign currency exchange rates	—	(304)	—	(304)
Balance — September 30, 2016	$322,945	$ 22,472	$ 6,245	$ 351,662

In August 2016, we sold the rights to use of the Comet brand in certain geographic areas (see Note 8 below for further information) and reduced goodwill by $0.6 million as a result.

On July 7, 2016, we completed the sale of Pediacare, New Skin and Fiber Choice (see Note 3 above for further details) for $40.0 million plus the cost of inventory and received $40.1 million including preliminary inventory, less certain immaterial holdbacks, and reduced goodwill by $2.9 million as a result. In addition, as discussed in Note 3, in connection with this sale, the buyer has exercised its option and notified us of its intention to purchase Dermoplast. As such, we have reclassified $4.8 million of goodwill to assets held for sale as of September 30, 2016.

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

On an annual basis during the fourth quarter of each fiscal year, or more frequently if conditions indicate that the carrying value of the asset may not be recoverable, management performs a review of the values assigned to goodwill and tests for impairment. At February 29, 2016, during our annual test for goodwill impairment, there were no indicators of impairment under the analysis. Accordingly, no impairment charge was recorded in fiscal 2016. We utilize the discounted cash flow method to estimate the fair value of our reporting units as part of the goodwill impairment test. We also considered our market capitalization at February 29, 2016, which was the date of our annual review, as compared to the aggregate fair values of our reporting units, to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. The estimates and assumptions made in assessing the fair value of our reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties. Consequently, changing rates of interest and inflation, declining sales or margins, increases in competition, changing consumer preferences, technical advances, or reductions in advertising and promotion may require an impairment charge to be recorded in the future. As of September 30, 2016, no events have occurred that would indicate potential impairment of goodwill.

8. Intangible Assets

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

(In thousands)	Indefinite Lived Trademarks	Finite Lived Trademarks and Customer Relationships	Totals
Gross Carrying Amounts			
Balance — March 31, 2016	$2,020,046	$ 417,880	$2,437,926
Reductions	(77,248)	(60,103)	(137,351)
Effects of foreign currency exchange rates	(380)	(103)	(483)
Balance — September 30, 2016	1,942,418	357,674	2,300,092
Accumulated Amortization			
Balance — March 31, 2016	—	115,203	115,203
Additions	—	9,865	9,865
Reductions	—	(6,102)	(6,102)
Effects of foreign currency exchange rates	—	(2)	(2)
Balance — September 30, 2016	—	118,964	118,964
Intangible assets, net - September 30, 2016	$1,942,418	$ 238,710	$2,181,128
Intangible Assets, net by Reportable Segment:			
North American OTC Healthcare	$1,755,636	$ 215,817	$1,971,453
International OTC Healthcare	85,520	1,087	86,607
Household Cleaning	101,262	21,806	123,068
Intangible assets, net - September 30, 2016	$1,942,418	$ 238,710	$2,181,128

Historically, we received royalty income from the licensing of the names of certain of our brands in geographic areas or markets in which we do not directly compete. We have had royalty agreements for our Comet brand for several years, which included options on behalf of the licensee to purchase license rights in certain geographic areas and markets in perpetuity. In December 2014, we amended these agreements and we sold rights to use of the Comet brand in certain Eastern European countries to a third-party licensee in exchange for $10.0 million as a partial early buyout. The amended agreement provided that we would continue to receive royalty payments of $1.0 million per quarter for the remaining geographic areas and also granted the licensee an option to acquire the license rights in the remaining geographic areas anytime after June 30, 2016. In July 2016, the licensee elected to exercise its option. In August 2016, we received $11.0 million for the purchase of the remaining license rights and, as a result, we recorded a pre-tax gain of $1.2 million and reduced our indefinite-lived trademarks by $9.0 million. Furthermore, the licensee is no longer required to make additional royalty payments to us, and as a result, our future royalty income will be reduced accordingly.

On July 7, 2016, we completed the sale of Pediacare, New Skin and Fiber Choice (see Note 3 above for further details) brands for $40.0 million plus the cost of inventory and received $40.1 million including the cost of preliminary inventory, less certain immaterial holdbacks, and reduced our indefinite and finite-lived trademarks by $37.2 million and $54.0 million, respectively. During the six months ended September 30, 2016, we recorded a preliminary pre-tax loss of $56.2 million on the sale of these brands. In addition, as discussed in Note 3, in connection with this sale, the buyer has exercised its option and notified us of its intention to purchase Dermoplast. As such, we have reclassified $31.0 million of indefinite-lived intangible assets to assets held for sale as of September 30, 2016.

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

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

We utilize the excess earnings method to estimate the fair value of our individual indefinite-lived intangible assets. We also considered our market capitalization at February 29, 2016, which was the date of our annual review. The estimates and assumptions made in assessing the fair value of our reporting units and the valuation of the underlying assets and liabilities are inherently subject to significant uncertainties. Consequently, changing rates of interest and inflation, declining sales or margins, increases in competition, changing consumer preferences, technical advances, or reductions in advertising and promotion may require an impairment charge to be recorded in the future.

The weighted average remaining life for finite-lived intangible assets at September 30, 2016 was approximately 13.1 years, and the amortization expense for the three and six months ended September 30, 2016 was $4.6 million and $9.9 million, respectively. At September 30, 2016, finite-lived intangible assets are being amortized over a period of 10 to 30 years, and the associated amortization expense is expected to be as follows:

(In thousands)

Year Ending March 31,	Amount
2017 (Remaining six months ending March 31, 2017)	$9,113
2018	18,062
2019	18,062
2020	18,062
2021	17,640
Thereafter	157,771
	$238,710

9. Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In thousands)	September 30, 2016	March 31, 2016
Accrued marketing costs	$ 29,938	$26,373
Accrued compensation costs	5,572	9,574
Accrued broker commissions	965	1,497
Income taxes payable	10,284	3,675
Accrued professional fees	3,050	1,787
Deferred rent	690	836
Accrued production costs	3,023	3,324
Accrued lease termination costs	384	448
Income tax related payable	6,354	6,354
Other accrued liabilities	6,746	5,856
	$ 67,006	$59,724

10. Long-Term Debt

2012 Term Loan and 2012 ABL Revolver:

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

are being amortized over the terms of the facilities. The 2012 Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company.

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

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

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

On May 8, 2015, we entered into Amendment No. 3 ("Term Loan Amendment No. 3") to the 2012 Term Loan. Term Loan Amendment No. 3 provided for (i) the creation of a new class of Term B-3 Loans under the 2012 Term Loan (the "Term B-3 Loans") in an aggregate principal amount of $852.5 million, which combined the outstanding balances

of the Term B-1 Loans of $207.5 million and the Term B-2 Loans of $645.0 million, and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief. The maturity date of the Term B-3 Loans remains the same as the Term B-2 Loans' original maturity date of September 3, 2021.
The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% and (d) a floor of 1.75% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of 0.75%. For the six months ended September 30, 2016, the average interest rate on the 2012 Term Loan was 5.0%.

On June 9, 2015, we entered into Amendment No. 4 (“ABL Amendment No. 4”) to the 2012 ABL Revolver. ABL Amendment No. 4 provided for (i) a $35.0 million increase in the accordion feature under the 2012 ABL Revolver and (ii) increased flexibility

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under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief and (iii) extended the maturity date of the 2012 ABL Revolver to June 9, 2020, which is five years from the effective date. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the six months ended September 30, 2016, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was 2.4%.
In connection with the DenTek acquisition on February 5, 2016, we entered into Amendment No. 5 ("ABL Amendment No. 5") to the 2012 ABL Revolver. ABL Amendment No. 5 temporarily suspended certain financial and related reporting covenants in the 2012 ABL Revolver until the earliest of (i) the date that was 60 calendar days following February 4, 2016, (ii) the date upon which certain of DenTek's assets were included in the Company's borrowing base under the 2012 ABL Revolver and (iii) the date upon which the Company received net proceeds from an offering of debt securities.

2013 Senior Notes:
On December 17, 2013, the Borrower issued $400.0 million of senior unsecured notes, with an interest rate of 5.375% and a maturity date of December 15, 2021 (the "2013 Senior Notes"). The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its 100% domestic owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2013 Senior Notes offering, we incurred $7.2 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2013 Senior Notes.

2016 Senior Notes:
On February 19, 2016, the Borrower completed the sale of $350.0 million aggregate principal amount of 6.375% senior notes due 2024 (the "2016 Senior Notes"), pursuant to a purchase agreement, dated February 16, 2016, among the Borrower, the guarantors party thereto (the "Guarantors") and the initial purchasers party thereto. The 2016 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the Guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2016 Senior Notes offering, we incurred $5.5 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2016 Senior Notes.

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

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

Senior Notes at a price equal to 101% of the aggregate principal amount of the 2013 Senior Notes repurchased, plus accrued and unpaid interest, if any, to the date of repurchase.

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

The indentures governing the 2013 Senior Notes and the 2016 Senior Notes contain provisions that restrict us from undertaking specified corporate actions, such as asset dispositions, acquisitions, dividend payments, repurchases of common shares outstanding, changes of control, incurrences of indebtedness, issuance of equity, creation of liens, making of loans and transactions with affiliates. Additionally, the credit agreement with respect to the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2016 Senior Notes contain cross-default provisions, whereby a default pursuant to the terms and conditions of certain indebtedness will cause a default on the remaining indebtedness under the credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2016 Senior Notes. At September 30, 2016, we were in compliance with the covenants under our long-term indebtedness.

At September 30, 2016, we had an aggregate of $1.1 million of unamortized debt costs related to the 2012 ABL Revolver included in other long-term assets, and $22.3 million of unamortized debt costs included in long-term debt costs, the total of which is comprised of $5.0 million related to the 2013 Senior Notes, $5.1 million related to the 2016 Senior Notes, and $12.2 million related to the 2012 Term Loan.

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

At September 30, 2016, we had $65.0 million outstanding on the 2012 ABL Revolver and a borrowing capacity of $68.2 million.

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

(In thousands, except percentages)	September 30, 2016	March 31, 2016
2016 Senior Notes bearing interest at 6.375%, with interest payable on March 1 and September 1 of each year. The 2016 Senior Notes mature on March 1, 2024.	$350,000	$350,000
2013 Senior Notes bearing interest at 5.375%, with interest payable on June 15 and December 15 of each year. The 2013 Senior Notes mature on December 15, 2021.	400,000	400,000
2012 Term B-3 Loans bearing interest at the Borrower's option at either a base rate with a floor of 1.75% plus applicable margin or LIBOR with a floor of 0.75% plus applicable margin, due on September 3, 2021.	687,000	817,500
2012 ABL Revolver bearing interest at the Borrower's option at either a base rate plus applicable margin or LIBOR plus applicable margin. Any unpaid balance is due on June 9, 2020.	65,000	85,000
Total long-term debt (including current portion)	1,502,000	1,652,500
Current portion of long-term debt	—	—
Long-term debt	1,502,000	1,652,500
Less: unamortized debt costs	(22,337)	(27,191)
Long-term debt, net	$1,479,663	$1,625,309

At September 30, 2016, aggregate future principal payments required in accordance with the terms of the 2012 Term Loan, 2012 ABL Revolver and the indentures governing the 2016 Senior Notes and the 2013 Senior Notes are as follows:

(In thousands)

Year Ending March 31,	Amount
	$—

2017 (remaining six months ending March 31, 2017)	
2018	—
2019	—
2020	—
2021	65,000
Thereafter	1,437,000
	$1,502,000

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11. Fair Value Measurements

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

The Fair Value Measurements and Disclosures topic of the FASB ASC 820 requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market assuming an orderly transaction between market participants. The Fair Value Measurements and Disclosures topic established market (observable inputs) as the preferred source of fair value, to be followed by the Company's assumptions of fair value based on hypothetical transactions (unobservable inputs) in the absence of observable market inputs. Based upon the above, the following fair value hierarchy was created:

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

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

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

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

	September 30, 2016		March 31, 2016	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
2016 Senior Notes	$350,000	$371,000	$350,000	$363,125
2013 Senior Notes	400,000	414,000	400,000	408,000
Term B-3 Loans	687,000	693,011	817,500	818,522
2012 ABL Revolver	65,000	65,000	85,000	85,000

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

12. Stockholders' Equity

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

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

During each of the three months ended September 30, 2016 and 2015, we did not repurchase any shares of restricted common stock from our employees pursuant to the provisions of various employee restricted stock awards. During the

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

13. Accumulated Other Comprehensive Loss

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

AOCI consisted of the following at September 30, 2016 and March 31, 2016:

(In thousands)	September 30, 2016	March 31, 2016
Components of Accumulated Other Comprehensive Loss		
Cumulative translation adjustment	$(26,646)	$(23,525)
Accumulated other comprehensive loss, net of tax	$(26,646)	$(23,525)

14. Earnings Per Share

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

	Three Months Ended September 30,		Six Months Ended September 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Numerator				
Net income	$32,195	$31,803	$26,664	$57,976
Denominator				
Denominator for basic earnings per share — weighted average shares outstanding	52,993	52,803	52,941	52,676
Dilutive effect of unvested restricted stock units and options issued to employees and directors	352	348	388	379
Denominator for diluted earnings per share	53,345	53,151	53,329	53,055
Earnings per Common Share:				
Basic net earnings per share	$0.61	$0.60	$0.50	$1.10
Diluted net earnings per share	$0.60	$0.60	$0.50	$1.09

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

15. Share-Based Compensation

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

by ten years to February 2025. Directors, officers and other employees of the Company and its subsidiaries, as well as others performing services for the Company, are eligible for grants under the Plan.

During the three and six months ended September 30, 2016, pre-tax share-based compensation costs charged against income were $2.0 million and $3.9 million, respectively, and the related income tax benefit recorded was $0.5 million and $1.2 million, respectively. During the three and six months ended September 30, 2015, pre-tax share-based compensation costs charged against

income were $2.0 million and $5.0 million, respectively, and the related income tax benefit recorded was $0.7 million and $1.8 million, respectively.

At September 30, 2016, there were $12.4 million of unrecognized compensation costs related to nonvested share-based compensation arrangements under the Plan, based on management's estimate of the shares that will ultimately vest. We expect to recognize such costs over a weighted-average period of 1.0 years. The total fair value of options and restricted stock units vested during the six months ended September 30, 2016 and 2015 was $6.0 million and $6.5 million, respectively. For the six months ended September 30, 2016 and 2015, we issued 92,718 and 153,603 shares of restricted stock units, respectively, and received cash from the exercise of stock options of $3.4 million and $6.4 million, respectively. Accordingly, we realized $1.7 million and $3.5 million, respectively, in tax benefits from the tax deductions resulting from these restricted stock issuances and stock option exercises. At September 30, 2016, there were 2.4 million shares available for issuance under the Plan.

On May 9, 2016, the Compensation Committee of our Board of Directors granted 49,064 shares of restricted stock units and stock options to acquire 224,843 shares of our common stock to certain executive officers and employees under the Plan. All of the shares of restricted stock units vest in their entirety on the three-year anniversary of the date of grant. Upon vesting, the units will be settled in shares of our common stock. The stock options will vest 33.3% per year over three years and are exercisable for up to ten years from the date of grant. These stock options were granted at an exercise price of $57.18 per share, which is equal to the closing price for our common stock on the date of the grant. Termination of employment prior to vesting will result in forfeiture of the unvested restricted common stock units and the unvested stock options. Vested stock options will remain exercisable by the employee after termination, subject to the terms of the Plan.
On September 12, 2016, we announced that Christine Sacco had been appointed as Chief Financial Officer of the Company, effective that same day. In connection with Ms. Sacco's appointment as Chief Financial Officer on September 12, 2016, the Company executed an offer letter with Ms. Sacco, which sets forth the terms of her compensation as approved by the Compensation Committee of the Board of Directors. In accordance with the terms of her offer letter, the Company granted Ms. Sacco 5,012 shares of restricted stock units and stock options to acquire 25,746 shares of our common stock under the Plan.The restricted stock units vest in their entirety on the three-year anniversary of the date of grant. Upon vesting, the units will be settled in shares of our common stock. The stock options will vest 33.3% per year over three years and are exercisable for up to ten years from the date of grant. These stock options were granted at an exercise price of $47.39 per share, which is equal to the closing price of our common stock on the date of grant.
Restricted Shares

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

At our annual meeting date on August 2, 2016, each of our six independent members of the Board of Directors received a grant of 1,896 restricted stock units under the Plan. Additionally, on May 26, 2016 , the Compensation

Committee granted 346 restricted stock units to a newly appointed Board member.

The fair value of the restricted stock units is determined using the closing price of our common stock on the date of the grant. The weighted-average grant-date fair value of restricted stock units granted during the six months ended September 30, 2016 and 2015 was $55.65 and $42.20, respectively.

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

Restricted Stock Units	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Six months ended September 30, 2015		
Vested and nonvested at March 31, 2015	362.3	$ 22.74
Granted	259.5	42.20
Vested and issued	(153.6)	18.16
Forfeited	(1.4)	33.50
Vested and nonvested at September 30, 2015	466.8	35.03
Vested at September 30, 2015	69.8	14.76
Six months ended September 30, 2016		
Vested and nonvested at March 31, 2016	467.8	$ 35.22
Granted	65.8	55.65
Vested and issued	(92.7)	28.47
Forfeited	(91.0)	41.69
Vested and nonvested at September 30, 2016	349.9	39.16
Vested at September 30, 2016	63.4	20.12

Options

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

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

The weighted-average grant-date fair values of the options granted during the six months ended September 30, 2016 and 2015 were $21.87 and $17.10, respectively.

	Six months ended September 30,	
	2016	2015
Expected volatility	37.8%	40.2%
Expected dividends	$ —	$ —

Expected term in years	6.0	6.0
Risk-free rate	1.7%	1.7%

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

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Six months ended September 30, 2015				
Outstanding at March 31, 2015	871.2	$ 23.40		
Granted	200.1	41.80		
Exercised	(336.9)	18.99		
Forfeited or expired	(2.1)	38.16		
Outstanding at September 30, 2015	732.3	30.42	8.1	$ 10,816
Exercisable at September 30, 2015	319.5	21.91	7.0	$ 7,430
Six months ended September 30, 2016				
Outstanding at March 31, 2016	727.7	$ 30.70		
Granted	250.6	56.17		
Exercised	(107.1)	31.97		
Forfeited or expired	(90.7)	42.56		
Outstanding at September 30, 2016	780.5	37.33	7.5	$ 10,326
Exercisable at September 30, 2016	383.7	25.61	6.5	$ 8,693

The aggregate intrinsic value of options exercised in the six months ended September 30, 2016 was $2.4 million.

16. Income Taxes

Income taxes are recorded in our quarterly financial statements based on our estimated annual effective income tax rate, subject to adjustments for discrete events, should they occur. The effective tax rates used in the calculation of income taxes were 35.9% and 35.4% for the three months ended September 30, 2016 and 2015, respectively. The effective rates used in the calculation of income taxes were 35.5% and 35.2% for the six months ended September 30, 2016 and 2015, respectively. The increase in the effective tax rate for the three and six months ended September 30, 2016 was primarily due to non-deductible goodwill associated with the sale of rights to use Comet in certain geographic areas. See Note 8 above for further information on the sale of rights to use Comet.

During the six months ended September 30, 2016, we realized a net reduction to our deferred tax liability of $27.5 million as a result of the sale of Pediacare, New Skin and Fiber Choice.

At September 30, 2016, a 100% owned subsidiary of the Company had a net operating loss carryforward of approximately $14.0 million ($5.0 million, tax effected), which may be used to offset future taxable income of the consolidated group and begins to expire in 2025. The Company expects to fully utilize the loss carryover before it expires. The net operating loss carryforward is subject to an annual limitation as to usage under Internal Revenue Code Section 382 of approximately $33.6 million.

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

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17. Commitments and Contingencies

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

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

The following summarizes future minimum lease payments for our operating leases as of September 30, 2016:

(In thousands) Year Ending March 31,	Facilities	Equipment	Total (a)
2017 (Remaining six months ending March 31, 2017)	$ 1,048	$ 76	$ 1,124
2018	2,029	152	2,181
2019	2,023	152	2,175
2020	1,848	89	1,937
2021	903	—	903
Thereafter	59	—	59
	$ 7,910	$ 469	$ 8,379

(a) Minimum lease payments have not been reduced by minimum sublease rentals of $1.0 million due to us in the future
under noncancelable subleases.

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

(In thousands)	September 30, 2016	March 31, 2016

Minimum lease payments	$ 8,379	$ 8,434
Less: Sublease rentals	(1,036)	(1,165)
	$ 7,343	$ 7,269

Rent expense for the three months ended September 30, 2016 and 2015 was $0.5 million and $0.4 million, respectively.
Rent expense for the six months ended September 30, 2016 and 2015 was $1.1 million and $0.8 million, respectively.

Purchase Commitments
Effective November 1, 2009, we entered into a ten year supply agreement for the exclusive manufacture of a portion of one of our Household Cleaning products. Although we are committed under the supply agreement to pay the minimum amounts set forth in the table below, the total commitment is less than 10% of the estimated purchases that we expect to make during the course of the agreement.

(In thousands) Year Ending March 31,	Amount
2017 (Remaining six months ending March 31, 2017)	518
2018	1,013
2019	981
2020	559
2021	—
	$ 3,072

18. Concentrations of Risk

Our revenues are concentrated in the areas of OTC Healthcare and Household Cleaning products. We sell our products to mass merchandisers, food and drug stores, and convenience, dollar and club stores. During the three and six months ended September 30, 2016, approximately 41.6% and 42.0%, respectively, of our total revenues were derived from our five top selling brands. During the three and six months ended September 30, 2015, approximately 41.7% and 42.8%, respectively, of our total revenues were derived from our five top selling brands. Two customers, Walmart and Walgreens, accounted for more than 10% of our gross revenues for each of the periods presented. Walmart accounted for approximately 21.1% and 20.9%, respectively, of our gross revenues for the three and six months ended September 30, 2016. Walmart accounted for approximately 19.6% and 19.7%, respectively, of our gross revenues for the three and six months ended September 30, 2015. Walgreens accounted for approximately 10.7% and 10.5% of gross revenues for the three and six months ended September 30, 2016, respectively. Walgreens accounted for approximately 10.0% and 9.7% of gross revenues for the three and six months ended September 30, 2015, respectively. At September 30, 2016, approximately 23.5% and 10.6% of accounts receivable were owed by Walmart and Walgreens, respectively.

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

At September 30, 2016, we had relationships with 116 third-party manufacturers. Of those, we had long-term contracts with 49 manufacturers that produced items that accounted for approximately 78.8% of gross sales for the six months ended September 30, 2016. At September 30, 2015, we had relationships with 102 third-party manufacturers. Of those, we had long-term contracts with 48 manufacturers that produced items that accounted for approximately 81.3% of gross sales for the six months ended September 30, 2015. The fact that we do not have long-term contracts with certain manufacturers means that they could cease manufacturing our products at any time

and for any reason or initiate arbitrary and costly price increases, which could have a material adverse effect on our business and results from operations. Although we are in the process of negotiating long-term contracts with certain key manufacturers, we may not be able to reach a timely agreement, which could have a material adverse effect on our business and results of operations.

19. Business Segments

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

The tables below summarize information about our reportable segments.

	Three Months Ended September 30, 2016			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues	$172,590	$ 18,802	$ 23,768	$ 215,160
Elimination of intersegment revenues	(143)	—	—	(143)
Third-party segment revenues	172,447	18,802	23,768	215,017
Other revenues	—	2	33	35
Total segment revenues	172,447	18,804	23,801	215,052
Cost of sales	65,402	7,096	18,589	91,087
Gross profit	107,045	11,708	5,212	123,965
Advertising and promotion	24,811	3,244	537	28,592
Contribution margin	$82,234	$ 8,464	$ 4,675	95,373
Other operating expenses*				24,315
Operating income				71,058
Other expense				20,830
Income before income taxes				50,228
Provision for income taxes				18,033
Net income				$ 32,195

*Other operating expenses for the three months ended September 30, 2016 includes a pre-tax loss on sale of assets of $0.7 million related to Pediacare, New Skin, and Fiber Choice and a pre-tax gain on sale of assets of $1.2 million associated with the sale of license rights in certain geographic areas pertaining to Comet. The assets and corresponding contribution margin associated with the pre-tax loss on sale of assets related to Pediacare, New Skin, and Fiber Choice are included within the North American OTC Healthcare segment, while the pre-tax gain on sale of license rights related to Comet are included in the Household Cleaning segment.

	Six Months Ended September 30, 2016			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues	$345,891	$ 34,602	$ 44,658	$ 425,151
Elimination of intersegment revenues	(1,364)	—	—	(1,364)
Third-party segment revenues	344,527	34,602	44,658	423,787
Other revenues	—	6	834	840
Total segment revenues	344,527	34,608	45,492	424,627
Cost of sales	129,636	14,044	35,391	179,071
Gross profit	214,891	20,564	10,101	245,556
Advertising and promotion	49,851	5,368	1,008	56,227
Contribution margin	$165,040	$ 15,196	$ 9,093	189,329
Other operating expenses*				106,057
Operating income				83,272
Other expense				41,957
Income before income taxes				41,315
Provision for income taxes				14,651
Net income				$ 26,664

*Other operating expenses for the six months ended September 30, 2016 includes a pre-tax loss on sale of assets of $56.2 million related to Pediacare, New Skin, and Fiber Choice and a pre-tax gain on sale of assets of $1.2 million associated with the sale of license rights in certain geographic areas pertaining to Comet. The assets and corresponding contribution margin associated with the pre-tax loss on sale of assets related to Pediacare, New Skin, and Fiber Choice are included within the North American OTC Healthcare segment, while the pre-tax gain on sale of license rights related to Comet are included in the Household Cleaning segment.

	Three Months Ended September 30, 2015			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues**	$166,886	$ 15,954	$ 23,894	$ 206,734
Elimination of intersegment revenues	(1,472)	—	—	(1,472)
Third-party segment revenues	165,414	15,954	23,894	205,262
Other revenues**	—	6	797	803
Total segment revenues	165,414	15,960	24,691	206,065
Cost of sales**	61,497	6,094	18,534	86,125
Gross profit	103,917	9,866	6,157	119,940
Advertising and promotion	24,440	2,777	676	27,893
Contribution margin	$79,477	$ 7,089	$ 5,481	92,047
Other operating expenses				22,149
Operating income				69,898
Other expense				20,667
Income before income taxes				49,231
Provision for income taxes				17,428
Net income				$ 31,803

	Six Months Ended September 30, 2015			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Gross segment revenues**	$323,978	$ 29,410	$ 45,361	$ 398,749
Elimination of intersegment revenues	(2,200)	—	—	(2,200)
Third-party segment revenues	321,778	29,410	45,361	396,549
Other revenues**	15	31	1,602	1,648
Total segment revenues	321,793	29,441	46,963	398,197
Cost of sales**	119,624	11,383	35,014	166,021
Gross profit	202,169	18,058	11,949	232,176
Advertising and promotion	47,635	5,500	1,180	54,315
Contribution margin	$154,534	$ 12,558	$ 10,769	177,861
Other operating expenses				45,458
Operating income				132,403
Other expense				43,002
Income before income taxes				89,401
Provision for income taxes				31,425
Net income				$ 57,976

**Certain immaterial amounts relating to gross segment revenues, other revenues and cost of sales for each of the three and six months ended September 30, 2015 were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

The tables below summarize information about our segment revenues from similar product groups.

	Three Months Ended September 30, 2016			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Analgesics	$29,993	$ 544	$ —	$ 30,537
Cough & Cold	21,106	5,160	—	26,266
Women's Health	33,268	635	—	33,903
Gastrointestinal	16,280	6,088	—	22,368
Eye & Ear Care	22,934	2,989	—	25,923
Dermatologicals	22,952	567	—	23,519
Oral Care	24,368	2,820	—	27,188
Other OTC	1,546	1	—	1,547
Household Cleaning	—	—	23,801	23,801
Total segment revenues	$172,447	$ 18,804	$ 23,801	$ 215,052

	Six Months Ended September 30, 2016			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Analgesics	$58,119	$ 1,071	$ —	$ 59,190
Cough & Cold	39,073	9,552	—	48,625
Women's Health	66,155	1,571	—	67,726
Gastrointestinal	35,386	10,344	—	45,730
Eye & Ear Care	48,941	5,785	—	54,726
Dermatologicals	45,650	1,238	—	46,888
Oral Care	48,179	5,037	—	53,216
Other OTC	3,024	10	—	3,034
Household Cleaning	—	—	45,492	45,492
Total segment revenues	$344,527	$ 34,608	$ 45,492	$ 424,627

	Three Months Ended September 30, 2015			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Analgesics	$29,694	$ 688	$ —	$ 30,382
Cough & Cold	24,456	4,746	—	29,202
Women's Health	33,607	804	—	34,411
Gastrointestinal	19,061	5,342	—	24,403
Eye & Ear Care	24,163	3,578	—	27,741
Dermatologicals	23,197	611	—	23,808
Oral Care	9,733	189	—	9,922
Other OTC	1,503	2	—	1,505
Household Cleaning	—	—	24,691	24,691
Total segment revenues	$165,414	$ 15,960	$ 24,691	$ 206,065

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	Six Months Ended September 30, 2015			
(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Analgesics	$56,542	$ 1,218	$ —	$ 57,760
Cough & Cold	44,215	9,252	—	53,467
Women's Health	66,515	1,504	—	68,019
Gastrointestinal	39,381	9,150	—	48,531
Eye & Ear Care	49,223	6,780	—	56,003
Dermatologicals	43,292	1,145	—	44,437
Oral Care	19,710	383	—	20,093
Other OTC	2,915	9	—	2,924
Household Cleaning	—	—	46,963	46,963
Total segment revenues	$321,793	$ 29,441	$ 46,963	$ 398,197

During the three months ended September 30, 2016 and 2015, approximately 85.8% of our total segment revenues were from customers in the United States. During the six months ended September 30, 2016 and 2015, approximately 86.7% and 86.5%, respectively, of our total segment revenues were from customers in the United States. Other than the United States, no individual geographical area accounted for more than 10% of net sales in any of the periods presented. During the three months ended September 30, 2016, our Canada and Australia sales accounted for approximately 5.4% and 5.9%, respectively, of our total segment revenues, while during the three months ended September 30, 2015, approximately 5.5% and 6.8%, respectively, of our total segment revenues were attributable to sales to Canada and Australia. During the six months ended September 30, 2016, our Canada and Australia sales accounted for approximately 5.1% and 5.5%, respectively, of our total segment revenues, while during the six months ended September 30, 2015, approximately 5.3% and 6.3%, respectively, of our total segment revenues were attributable to sales to Canada and Australia.

At September 30, 2016 and March 31, 2016, approximately 95.7% of our consolidated goodwill and intangible assets were located in the United States and approximately 4.3% were located in Australia and the United Kingdom. These consolidated goodwill and intangible assets have been allocated to the reportable segments as follows:

September 30, 2016 (In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Goodwill	$322,945	$ 22,472	$ 6,245	$ 351,662
Intangible assets				
Indefinite-lived	1,755,636	85,520	101,262	1,942,418
Finite-lived	215,817	1,087	21,806	238,710
Intangible assets, net	1,971,453	86,607	123,068	2,181,128
Total	$2,294,398	$ 109,079	$ 129,313	$ 2,532,790

March 31, 2016 (In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Goodwill	$330,615	$ 22,776	$ 6,800	$ 360,191
Intangible assets				

Indefinite-lived	1,823,873	85,901	110,272	2,020,046
Finite-lived	277,762	2,237	22,678	302,677
Intangible assets, net	2,101,635	88,138	132,950	2,322,723
Total	$2,432,250	$ 110,914	$ 139,750	$ 2,682,914

20. Condensed Consolidating Financial Statements

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

Presented below are supplemental Condensed Consolidating Balance Sheets as of September 30, 2016 and March 31, 2016, Condensed Consolidating Statements of Income and Comprehensive Income for the three and six months ended September 30, 2016 and 2015, and Condensed Consolidating Statements of Cash Flows for the six months ended September 30, 2016 and 2015. Such consolidating information includes separate columns for:

a) Prestige Brands Holdings, Inc., the parent,
b) Prestige Brands, Inc., the Issuer or the Borrower,
c) Combined Subsidiary Guarantors,
d) Combined Non-Guarantor Subsidiaries, and
e) Elimination entries necessary to consolidate the Company and all of its subsidiaries.

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

In the second quarter of fiscal 2017, the Company determined that it had incorrectly recorded certain intercompany transactions relating to the first quarter of fiscal 2017 in the condensed consolidating financial statements. This resulted in an overstatement of equity in earnings of subsidiaries for Prestige Brands, Inc. (the “Issuer”) of $44.6 million and a net understatement of equity in earnings of subsidiaries for the eliminations of $44.6 million for the three months ended June 30, 2016.This item also resulted in corresponding adjustments to the investments in subsidiaries on the condensed consolidating balance sheet as of June 30, 2016 and adjustments to net income (loss) and equity in income of subsidiaries in the condensed consolidating statement of cash flows, although net cash provided by (used

in) operating activities for the three months ended June 30, 2016 remained unchanged. These errors had no impact to the Company's consolidated balance sheet, consolidated statement of income or consolidated statement of cash flows.

The Company assessed the materiality of these errors on the previously issued interim financial statements in accordance with SEC Staff Accounting Bulletin No. 99 and No. 108, and concluded that the errors were not material to the consolidated financial statements for the three months ended June 30, 2016. The Company appropriately reflected the intercompany transactions in the condensed consolidating financial statements for the six months ended September 30, 2016 and plans to revise the comparative presentation of the condensed consolidating financial statements for the period ended June 30, 2016 in future filings.

Condensed Consolidating Statements of Income and Comprehensive Income
Three Months Ended September 30, 2016

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Net sales	$—	$26,013	$171,791	$17,358	$(145)	$215,017
Other revenues	—	72	33	494	(564)	35
Total revenues	—	26,085	171,824	17,852	(709)	215,052
Cost of Sales						
Cost of sales (exclusive of depreciation shown below)	—	11,066	74,380	6,478	(837)	91,087
Gross profit	—	15,019	97,444	11,374	128	123,965
Operating Expenses						
Advertising and promotion	—	3,751	21,619	3,222	—	28,592
General and administrative	1,801	1,762	13,302	1,930	—	18,795
Depreciation and amortization	832	151	4,917	116	—	6,016
(Gain) loss on sale of assets		—	(496)	—	—	(496)
Total operating expenses	2,633	5,664	39,342	5,268	—	52,907
Operating income (loss)	(2,633)	9,355	58,102	6,106	128	71,058
Other (income) expense						
Interest income	(12,077)	(21,459)	(1,292)	(156)	34,938	(46)
Interest expense	8,502	20,882	25,138	1,292	(34,938)	20,876
Equity in (income) loss of subsidiaries	(32,028)	(27,020)	(3,601)	—	62,649	—
Total other expense (income)	(35,603)	(27,597)	20,245	1,136	62,649	20,830
Income (loss) before income taxes	32,970	36,952	37,857	4,970	(62,521)	50,228
Provision for income taxes	775	3,526	12,363	1,369	—	18,033
Net income (loss)	$32,195	$33,426	$25,494	$3,601	$(62,521)	$32,195
Comprehensive (loss) income, net of tax:						
Currency translation adjustments	2,703	2,703	2,703	2,703	(8,109)	2,703
Total other comprehensive (loss) income	2,703	2,703	2,703	2,703	(8,109)	2,703
Comprehensive (loss) income	$34,898	$36,129	$28,197	$6,304	$(70,630)	$34,898

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Condensed Consolidating Statements of Income and Comprehensive Income
Six Months Ended September 30, 2016

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Net sales	$—	$53,972	$339,996	$31,184	$(1,365)	$423,787
Other revenues	—	147	834	980	(1,121)	840
Total revenues	—	54,119	340,830	32,164	(2,486)	424,627
Cost of Sales						
Cost of sales (exclusive of depreciation shown below)	—	23,152	145,842	12,478	(2,401)	179,071
Gross profit	—	30,967	194,988	19,686	(85)	245,556
Operating Expenses						
Advertising and promotion	—	8,496	42,423	5,308	—	56,227
General and administrative	3,738	3,950	27,616	2,948	—	38,252
Depreciation and amortization	1,752	302	10,550	244	—	12,848
Loss on sale of assets		—	54,957	—	—	54,957
Total operating expenses	5,490	12,748	135,546	8,500	—	162,284
Operating income (loss)	(5,490)	18,219	59,442	11,186	(85)	83,272
Other (income) expense						
Interest income	(24,044)	(42,721)	(2,566)	(315)	69,543	(103)
Interest expense	16,942	42,056	50,039	2,566	(69,543)	42,060
Equity in (income) loss of subsidiaries	(26,290)	(13,761)	(6,677)	—	46,728	—
Total other expense (income)	(33,392)	(14,426)	40,796	2,251	46,728	41,957
Income (loss) before income taxes	27,902	32,645	18,646	8,935	(46,813)	41,315
Provision for income taxes	1,238	6,704	4,451	2,258	—	14,651
Net income (loss)	$26,664	$25,941	$14,195	$6,677	$(46,813)	$26,664
Comprehensive (loss) income, net of tax:						
Currency translation adjustments	(3,121)	(3,121)	(3,121)	(3,121)	9,363	(3,121)
Total other comprehensive (loss) income	(3,121)	(3,121)	(3,121)	(3,121)	9,363	(3,121)
Comprehensive (loss) income	$23,543	$22,820	$11,074	$3,556	$(37,450)	$23,543

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

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Net sales	$—	$27,957	$164,772	$14,005	$(1,472)	$205,262
Other revenues	—	79	798	543	(617)	803
Total revenues	—	28,036	165,570	14,548	(2,089)	206,065
Cost of Sales						
Cost of sales (exclusive of depreciation shown below)	—	10,868	72,120	4,952	(1,815)	86,125
Gross profit	—	17,168	93,450	9,596	(274)	119,940
Operating Expenses						
Advertising and promotion	—	3,204	21,933	2,756	—	27,893
General and administrative	1,199	1,300	12,912	1,051	—	16,462
Depreciation and amortization	1,030	147	4,447	63	—	5,687
Total operating expenses	2,229	4,651	39,292	3,870	—	50,042
Operating income (loss)	(2,229)	12,517	54,158	5,726	(274)	69,898
Other (income) expense						
Interest income	(12,161)	(21,607)	(1,169)	(126)	35,030	(33)
Interest expense	8,964	20,303	25,294	1,169	(35,030)	20,700
Equity in (income) loss of subsidiaries	(31,441)	(19,746)	(3,385)	—	54,572	—
Total other (income) expense	(34,638)	(21,050)	20,740	1,043	54,572	20,667
Income (loss) before income taxes	32,409	33,567	33,418	4,683	(54,846)	49,231
Provision for income taxes	606	4,892	10,632	1,298	—	17,428
Net income (loss)	$31,803	$28,675	$22,786	$3,385	$(54,846)	$31,803
Comprehensive (loss) income, net of tax:						
Currency translation adjustments	(11,079)	(11,079)	(11,079)	(11,079)	33,237	(11,079)
Total other comprehensive (loss) income	(11,079)	(11,079)	(11,079)	(11,079)	33,237	(11,079)
Comprehensive income (loss)	$20,724	$17,596	$11,707	$(7,694)	$(21,609)	$20,724

Condensed Consolidating Statements of Income and Comprehensive Income
Six Months Ended September 30, 2015

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues						
Net sales	$—	$55,840	$317,296	$25,613	$(2,200)	$396,549
Other revenues	—	175	1,617	1,041	(1,185)	1,648
Total revenues	—	56,015	318,913	26,654	(3,385)	398,197
Cost of Sales						
Cost of sales (exclusive of depreciation shown below)	—	21,309	138,498	9,360	(3,146)	166,021
Gross profit	—	34,706	180,415	17,294	(239)	232,176
Operating Expenses						
Advertising and promotion	—	5,721	43,161	5,433	—	54,315
General and administrative	2,514	3,855	24,863	2,819	—	34,051
Depreciation and amortization	2,019	293	8,892	203	—	11,407
Total operating expenses	4,533	9,869	76,916	8,455	—	99,773
Operating income (loss)	(4,533)	24,837	103,499	8,839	(239)	132,403
Other (income) expense						
Interest income	(24,210)	(43,015)	(2,389)	(238)	69,792	(60)
Interest expense	17,454	42,211	50,349	2,389	(69,792)	42,611
Loss on extinguishment of debt	—	451	—	—	—	451
Equity in (income) loss of subsidiaries	(56,747)	(36,701)	(4,835)	—	98,283	—
Total other (income) expense	(63,503)	(37,054)	43,125	2,151	98,283	43,002
Income (loss) before income taxes	58,970	61,891	60,374	6,688	(98,522)	89,401
Provision for income taxes	994	8,917	19,661	1,853	—	31,425
Net income (loss)	$57,976	$52,974	$40,713	$4,835	$(98,522)	$57,976
Comprehensive (loss) income, net of tax:						
Currency translation adjustments	(11,484)	(11,484)	(11,484)	(11,484)	34,452	(11,484)
Total other comprehensive (loss) income	(11,484)	(11,484)	(11,484)	(11,484)	34,452	(11,484)
Comprehensive income (loss)	$46,492	$41,490	$29,229	$(6,649)	$(64,070)	$46,492

Condensed Consolidating Balance Sheet
September 30, 2016

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$8,168	$—	$292	$21,998	$—	$30,458
Accounts receivable, net	—	11,677	67,356	13,836	—	92,869
Inventories	—	12,910	75,088	10,578	(617)	97,959
Deferred income tax assets	297	807	8,652	890	—	10,646
Prepaid expenses and other current assets	2,189	546	7,926	680	—	11,341
Assets held for sale	—	—	36,400	—	—	36,400
Total current assets	10,654	25,940	195,714	47,982	(617)	279,673
Property and equipment, net	7,963	314	4,889	566	—	13,732
Goodwill	—	66,007	263,183	22,472	—	351,662
Intangible assets, net	—	191,521	1,901,899	87,708	—	2,181,128
Other long-term assets	2,500	2,283	—	—	—	4,783
Intercompany receivables	1,478,481	2,573,184	1,461,115	12,506	(5,525,286)	—
Investment in subsidiary	1,665,764	1,538,358	83,983	—	(3,288,105)	—
Total Assets	$3,165,362	$4,397,607	$3,910,783	$171,234	$(8,814,008)	$2,830,978
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	$2,643	$9,422	$24,097	$2,879	$—	$39,041
Accrued interest payable	—	8,264	—	—	—	8,264
Other accrued liabilities	11,731	1,841	47,137	6,297	—	67,006
Total current liabilities	14,374	19,527	71,234	9,176	—	114,311
Long-term debt						
Principal amount	—	1,502,000	—	—	—	1,502,000
Less unamortized debt costs	—	(22,337)	—	—	—	(22,337)
Long-term debt, net	—	1,479,663	—	—	—	1,479,663
Deferred income tax liabilities	—	61,046	398,108	373	—	459,527
Other long-term liabilities		—	2,682	155	—	2,837
Intercompany payables	2,376,348	1,246,668	1,821,773	80,497	(5,525,286)	—
Total Liabilities	2,390,722	2,806,904	2,293,797	90,201	(5,525,286)	2,056,338
Stockholders' Equity						
Common stock	532	—	—	—	—	532
Additional paid-in capital	453,336	1,280,947	1,359,921	78,774	(2,719,642)	453,336
Treasury stock, at cost	(6,558)	—	—	—	—	(6,558)
	(26,646)	(26,646)	(26,646)	(26,646)	79,938	(26,646)

Accumulated other comprehensive (loss) income, net of tax						
Retained earnings (accumulated deficit)	353,976	336,402	283,711	28,905	(649,018)	353,976
Total Stockholders' Equity	774,640	1,590,703	1,616,986	81,033	(3,288,722)	774,640
Total Liabilities and Stockholders' Equity	$3,165,362	$4,397,607	$3,910,783	$ 171,234	$(8,814,008)	$2,830,978

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Condensed Consolidating Balance Sheet
March 31, 2016

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

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

Condensed Consolidating Statement of Cash Flows
Six Months Ended September 30, 2016

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities						
Net income (loss)	$ 26,664	$ 25,941	$ 14,195	$ 6,677	$ (46,813)	$ 26,664
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	1,752	302	10,550	244	—	12,848
Loss on sales of intangible assets and property and equipment		—	55,112	—	—	55,112
Deferred income taxes	19	603	(11,144)	(80)	—	(10,602)
Amortization of debt origination costs	—	5,097	—	—	—	5,097
Stock-based compensation costs	3,933	—	—	—	—	3,933
Equity in income of subsidiaries	(26,290)	(13,761)	(6,677)	—	46,728	—
Changes in operating assets and liabilities, net of effects from acquisitions:						
Accounts receivable	—	348	7,090	(7,082)	—	356
Inventories	—	(3,499)	(6,596)	(653)	85	(10,663)
Prepaid expenses and other current assets	10,622	(289)	(735)	514	—	10,112
Accounts payable	(297)	1,779	(164)	(498)	—	820
Accrued liabilities	(554)	(273)	8,284	(852)	—	6,605
Net cash provided by (used in) operating activities	15,849	16,248	69,915	(1,730)	—	100,282
Investing Activities						
Purchases of property and equipment	(395)	(138)	(785)	(86)	—	(1,404)
Proceeds from sales of intangible assets	—	—	52,353	—	—	52,353
Proceeds from the sale of property and equipment	—	—	75	—	—	75
Net cash provided by (used in) investing activities	(395)	(138)	51,643	(86)	—	51,024
Financing Activities						
Term loan repayments	—	(130,500)	—	—	—	(130,500)
Borrowings under revolving credit agreement	—	20,000	—	—	—	20,000
Repayments under revolving credit agreement	—	(40,000)	—	—	—	(40,000)
Payments of debt origination costs	—	(9)	—	—	—	(9)
Proceeds from exercise of stock options	3,423	—	—	—	—	3,423
Excess tax benefits from share-based awards	800	—	—	—	—	800
Fair value of shares surrendered as payment of tax withholding	(1,395)	—	—	—	—	(1,395)
Intercompany activity, net	(14,554)	134,399	(124,165)	4,320	—	—
	(11,726)	(16,110)	(124,165)	4,320	—	(147,681)

Net cash (used in) provided by financing activities						
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(397)	—	(397)
Increase (decrease) in cash and cash equivalents	3,728	—	(2,607)	2,107	—	3,228
Cash and cash equivalents - beginning of period	4,440	—	2,899	19,891	—	27,230
Cash and cash equivalents - end of period	$ 8,168	$ —	$ 292	$ 21,998	$ —	$ 30,458

Condensed Consolidating Statement of Cash Flows
Six Months Ended September 30, 2015

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating Activities						
Net income (loss)	$ 57,976	$ 52,974	$ 40,713	$ 4,835	$ (98,522)	$ 57,976
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization	2,019	293	8,892	203	—	11,407
Gain on sale of property and equipment	—	—	—	(36)	—	(36)
Deferred income taxes	171	254	21,506	54	—	21,985
Amortization of debt origination costs	—	4,055	—	—	—	4,055
Stock-based compensation costs	4,993	—	—	41	—	5,034
Loss on extinguishment of debt	—	451	—	—	—	451
Equity in income of subsidiaries	(56,747)	(36,701)	(4,835)	—	98,283	—
Changes in operating assets and liabilities, net of effects from acquisitions:						
Accounts receivable	—	1,729	(3,550)	(2,097)	—	(3,918)
Inventories	—	(1,017)	(2,177)	(883)	239	(3,838)
Prepaid expenses and other current assets	3,166	(402)	660	12	—	3,436
Accounts payable	269	624	(3,343)	(2,069)	—	(4,519)
Accrued liabilities	(2,503)	(1,094)	1,012	1,142	—	(1,443)
Net cash provided by operating activities	9,344	21,166	58,878	1,202	—	90,590
Investing Activities						
Purchases of property and equipment	(1,107)	(93)	(103)	(380)	—	(1,683)
Proceeds from the sale of property and equipment	—	—	—	344	—	344
Net cash used in investing activities	(1,107)	(93)	(103)	(36)	—	(1,339)
Financing Activities						
Term loan repayments	—	(50,000)	—	—	—	(50,000)
Borrowings under revolving credit agreement	—	15,000	—	—	—	15,000
Repayments under revolving credit agreement	—	(55,000)	—	—	—	(55,000)
Payments of debt origination costs	—	(4,211)	—	—	—	(4,211)
Proceeds from exercise of stock options	6,398	—	—	—	—	6,398
Proceeds from restricted stock exercises	544	—	—	—	—	544
Excess tax benefits from share-based awards	1,850	—	—	—	—	1,850
Fair value of shares surrendered as payment of tax withholding	(2,187)	—	—	—	—	(2,187)
Intercompany activity, net	(15,675)	73,138	(58,775)	1,312	—	—
	(9,070)	(21,073)	(58,775)	1,312	—	(87,606)

Net cash (used in) provided by financing activities						
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(811)	—	(811)
Increase (decrease) in cash and cash equivalents	(833)	—	—	1,667	—	834
Cash and cash equivalents - beginning of period	11,387	—	—	9,931	—	21,318
Cash and cash equivalents - end of period	$ 10,554	$—	$ —	$ 11,598	$ —	$ 22,152

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

The following discussion of our financial condition and results of operations should be read together with the Consolidated Financial Statements and the related notes included in this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended March 31, 2016. This discussion and analysis may contain forward-looking statements that involve certain risks, assumptions and uncertainties. Future results could differ materially from the discussion that follows for many reasons, including the factors described in Part I, Item 1A., “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016, as well as those described in Part II, Item 1A, "Risk Factors" in this Quarterly Report on Form 10-Q and in future reports filed with the Securities and Exchange Commission (the "SEC").
See also “Cautionary Statement Regarding Forward-Looking Statements” on page 62 of this Quarterly Report on Form 10-Q.

General
We are engaged in the marketing, sales and distribution of well-recognized, brand name OTC healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets, and club, convenience, and dollar stores in North America (the United States and Canada) and in Australia and certain other international markets. We use the strength of our brands, our established retail distribution network, a low-cost operating model and our experienced management team to our competitive advantage.

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

Acquisitions

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

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

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

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

Based on this preliminary analysis, we allocated $179.8 million to non-amortizable intangible assets and $26.9 million to amortizable intangible assets. We are amortizing the purchased amortizable intangible assets on a straight-line basis over an estimated weighted average useful life of 18.5 years. The weighted average remaining life for amortizable intangible assets at September 30, 2016 was 18.0 years.

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

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

Divestitures
Late in the first quarter of fiscal 2017, the Company was approached and discussed the potential to sell certain assets. Prior to these discussions, the Company did not contemplate any divestitures, and the Company did not commit to any course of action to divest any of the assets until entering into an agreement on June 29, 2016 to sell Pediacare, New Skin and Fiber Choice, which were reported under the North American OTC Healthcare segment in the Cough & Cold, Dermatologicals and Gastrointestinal product groups, respectively.

On July 7, 2016, we completed the sale of the Pediacare, New Skin and Fiber Choice brands for $40.0 million plus the cost of inventory. As a result, we received approximately $40.1 million including the cost of preliminary inventory of $2.6 million, less certain immaterial holdbacks, which will be paid upon meeting certain criteria as defined in the agreement and within approximately 18 months following the closing date of the transaction. During the six months ended September 30, 2016, we recorded a preliminary pre-tax loss on sale of $56.2 million. The proceeds were used to repay debt and related income taxes due on the disposition.

The following table sets forth the components of the assets sold and the pre-tax loss recognized on the sale.

(In thousands)	July 7, 2016
Components of assets sold:	
Inventory	$2,380
Intangible assets, net	91,208
Goodwill	2,920
Assets sold	96,508
Total purchase price to be received	42,380
	54,128
Costs to sell	2,018
Pre-tax loss on sale	$56,146

Concurrent with the completion of the sale of these brands, we entered into a transitional services agreement with the buyer, whereby we agreed to provide the buyer with various services, including marketing, operations, finance and other services, from the date of the acquisition through January 7, 2017. We also entered into an option agreement with the buyer to purchase Dermoplast at a specified earnings multiple as defined in the agreement. The buyer paid a $1.25 million deposit in September 2016, and has recently notified us of their election to exercise the option. We currently expect that this transaction will be completed by March 31, 2017, although the buyer has until December 31, 2017 to complete the transaction. Accordingly, the Dermoplast transaction is not included in the table above and the $1.25 million option deposit is included in our other accrued liabilities at September 30, 2016. The inventory and other assets related to Dermoplast are included as assets held for sale as of September 30, 2016.

Sale of license rights

Historically, we received royalty income from the licensing of the names of certain of our brands in geographic areas or markets in which we do not directly compete. We have had royalty agreements for our Comet brand for several years, which included options on behalf of the licensee to purchase license rights in certain geographic areas and markets in perpetuity. In December 2014, we amended these agreements and we sold rights to use of the Comet brand in certain Eastern European countries to a third-party licensee in exchange for $10.0 million as a partial early buyout. The amended agreement provided that we would continue to receive royalty payments of $1.0 million per quarter for the remaining geographic areas and also granted the licensee an option to acquire the license rights in the remaining geographic areas anytime after June 30, 2016. In July 2016, the licensee elected to exercise its option. In August 2016, we received $11.0 million for the purchase of the remaining license rights and, as a result, we recorded a pre-tax gain of $1.2 million and reduced our indefinite-lived trademarks by $9.0 million. Furthermore, the licensee is no longer required to make additional royalty payments to us, and as a result, our future royalty income will be reduced accordingly.

Results of Operations

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

Total Segment Revenues

The following table represents total revenue by segment, including product groups, for the three months ended September 30, 2016 and 2015.

	Three Months Ended September 30,					
					Increase (Decrease)	
(In thousands)	2016	%	2015*	%	Amount	%
North American OTC Healthcare						
Analgesics	$29,993	13.9	$29,694	14.4	$299	1.0
Cough & Cold	21,106	9.8	24,456	11.9	(3,350)	(13.7)
Women's Health	33,268	15.5	33,607	16.4	(339)	(1.0)
Gastrointestinal	16,280	7.6	19,061	9.2	(2,781)	(14.6)
Eye & Ear Care	22,934	10.7	24,163	11.7	(1,229)	(5.1)
Dermatologicals	22,952	10.7	23,197	11.3	(245)	(1.1)
Oral Care	24,368	11.3	9,733	4.7	14,635	(nm)
Other OTC	1,546	0.7	1,503	0.7	43	2.9
Total North American OTC Healthcare	172,447	80.2	165,414	80.3	7,033	4.3
International OTC Healthcare						
Analgesics	544	0.2	688	0.3	(144)	(20.9)
Cough & Cold	5,160	2.4	4,746	2.3	414	8.7
Women's Health	635	0.3	804	0.4	(169)	(21.0)
Gastrointestinal	6,088	2.8	5,342	2.6	746	14.0
Eye & Ear Care	2,989	1.4	3,578	1.7	(589)	(16.5)
Dermatologicals	567	0.3	611	0.3	(44)	(7.2)
Oral Care	2,820	1.3	189	0.1	2,631	(nm)
Other OTC	1	—	2	—	(1)	(50.0)
Total International OTC Healthcare	18,804	8.7	15,960	7.7	2,844	17.8
Total OTC Healthcare	191,251	88.9	181,374	88.0	9,877	5.4
Household Cleaning	23,801	11.1	24,691	12.0	(890)	(3.6)
Total Consolidated	$215,052	100.0	$206,065	100.0	$8,987	4.4

(nm) size of % not meaningful

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Total segment revenues for the three months ended September 30, 2016 were $215.1 million, an increase of $9.0 million, or 4.4%, versus the three months ended September 30, 2015. This increase was primarily related to an increase in the North American OTC Healthcare segment, largely due to the acquisition of DenTek. The DenTek brands accounted for approximately $17.2 million of revenues not included in the comparable period in the prior year. This increase was partially offset by a decrease of $8.2 million primarily due to the lower revenues from certain brands in the Cough & Cold, Gastrointestinal and Eye & Ear Care product groups and Household Cleaning segment.

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North American OTC Healthcare Segment
Revenues for the North American OTC Healthcare segment increased $7.0 million, or 4.3%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This increase was primarily due to the increase of $14.6 million in the Oral Care product group largely due to the acquisition of DenTek. Excluding the revenue increases contributed by DenTek, revenues would have decreased by approximately $7.5 million, primarily consisting of decreases in the Cough & Cold, Gastrointestinal and Eye & Ear Care product groups including the divested brands.

International OTC Healthcare Segment
Revenues for the International OTC Healthcare segment increased $2.8 million, or 17.8%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This increase was primarily due to an increase of $2.6 million in the Oral Care product group largely due to the acquisition of DenTek. Excluding the revenue increases contributed by DenTek, revenues would have increased by approximately $0.1 million, which included an increase in the Gastrointestinal product group that was largely offset by a decrease in the Eye & Ear Care product group.

Household Cleaning Segment
Revenues for the Household Cleaning segment decreased by $0.9 million, or 3.6%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This decrease was primarily attributable to decreased royalties as a result of the sale of royalty rights in certain geographic regions.

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

(In thousands)	Three Months Ended September 30,					
					Increase (Decrease)	
Cost of Sales	2016	%	2015*	%	Amount	%
North American OTC Healthcare	$65,402	37.9	$61,497	37.2	$3,905	6.3
International OTC Healthcare	7,096	37.7	6,094	38.2	1,002	16.4
Household Cleaning	18,589	78.1	18,534	75.1	55	0.3
	$91,087	42.4	$86,125	41.8	$4,962	5.8

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Cost of sales increased $5.0 million, or 5.8%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This increase was largely due to increases in the North American OTC Healthcare segment and the International Healthcare segment primarily resulting from the additional DenTek business. As a percentage of total revenue, cost of sales increased to 42.4% in the three months ended September 30, 2016 from 41.8% in the three months ended September 30, 2015. This increase in cost of sales as a percentage of revenues was primarily the result of an unfavorable product mix in the Household Cleaning segment.

North American OTC Healthcare Segment
Cost of sales for the North American OTC Healthcare segment increased $3.9 million, or 6.3%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This cost of sales increase was due to higher overall sales volume primarily attributable to the acquisition of DenTek. As a percentage of the North American OTC Healthcare revenues, cost of sales remained relatively consistent at 37.9% during the three months ended September 30, 2016 from 37.2% during the three months ended September 30, 2015.

International OTC Healthcare Segment

Cost of sales for the International OTC Healthcare segment increased $1.0 million, or 16.4%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This cost of sales increase was due to higher overall sales volume primarily attributable to the acquisition of DenTek. As a percentage of the International OTC Healthcare revenues, cost of sales remained relatively consistent at 37.7% during the three months ended September 30, 2016 from 38.2% during the three months ended September 30, 2015.

Household Cleaning Segment
Cost of sales for the Household Cleaning segment increased $0.1 million, or 0.3%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. As a percentage of Household Cleaning revenues, cost of sales increased to 78.1% during the three months ended September 30, 2016 from 75.1% during the three months ended September 30, 2015. This increase in cost of sales as a percentage of revenues was primarily attributable to an unfavorable product mix.

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

	Three Months Ended September 30,					
(In thousands)					Increase (Decrease)	
Gross Profit	2016	%	2015*	%	Amount	%
North American OTC Healthcare	$107,045	62.1	$103,917	62.8	$3,128	3.0
International OTC Healthcare	11,708	62.3	9,866	61.8	1,842	18.7
Household Cleaning	5,212	21.9	6,157	24.9	(945)	(15.3)
	$123,965	57.6	$119,940	58.2	$4,025	3.4

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Gross profit for the three months ended September 30, 2016 increased $4.0 million, or 3.4%, when compared with the three months ended September 30, 2015. As a percentage of total revenues, gross profit decreased to 57.6% in the three months ended September 30, 2016 from 58.2% in the three months ended September 30, 2015. The decrease in gross profit as a percentage of revenues was primarily due to the decreases in gross margin in the Household Cleaning segment.

North American OTC Healthcare Segment
Gross profit for the North American OTC Healthcare segment increased $3.1 million, or 3.0%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. The increase was due to higher overall sales volume, primarily attributable to the acquisition of DenTek. As a percentage of North American OTC Healthcare revenues, gross profit remained relatively consistent at 62.1% during the three months ended September 30, 2016 from 62.8% during the three months ended September 30, 2015.

International OTC Healthcare Segment
Gross profit for the International OTC Healthcare segment increased $1.8 million, or 18.7%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. The increase was due to higher overall sales volume, primarily attributable to the acquisition of DenTek. As a percentage of International OTC Healthcare revenues, gross profit remained relatively consistent at 62.3% during the three months ended September 30, 2016 from 61.8% during the three months ended September 30, 2015.

Household Cleaning Segment
Gross profit for the Household Cleaning segment decreased $0.9 million, or 15.3%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015, primarily attributable to decreased royalties as a result of the sale of royalty rights for our Comet brand in certain geographic regions. As a percentage of Household Cleaning revenue, gross profit decreased to 21.9% during the three months ended September 30, 2016 from 24.9% during the three months ended September 30, 2015. The decrease in gross profit as a percentage of

revenues was primarily attributable to decreased sales in certain distribution channels, an unfavorable product mix and the reduced royalties.

Contribution Margin

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

(In thousands)	Three Months Ended September 30,					
					Increase (Decrease)	
Contribution Margin	2016	%	2015*	%	Amount	%
North American OTC Healthcare	$82,234	47.7	$79,477	48.0	$2,757	3.5
International OTC Healthcare	8,464	45.0	7,089	44.4	1,375	19.4
Household Cleaning	4,675	19.6	5,481	22.2	(806)	(14.7)
	$95,373	44.3	$92,047	44.7	$3,326	3.6

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Contribution margin is a non-GAAP financial measure that we use as a primary measure for evaluating segment performance. It is defined as gross profit less advertising and promotional expenses. Contribution margin increased $3.3 million, or 3.6%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. This increase was primarily related to the increase in gross profit in the North American OTC Healthcare and International OTC Healthcare segments.

North American OTC Healthcare Segment

Contribution margin for the North American OTC Healthcare segment increased $2.8 million, or 3.5%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. The contribution margin increase was primarily the result of higher sales volumes and gross profit attributable to the acquisition of DenTek. As a percentage of North American OTC Healthcare revenues, contribution margin remained relatively consistent at 47.7% during the three months ended September 30, 2016 from 48.0% during the three months ended September 30, 2015.

International OTC Healthcare Segment

Contribution margin for the International OTC Healthcare segment increased $1.4 million, or 19.4%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015. The contribution margin increase was primarily the result of higher sales volumes and gross profit as well as lower advertising and promotional costs of DenTek. As a percentage of International OTC Healthcare revenues, contribution margin remained relatively consistent at 45.0% during the three months ended September 30, 2016 from 44.4% during the three months ended September 30, 2015.

Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased $0.8 million, or 14.7%, during the three months ended September 30, 2016 versus the three months ended September 30, 2015, primarily attributable to decreased royalties as a result of the sale of royalty rights for our Comet brand in certain geographic regions. As a percentage of Household Cleaning revenues, contribution margin decreased to 19.6% during the three months ended September 30, 2016 from 22.2% during the three months ended September 30, 2015. The contribution margin decrease as a percentage of revenues was primarily due to the gross profit decrease as a percentage of revenues in the Household Cleaning segment discussed above.

General and Administrative

General and administrative expenses were $18.8 million for the three months ended September 30, 2016 versus $16.5 million for the three months ended September 30, 2015. The increase in general and administrative expenses was primarily due to an increase in compensation, acquisition and integration costs associated with the acquisition of DenTek and the costs associated with the sale of Pediacare, Fiber Choice and New Skin.

Depreciation and Amortization

Depreciation and amortization expense was $6.0 million and $5.7 million for the three months ended September 30, 2016 and 2015, respectively. The increase in depreciation and amortization expense was primarily due to higher intangible asset amortization during 2017 related to the intangible assets acquired as a result of the DenTek acquisition.

Interest Expense

Net interest expense was $20.9 million during the three months ended September 30, 2016 versus $20.7 million during the three months ended September 30, 2015. The increase in net interest expense was primarily attributable to the increased accelerated amortization of debt origination costs due to the higher repayments of our Term B-3 Loans. This increase was largely offset by

the lower interest rate on our 6.375% senior notes due 2024 (the "2016 Senior Notes") compared to our 8.125% senior notes due 2020 (the "2012 Senior Notes"). The 2016 Senior Notes were issued in February 2016 in connection with the acquisition of DenTek and the redemption of the 2012 Senior Notes. The average indebtedness remained consistent at $1.5 billion during the three months ended September 30, 2016 and 2015. The average cost of borrowing increased to 5.5% for the three months ended September 30, 2016 from 5.3% for the three months ended September 30, 2015.

Loss on Sale of Assets
We recorded a net gain on sales of assets of $0.5 million for the three months ended September 30, 2016, which relates to two separate transactions. On July 7, 2016, the Company completed the sale of Pediacare, New Skin and Fiber Choice, which were non-core OTC brands and were reported under the North American OTC Healthcare segment in the Cough & Cold, Dermatologicals and Gastrointestinal product groups, respectively.

As a result, we recorded a preliminary pre-tax loss on sale of assets of $55.5 million in the first quarter of fiscal 2017 and increased the loss by $0.7 million during the three months ended September 30, 2016. This increase in loss was more than offset by a pre-tax gain of $1.2 million in the quarter on the sale of a royalty license for our Comet brand in certain geographic areas, as further discussed in Note 8.

Income Taxes
The provision for income taxes during the three months ended September 30, 2016 was $18.0 million versus a provision for income taxes of $17.4 million during the three months ended September 30, 2015. The effective tax rate during the three months ended September 30, 2016 was 35.9% versus 35.4% during the three months ended September 30, 2015. The increase in the effective tax rate for the three months ended September 30, 2016 versus the three months ended September 30, 2015 was primarily due to the impact of certain non-deductible items in the current year period related to the sale of rights for our Comet brand. The estimated effective tax rate for the remaining quarters of the fiscal year ending March 31, 2017 is expected to be approximately 35.5%, excluding the impact of acquisitions and discrete items that may occur.

Results of Operations

Six Months Ended September 30, 2016 compared to the Six Months Ended September 30, 2015

Total Segment Revenues

The following table represents total revenue by segment, including product groups, for the six months ended September 30, 2016 and 2015.

	Six Months Ended September 30,					
					Increase (Decrease)	
(In thousands)	2016	%	2015*	%	Amount	%
North American OTC Healthcare						
Analgesics	$58,119	13.7	$56,542	14.2	$1,577	2.8
Cough & Cold	39,073	9.2	44,215	11.1	(5,142)	(11.6)
Women's Health	66,155	15.6	66,515	16.7	(360)	(0.5)
Gastrointestinal	35,386	8.3	39,381	9.9	(3,995)	(10.1)
Eye & Ear Care	48,941	11.5	49,223	12.4	(282)	(0.6)
Dermatologicals	45,650	10.8	43,292	10.9	2,358	5.4
Oral Care	48,179	11.3	19,710	4.9	28,469	(nm)
Other OTC	3,024	0.7	2,915	0.7	109	3.7
Total North American OTC Healthcare	344,527	81.1	321,793	80.8	22,734	7.1
International OTC Healthcare						
Analgesics	1,071	0.3	1,218	0.3	(147)	(12.1)
Cough & Cold	9,552	2.2	9,252	2.3	300	3.2
Women's Health	1,571	0.4	1,504	0.4	67	4.5
Gastrointestinal	10,344	2.4	9,150	2.3	1,194	13.0
Eye & Ear Care	5,785	1.4	6,780	1.7	(995)	(14.7)
Dermatologicals	1,238	0.3	1,145	0.3	93	8.1
Oral Care	5,037	1.2	383	0.1	4,654	(nm)
Other OTC	10	—	9	—	1	11.1
Total International OTC Healthcare	34,608	8.2	29,441	7.4	5,167	17.6
Total OTC Healthcare	379,135	89.3	351,234	88.2	27,901	7.9
Household Cleaning	45,492	10.7	46,963	11.8	(1,471)	(3.1)
Total Consolidated	$424,627	100.0	$398,197	100.0	$26,430	6.6

(nm) size of % not meaningful

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Total segment revenues for the six months ended September 30, 2016 were $424.6 million, an increase of $26.4 million, or 6.6%, versus the six months ended September 30, 2015. This increase was primarily related to an increase in the North American OTC Healthcare segment, largely due to the acquisition of DenTek. The DenTek brands accounted for approximately $33.8 million of revenues not included in the comparable period in the prior year. The increase was partially offset by a decrease of $7.4 million primarily due to the lower revenues from certain brands in the Cough & Cold, Gastrointestinal and Eye & Ear Care product groups and Household Cleaning segment.

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North American OTC Healthcare Segment

Revenues for the North American OTC Healthcare segment increased $22.7 million, or 7.1%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This increase was primarily due to the increase of $28.5 million in the Oral Care product group largely due to the acquisition of DenTek. Excluding the revenue increases contributed by DenTek, revenues would have decreased by approximately $6.4 million, primarily consisting of decreases in the Cough & Cold and Gastrointestinal product groups and the impact of the divested brands, which was partially offset primarily by increases in the Dermatologicals and Analgesics product groups.

International OTC Healthcare Segment

Revenues for the International OTC Healthcare segment increased $5.2 million, or 17.6%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This increase was primarily due to an increase of $4.7 million in the Oral Care product group largely due to the acquisition of DenTek. Excluding the revenue increases contributed by DenTek, revenues would have increased by approximately $0.4 million, primarily consisting of an increase in the Gastrointestinal product group, partially offset by a decrease in the Eye & Ear Care product group.

Household Cleaning Segment

Revenues for the Household Cleaning segment decreased by $1.5 million, or 3.1%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This decrease was primarily attributable to decreased royalties as a result of the sale of royalty rights for our Comet brand in certain geographic regions and lower sales in certain distribution channels.

Cost of Sales

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

(In thousands)	Six Months Ended September 30,				Increase (Decrease)	
Cost of Sales	2016	%	2015*	%	Amount	%
North American OTC Healthcare	$129,636	37.6	$119,624	37.2	$10,012	8.4
International OTC Healthcare	14,044	40.6	11,383	38.7	2,661	23.4
Household Cleaning	35,391	77.8	35,014	74.6	377	1.1
	$179,071	42.2	$166,021	41.7	$13,050	7.9

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Cost of sales increased $13.1 million, or 7.9%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This increase was largely due to an increase in the North American OTC Healthcare segment. As a percentage of total revenue, cost of sales increased to 42.2% in the six months ended September 30, 2016 from 41.7% in the six months ended September 30, 2015. This increase in cost of sales as a percentage of revenues was primarily the result of an unfavorable product mix.

North American OTC Healthcare Segment

Cost of sales for the North American OTC Healthcare segment increased $10.0 million, or 8.4%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This cost of sales increase was due to higher overall sales volume primarily attributable to the acquisition of DenTek. As a percentage of the North American OTC Healthcare revenues, cost of sales remained relatively consistent at 37.6% during the six months ended September 30, 2016 from 37.2% during the six months ended September 30, 2015.

International OTC Healthcare Segment

Cost of sales for the International OTC Healthcare segment increased $2.7 million, or 23.4%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This cost of sales increase was due to higher overall sales volume primarily attributable to the acquisition of DenTek. As a percentage of the International OTC Healthcare revenues, cost of sales increased to 40.6% during the six months ended September 30, 2016 from 38.7% during the six months ended September 30, 2015, primarily attributable to an unfavorable product mix and increased cost of sales as a percentage of revenues from DenTek while we integrate the brand into our existing product portfolio.

Household Cleaning Segment
Cost of sales for the Household Cleaning segment increased $0.4 million, or 1.1%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. As a percentage of Household Cleaning revenues, cost of sales increased to 77.8% during the six months ended September 30, 2016 from 74.6% during the six months ended September 30, 2015. This increase in cost of sales as a percentage of revenues was primarily attributable to an unfavorable product mix and to a lesser extent to the reduced royalties as a result of the sale of royalty rights for our Comet brand in certain geographic regions.

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

(In thousands)	Six Months Ended September 30,				Increase (Decrease)	
Gross Profit	2016	%	2015*	%	Amount	%
North American OTC Healthcare	$214,891	62.4	$202,169	62.8	$12,722	6.3
International OTC Healthcare	20,564	59.4	18,058	61.3	2,506	13.9
Household Cleaning	10,101	22.2	11,949	25.4	(1,848)	(15.5)
	$245,556	57.8	$232,176	58.3	$13,380	5.8

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Gross profit for the six months ended September 30, 2016 increased $13.4 million, or 5.8%, when compared with the six months ended September 30, 2015. As a percentage of total revenues, gross profit decreased to 57.8% in the six months ended September 30, 2016 from 58.3% in the six months ended September 30, 2015. The decrease in gross profit as a percentage of revenues was primarily due to the decreases in gross margin in the Household Cleaning segment.

North American OTC Healthcare Segment
Gross profit for the North American OTC Healthcare segment increased $12.7 million, or 6.3%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. The increase was due to higher overall sales volume, primarily attributable to the acquisition of DenTek. As a percentage of North American OTC Healthcare revenues, gross profit remained relatively consistent at 62.4% during the six months ended September 30, 2016 from 62.8% during the six months ended September 30, 2015.

International OTC Healthcare Segment
Gross profit for the International OTC Healthcare segment increased $2.5 million, or 13.9%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. The increase was due to higher overall sales volume, primarily attributable to the acquisition of DenTek. As a percentage of International OTC Healthcare revenues, gross profit decreased to 59.4% during the six months ended September 30, 2016 from 61.3% during the six months ended September 30, 2015, primarily due to an unfavorable product mix and increased cost of sales as a percentage of revenues from DenTek while we integrate the brand into our existing product portfolio.

Household Cleaning Segment
Gross profit for the Household Cleaning segment decreased $1.8 million, or 15.5%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. As a percentage of Household Cleaning revenue, gross profit decreased to 22.2% during the six months ended September 30, 2016 from 25.4% during the six

months ended September 30, 2015. As discussed above, the decrease in gross profit as a percentage of revenues was primarily attributable to decreased sales in certain distribution channels, an unfavorable product mix and the reduced royalties as a result of the sale of royalty rights for our Comet brand in certain geographic regions.

Contribution Margin

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

(In thousands)	Six Months Ended September 30,					
					Increase (Decrease)	
Contribution Margin	2016	%	2015*	%	Amount	%
North American OTC Healthcare	$165,040	47.9	$154,534	48.0	$10,506	6.8
International OTC Healthcare	15,196	43.9	12,558	42.7	2,638	21.0
Household Cleaning	9,093	20.0	10,769	22.9	(1,676)	(15.6)
	$189,329	44.6	$177,861	44.7	$11,468	6.4

(*) Certain immaterial amounts in the prior year period relating to gross segment revenues, other revenues and cost of sales were reclassified between the International OTC Healthcare segment and the North American OTC Healthcare segment. There were no changes to the consolidated financial statements for any periods presented.

Contribution margin is a non-GAAP financial measure that we use as a primary measure for evaluating segment performance. It is defined as gross profit less advertising and promotional expenses. Contribution margin increased $11.5 million, or 6.4%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. This increase was primarily related to the increase in gross profit in the North American OTC Healthcare segment.

North American OTC Healthcare Segment

Contribution margin for the North American OTC Healthcare segment increased $10.5 million, or 6.8%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. The contribution margin increase was primarily the result of higher sales volumes and gross profit attributable to the acquisition of DenTek. As a percentage of North American OTC Healthcare revenues, contribution margin remained relatively consistent at 47.9% during the six months ended September 30, 2016 from 48.0% during the six months ended September 30, 2015.

International OTC Healthcare Segment

Contribution margin for the International OTC Healthcare segment increased $2.6 million, or 21.0%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. The contribution margin increase was primarily the result of higher sales volumes and gross profit attributable to the acquisition of DenTek. As a percentage of International OTC Healthcare revenues, contribution margin increased to 43.9% during the six months ended September 30, 2016 from 42.7% during the six months ended September 30, 2015. The contribution margin increase as a percentage of revenues was primarily due to lower advertising and promotional costs offset slightly by a decrease in gross profit as a percentage of revenues in the International OTC Healthcare segment discussed above.

Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased $1.7 million, or 15.6%, during the six months ended September 30, 2016 versus the six months ended September 30, 2015. As a percentage of Household Cleaning revenues, contribution margin decreased to 20.0% during the six months ended September 30, 2016 from 22.9% during the six months ended September 30, 2015. The contribution margin decrease as a percentage of revenues was primarily due to the gross profit decrease as a percentage of revenues in the Household Cleaning segment discussed above.

General and Administrative

General and administrative expenses were $38.3 million for the six months ended September 30, 2016 versus $34.1 million for the six months ended September 30, 2015. The increase in general and administrative expenses was primarily due to an increase in compensation, acquisition and integration costs associated with the acquisition of DenTek and the costs associated with the sale of Pediacare, Fiber Choice and New Skin.

Depreciation and Amortization

Depreciation and amortization expense was $12.8 million and $11.4 million for the six months ended September 30, 2016 and 2015, respectively. The increase in depreciation and amortization expense was primarily due to higher intangible asset amortization during 2017 related to the intangible assets acquired as a result of the DenTek acquisition.

Interest Expense

Net interest expense was $42.1 million during the six months ended September 30, 2016 versus $42.6 million during the six months ended September 30, 2015. The decrease in net interest expense was primarily attributable to the lower interest rate on our 2016

Senior Notes compared to our 2012 Senior Notes. The 2016 Senior Notes were issued in February 2016 in connection with the acquisition of DenTek and the redemption of the 2012 Senior Notes. This decrease was largely offset by increased accelerated amortization of debt origination costs due to the higher repayments of our Term B-3 Loans in the current period. The average indebtedness remained consistent at $1.6 billion during the six months ended September 30, 2016 and 2015. The average cost of borrowing remained consistent at 5.4% for the six months ended September 30, 2016 and 2015.

Loss on Sale of Assets

We recorded a net loss on sales of assets of $54.9 million for the six months ended September 30, 2016, which relates to two separate transactions. On July 7, 2016, the Company completed the sale of Pediacare, New Skin and Fiber Choice, which were non-core OTC brands and were reported under the North American OTC Healthcare segment in the Cough & Cold, Dermatologicals and Gastrointestinal product groups, respectively. As a result, we recorded a preliminary pre-tax loss on sale of these assets of $56.2 million for the six months ended September 30, 2016. This loss was slightly reduced by a pre-tax gain of $1.2 million on the sale of a royalty license for our Comet brand in certain geographic areas as further discussed in Note 8.

Income Taxes

The provision for income taxes during the six months ended September 30, 2016 was $14.7 million versus a provision for income taxes of $31.4 million during the six months ended September 30, 2015. The effective tax rate during the six months ended September 30, 2016 was 35.5% versus 35.2% during the six months ended September 30, 2015. The increase in the effective tax rate for the six months ended September 30, 2016 versus the six months ended September 30, 2015 was primarily due to the impact of certain non-deductible items in the current year period related to the sale of rights for our Comet Brand. The estimated effective tax rate for the remaining quarters of the fiscal year ending March 31, 2017 is expected to be approximately 35.5%, excluding the impact of acquisitions and discrete items that may occur.

Liquidity and Capital Resources

Liquidity

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

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

	Six Months Ended September 30,	
(In thousands)	2016	2015
Cash provided by (used in):		
Operating Activities	$100,282	$90,590
Investing Activities	51,024	(1,339)
Financing Activities	(147,681)	(87,606)

Operating Activities
Net cash provided by operating activities was $100.3 million for the six months ended September 30, 2016 compared to $90.6 million for the six months ended September 30, 2015. The $9.7 million increase in net cash provided by operating activities was primarily due to an increase in non-cash charges of $23.5 million and a decrease in working capital of $17.5 million, partially offset by a decrease in net income of $31.3 million. The decrease in net income was primarily due to a loss on sale of assets associated with the sale of Pediacare, New Skin and Fiber Choice.

Working capital is defined as current assets (excluding cash and cash equivalents) minus current liabilities. Working capital decreased in the six months ended September 30, 2016 compared to the six months ended September 30, 2015 primarily as a result of a decrease in the year-over-year change in prepaid expenses and other current assets and accounts receivable of $6.7 million and $4.3 million, respectively, and an increase in inventory, accrued liabilities and accounts payable of $6.8 million, $8.0 million and $5.3 million, respectively.

Non-cash charges increased $23.5 million for the six months ended September 30, 2016 compared to the six months ended September 30, 2015, primarily due to a pre-tax loss on sale of assets of $55.1 million associated with loss on sale of assets discussed above. This increase was partially offset by a decrease in deferred income taxes of $32.3 million, of which approximately $27.5 million resulted from the sale of assets discussed above.

Investing Activities
Net cash provided by investing activities was $51.0 million for the six months ended September 30, 2016 compared to net cash used in investing activities of $1.3 million for the six months ended September 30, 2015. The change was primarily due to the proceeds of $52.4 million received in the current period from the sales of intangible assets.

Financing Activities
Net cash used in financing activities was $147.7 million for the six months ended September 30, 2016 compared to net cash used in financing activities of $87.6 million for the six months ended September 30, 2015. The change was primarily due to an increase in term loan repayments of $80.1 million year-over-year, offset partially by a decrease in net repayments under our existing revolving credit facilities of $20.0 million in the current year period.

Capital Resources

2012 Term Loan and 2012 ABL Revolver:
On January 31, 2012, Prestige Brands, Inc. (the "Borrower") entered into a new senior secured credit facility, which consists of (i) a $660.0 million term loan facility (the “2012 Term Loan”) with a 7-year maturity and (ii) a $50.0 million asset-based revolving credit facility (the “2012 ABL Revolver”) with a 5-year maturity. In subsequent years, we have utilized portions of our accordion feature to increase the amount of our borrowing capacity under the 2012 ABL Revolver by $85.0 million to $135.0 million and reduced our borrowing rate on the 2012 ABL Revolver by 0.25% (discussed below). The 2012 Term Loan was issued with an original issue discount of 1.5% of the principal amount thereof, resulting in net proceeds to the Borrower of $650.1 million. In connection with these loan facilities, we incurred $20.6 million of costs, which were capitalized as deferred financing costs and are being amortized over the terms of the facilities. The 2012 Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company.

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

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

floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin, and (y) the Term B-2 Loans that was based, at our option, on a LIBOR rate plus a margin of 3.50% per annum, with a LIBOR floor of 1.00%, or an alternate base rate, with a floor of 2.00%, plus a margin (with a margin step-down to 3.25% per annum, based upon achievement of a specified secured net leverage ratio).

Also, on September 3, 2014, we entered into Amendment No. 3 ("ABL Amendment No. 3") to the 2012 ABL Revolver. ABL Amendment No. 3 provided for (i) a $40.0 million increase in revolving commitments under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment and debt incurrence flexibility. Borrowings under the 2012 ABL Revolver, as amended, bear interest at a rate per annum equal to an applicable margin, plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., and (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant

to such borrowing, adjusted for certain additional costs. The applicable margin for borrowings under the 2012 ABL Revolver may be increased to 2.00% or 2.25% for LIBOR borrowings and 1.00% or 1.25% for base-rate borrowings, depending on average excess availability under the 2012 ABL Revolver during the prior fiscal quarter. In addition to paying interest on outstanding principal under the 2012 ABL Revolver, we are required to pay a commitment fee to the lenders under the 2012 ABL Revolver in respect of the unutilized commitments thereunder. The initial commitment fee rate is 0.50% per annum. The commitment fee rate will be reduced to 0.375% per annum at any time when the average daily unused commitments for the prior quarter is less than a percentage of total commitments by an amount set forth in the credit agreement covering the 2012 ABL Revolver. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty.

On May 8, 2015, we entered into Amendment No. 3 ("Term Loan Amendment No. 3") to the 2012 Term Loan. Term Loan Amendment No. 3 provided for (i) the creation of a new class of Term B-3 Loans under the 2012 Term Loan (the "Term B-3 Loans") in an aggregate principal amount of $852.5 million, which combined the outstanding balances of the Term B-1 Loans of $207.5 million and the Term B-2 Loans of $645.0 million, and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief. The maturity date of the Term B-3 Loans remains the same as the Term B-2 Loans' original maturity date of September 3, 2021.
The 2012 Term Loan, as amended, bears interest at a rate per annum equal to an applicable margin plus, at our option, either (i) a base rate determined by reference to the highest of (a) the Federal Funds rate plus 0.50%, (b) the prime rate of Citibank, N.A., (c) the LIBOR rate determined by reference to the cost of funds for U.S. dollar deposits for an interest period of one month, adjusted for certain additional costs, plus 1.00% and (d) a floor of 1.75% or (ii) a LIBOR rate determined by reference to the costs of funds for U.S. dollar deposits for the interest period relevant to such borrowing, adjusted for certain additional costs, with a floor of 0.75%. For the six months ended September 30, 2016, the average interest rate on the 2012 Term Loan was 5.0%.

On June 9, 2015, we entered into Amendment No. 4 (“ABL Amendment No. 4”) to the 2012 ABL Revolver. ABL Amendment No. 4 provided for (i) a $35.0 million increase in the accordion feature under the 2012 ABL Revolver and (ii) increased flexibility under the credit agreement governing the 2012 Term Loan and 2012 ABL Revolver, including additional investment, restricted payment, and debt incurrence flexibility and financial maintenance covenant relief and (iii) extended the maturity date of the 2012 ABL Revolver to June 9, 2020, which is five years from the effective date. We may voluntarily repay outstanding loans under the 2012 ABL Revolver at any time without a premium or penalty. For the six months ended September 30, 2016, the average interest rate on the amounts borrowed under the 2012 ABL Revolver was 2.4%.
In connection with the DenTek acquisition on February 5, 2016, we entered into Amendment No. 5 (“ABL Amendment No. 5”) to the 2012 ABL Revolver. ABL Amendment No. 5 temporarily suspended certain financial and related reporting covenants in the 2012 ABL Revolver until the earliest of (i) the date that was 60 calendar days following February 4, 2016, (ii) the date upon which certain of DenTek’s assets were included in the Company’s borrowing base under the 2012 ABL Revolver and (iii) the date upon which the Company received net proceeds from an offering of debt securities.

2013 Senior Notes:
On December 17, 2013, the Borrower issued $400.0 million of senior unsecured notes, with an interest rate of 5.375% and a maturity date of December 15, 2021 (the "2013 Senior Notes"). The Borrower may redeem some or all of the 2013 Senior Notes at redemption prices set forth in the indenture governing the 2013 Senior Notes. The 2013 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its 100% domestic owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2013 Senior Notes offering, we incurred $7.2 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2013 Senior Notes.

2016 Senior Notes:
On February 19, 2016, the Borrower completed the sale of $350.0 million aggregate principal amount of 2016 Senior Notes, pursuant to a purchase agreement, dated February 16, 2016, among the Borrower, the guarantors party thereto (the "Guarantors") and the initial purchasers party thereto. The 2016 Senior Notes are guaranteed by Prestige Brands Holdings, Inc. and certain of its domestic 100% owned subsidiaries, other than the Borrower. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the Guarantors to obtain funds from their subsidiaries or to make payments to the Borrower or the Company. In connection with the 2016 Senior Notes offering, we incurred $5.5 million of costs, which were capitalized as deferred financing costs and are being amortized over the term of the 2016 Senior Notes.

The 2016 Senior Notes were issued pursuant to an indenture, dated February 19, 2016 (the "Indenture"). The Indenture provides, among other things, that interest will be payable on the 2016 Senior Notes on March 1 and September 1 of each year, beginning

on September 1, 2016, until their maturity date of March 1, 2024. The 2016 Senior Notes are senior unsecured obligations of the Borrower.

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

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

As of September 30, 2016, we had an aggregate of $1,502.0 million of outstanding indebtedness, which consisted of the following:

- $400.0 million of 5.375% 2013 Senior Notes due 2021;
- $350.0 million of 6.375% 2016 Senior Notes due 2024;
- $687.0 million of borrowings under the Term B-3 Loans; and
- $65.0 million of borrowings under the 2012 ABL Revolver.

As of September 30, 2016, we had $68.2 million of borrowing capacity under the 2012 ABL Revolver.

As we deem appropriate, we may from time to time utilize derivative financial instruments to mitigate the impact of changing interest rates associated with our long-term debt obligations or other derivative financial instruments. While we have utilized derivative financial instruments in the past, we did not have any significant derivative financial instruments outstanding at either September 30, 2016 or March 31, 2016 or during any of the periods presented. We have not entered into derivative financial instruments for trading purposes; all of our derivatives were over-the-counter instruments with liquid markets.

Our debt facilities contain various financial covenants, including provisions that require us to maintain certain leverage, interest coverage and fixed charge ratios. The credit agreement governing the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and 2016 Senior Notes contain provisions that accelerate our indebtedness on certain changes in control and restrict us from undertaking specified corporate actions,

including asset dispositions, acquisitions, payment of dividends and other specified payments, repurchasing our equity securities in the public markets, incurrence of indebtedness, creation of liens, making loans and investments and transactions with affiliates. Specifically, we must:

- Have a leverage ratio of less than 6.50 to 1.0 for the quarter ended September 30, 2016 (defined as, with certain adjustments, the ratio of our consolidated total net debt as of the last day of the fiscal quarter to our trailing twelve month consolidated net income before interest, taxes, depreciation, amortization, non-cash charges and certain other items ("EBITDA")). Our leverage ratio requirement decreases over time to 3.75 to 1.0 for the quarter ending March 31, 2019 and remains level thereafter;

- Have an interest coverage ratio of greater than 2.75 to 1.0 for the quarter ended September 30, 2016 (defined as, with certain adjustments, the ratio of our consolidated EBITDA to our trailing twelve month consolidated cash interest expense). Our interest coverage requirement increases over time to 3.50 to 1.0 for the quarter ending March 31, 2018 and remains level thereafter; and

- Have a fixed charge ratio of greater than 1.0 to 1.0 for the quarter ended September 30, 2016 (defined as, with certain adjustments, the ratio of our consolidated EBITDA minus capital expenditures to our trailing twelve month consolidated interest paid, taxes paid and other specified payments). Our fixed charge requirement remains level throughout the term of the agreement.

At September 30, 2016, we were in compliance with the applicable financial and restrictive covenants under the 2012 Term Loan and the 2012 ABL Revolver and the indentures governing the 2013 Senior Notes and the 2016 Senior Notes. Additionally, management anticipates that in the normal course of operations, we will be in compliance with the financial and restrictive covenants during the remainder of 2017. During the years ended March 31, 2016, 2015 and 2014, we made voluntary principal payments against outstanding indebtedness of $60.0 million, $130.0 million and $157.5 million, respectively, under the 2012 Term Loan. Under Term Loan Amendment No. 2, we were required to make quarterly payments each equal to 0.25% of the original principal amount of the Term B-2 Loans, with the balance expected to be due on the seventh anniversary of the closing date. However, since we entered into Term Loan Amendment No. 3, we are required to make quarterly payments each equal to 0.25% of the aggregate principal amount of $852.5 million. Since we have previously made optional payments that exceeded a significant portion of our required quarterly payments, we will not be required to make another payment until the fiscal year ending March 31, 2021.

Off-Balance Sheet Arrangements

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

Inflation

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

Critical Accounting Policies and Estimates

Our significant accounting policies are described in the notes to the unaudited Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016. While all significant accounting policies are important to our Consolidated Financial Statements, certain of these policies may be viewed as being critical. Such policies are those that are both most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective and complex estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, or the related disclosure of contingent assets and liabilities. These estimates are based on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates. The most critical accounting policies are as follows:

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

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our products. The cost of these promotional programs varies based on the actual number of units sold during a finite period of time. These promotional programs consist of direct-to-consumer incentives, such as coupons and temporary price reductions, as well as incentives to our customers, such as allowances for new distribution, including slotting fees, and cooperative advertising. Estimates of the costs of these promotional programs are based on (i) historical sales experience, (ii) the current promotional offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. We recognize the cost of such sales incentives by recording an estimate of such cost as a reduction of revenue, at the later of (a) the date the related revenue is recognized, or (b) the date when a particular sales incentive is offered. At the completion of the promotional program, these estimated amounts are adjusted to actual amounts. Our related promotional expense for the fiscal year ended March 31, 2016 was $56.4 million. For the three and six months ended September 30, 2016, our related promotional expense was $16.5 million and $30.9 million, respectively. We believe that the estimation methodologies employed, combined with the nature of the promotional campaigns, make the likelihood remote that our obligation would be misstated by a material amount. However, for illustrative purposes, had we underestimated the promotional program rate by 10% for the fiscal year ended March 31, 2016, our sales and operating income would have been reduced by approximately $5.6 million. Net income would have been adversely affected by approximately $3.6 million. Similarly, had we underestimated the promotional program rate by 10% for the three and six months ended September 30, 2016, our sales and operating income would have been adversely affected by approximately $1.7 million and $3.1 million, respectively. Net income would have been adversely affected by approximately $1.1 million and $2.0 million, respectively, for the three and six months ended September 30, 2016.

We also periodically run coupon programs in Sunday newspaper inserts, on our product websites, or as on-package instant redeemable coupons. We utilize a national clearing house to process coupons redeemed by customers. At the time a coupon is distributed, a provision is made based upon historical redemption rates for that particular product, information provided as a result of the clearing house's experience with coupons of similar dollar value, the length of time the coupon is valid, and the seasonality of the coupon drop, among other factors. For the fiscal year ended March 31, 2016, we had 395 coupon events. The amount recorded against revenues and accrued for these events during 2016 was $5.6 million. Cash settlement of coupon redemptions during 2016 was $3.5 million. During the three and six months ended September 30, 2016, we had 115 and 271 coupon events, respectively. The amount recorded

against revenue and accrued for these events during the three and six months ended September 30, 2016 was $1.8 million and $3.8 million, respectively. Cash settlement of coupon redemptions during the three and six months ended September 30, 2016 was $0.5 million and $1.7 million, respectively.

Allowances for Product Returns

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

We construct our returns analysis by looking at the previous year's return history for each brand. Subsequently, each month, we estimate our current return rate based upon an average of the previous twelve months' return rate and review that calculated rate for reasonableness, giving consideration to the other factors described above. Our historical return rate has been relatively stable; for example, for the years ended March 31, 2016, 2015 and 2014, returns represented 3.7%, 4.2% and 2.2%, respectively, of gross

sales. For the three and six months September 30, 2016, product returns represented 3.6% of gross sales. At September 30, 2016 and March 31, 2016, the allowance for sales returns and cash discounts was $11.0 million and $10.7 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 on the methodology described above and our actual returns experience, management believes the likelihood of such an event remains remote. As noted, over the last three years our actual product return rate has stayed within a range of 2.2% to 4.2% of gross sales. However, a hypothetical increase of 0.1% in our estimated return rate as a percentage of gross sales would have adversely affected our reported sales and operating income for the fiscal year ended March 31, 2016 by approximately $0.9 million. Net income would have been reduced by approximately $0.6 million. A hypothetical increase of 0.1% in our estimated return rate as a percentage of gross sales for the three and six months ended September 30, 2016 would have reduced our reported sales and operating income by approximately $0.2 million and $0.5 million, respectively. Net income would have been reduced by approximately $0.2 million and $0.3 million, respectively.

Lower of Cost or Market for Obsolete and Damaged Inventory

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

Many of our products are subject to expiration dating. As a general rule, our customers will not accept goods with expiration dating of less than 12 months from the date of delivery. To monitor this risk, management utilizes a detailed compilation of inventory with expiration dating between zero and 15 months and reserves for 100% of the cost of any item with expiration dating of 12 months or less. Inventory obsolescence costs charged to operations were $2.6 million for the fiscal year ended March 31, 2016, while for the three and six months ended September 30, 2016, we recorded obsolescence costs of $0.7 million and $1.4 million, respectively. A hypothetical increase of 1.0% in our allowance for obsolescence at March 31, 2016 would have reduced our reported operating income and net income for the fiscal year ended March 31, 2016 by less than $0.1 million. Similarly, a hypothetical increase of 1.0% in our obsolescence allowance for the three and six months ended September 30, 2016 would have reduced each of our reported operating income and net income by less than $0.1 million.

Allowance for Doubtful Accounts

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

We establish specific reserves for those accounts that file for bankruptcy, have no payment activity for 180 days, or have reported major negative changes to their financial condition. The allowance for bad debts amounted to 0.7% and 0.8% of accounts receivable at September 30, 2016 and March 31, 2016, respectively. Bad debt expense for the fiscal year ended March 31, 2016 was approximately $0.1 million, while during the three and six months ended September 30, 2016, we recorded bad debt expense of less than $0.1 million.

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

Valuation of Intangible Assets and Goodwill
Goodwill and intangible assets amounted to $2,532.8 million and $2,682.9 million at September 30, 2016 and March 31, 2016, respectively. At September 30, 2016, goodwill and intangible assets were apportioned among our three operating segments as follows:

(In thousands)	North American OTC Healthcare	International OTC Healthcare	Household Cleaning	Consolidated
Goodwill	$322,945	$ 22,472	$ 6,245	$ 351,662
Intangible assets, net				
Indefinite-lived:				
Analgesics	308,205	2,062	—	310,267
Cough & Cold	138,946	19,165	—	158,111
Women's Health	532,300	1,680	—	533,980
Gastrointestinal	213,639	60,628	—	274,267
Eye & Ear Care	172,318	—	—	172,318
Dermatologicals	148,990	1,985	—	150,975
Oral Care	241,238	—	—	241,238
Household Cleaning	—	—	101,262	101,262
Total indefinite-lived intangible assets, net	1,755,636	85,520	101,262	1,942,418
Finite-lived:				
Analgesics	40,707	—	—	40,707
Cough & Cold	27,779	624	—	28,403
Women's Health	34,960	258	—	35,218
Gastrointestinal	8,806	205	—	9,011
Eye & Ear Care	27,661	—	—	27,661
Dermatologicals	22,085	—	—	22,085
Oral Care	39,577	—	—	39,577
Other OTC	14,242	—	—	14,242
Household Cleaning	—	—	21,806	21,806
Total finite-lived intangible assets, net	215,817	1,087	21,806	238,710
Total intangible assets, net	1,971,453	86,607	123,068	2,181,128
Total goodwill and intangible assets, net	$2,294,398	$ 109,079	$ 129,313	$ 2,532,790

At September 30, 2016, our highest valued brands were Monistat, BC/Goody's, DenTek, Clear Eyes and Chloraseptic, comprising approximately 58.6% of the intangible assets within the OTC Healthcare segments. The Comet, Chore Boy, and Spic and Span brands comprise substantially all of the intangible assets value within the Household Cleaning segment.

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

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The most significant factors are:

- Brand History

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

- Market Position

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

- Recent and Projected Sales Growth

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

- History of and Potential for Product Extensions

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

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

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

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

In the past, we have experienced declines in revenues and profitability of certain brands in the North American OTC Healthcare and Household Cleaning segments. Sustained or significant future declines in revenue, profitability, other

adverse changes in expected operating results, and/or unfavorable changes in other economic factors used to estimate fair values of certain brands could indicate that fair value no longer exceeds carrying value, in which case a non-cash impairment charge may be recorded in future periods.

Goodwill

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

unit as if the unit was acquired in a business combination, thereby revaluing the carrying amount of goodwill. As of September 30, 2016, there have been no triggering events that would indicate potential impairment of goodwill, and no impairment charge was recorded during the six months ended September 30, 2016.

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

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

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

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

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

Although we experienced declines in revenues in certain other brands in the past, we continue to believe that the fair values of our remaining brands exceed their carrying values. However, sustained or significant future declines in revenue, profitability, lost distribution, other adverse changes in expected operating results, and/or unfavorable changes in other economic factors used to estimate fair value of certain brands could indicate that the fair value no

longer exceeds carrying value, in which case a non-cash impairment charge may be recorded in future periods.

Impairment Analysis

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

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

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

Additionally, management must estimate the expected attrition rate of the recipients to enable it to estimate the amount of non-cash compensation expense to be recorded in our financial statements. While management prepares various analyses to estimate the respective variables, a change in assumptions or market conditions, as well as changes in the anticipated attrition rates, could have a significant impact on the future amounts recorded as non-cash compensation expense. We recorded non-cash compensation expense of $3.9 million and $5.0 million for the six months ended September 30, 2016 and 2015, respectively.

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

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

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

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

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

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

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

In February 2016, the FASB issued ASU 2016-02, Leases. The amendments in this update include a new FASB ASC Topic 842, which supersedes Topic 840. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise

from leases. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all entities as of the beginning of interim or annual reporting periods. We are evaluating the impact of adopting this guidance on our Consolidated Financial Statements.

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required under federal securities laws and the rules and regulations of the SEC, we do not intend to update any forward-looking statements to reflect events or circumstances arising after the date of this Quarterly Report on Form 10-Q, whether as a result of new information, future events or otherwise. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on forward-looking statements included in this Quarterly Report on Form 10-Q or that may be made elsewhere from time to time by, or on behalf of, us. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

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

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

- Our level of indebtedness and possible inability to service our debt;
- Our ability to obtain additional financing; and
- The restrictions imposed by our financing agreements on our operations.

For more information, see “Risk Factors” contained in Part I, Item 1A., "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended March 31, 2016 and Part II, Item 1A of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to changes in interest rates because our 2012 Term Loan and 2012 ABL Revolver are variable rate debt. Interest rate changes generally do not significantly affect the market value of the 2012 Term Loan and the 2012 ABL Revolver but do affect the amount of our interest payments and, therefore, our future earnings and cash flows, assuming other factors are held constant. At September 30, 2016, we had variable rate debt of approximately $752.0 million.

Holding other variables constant, including levels of indebtedness, a 1.0% increase in interest rates on our variable rate debt would have had an adverse impact on pre-tax earnings and cash flows for the three and six months ended September 30, 2016 of approximately $1.9 million and $4.1 million, respectively.

Foreign Currency Exchange Rate Risk

During the three and six months ended September 30, 2016, approximately 13.6% and 12.5%, respectively, of our revenues were denominated in currencies other than the U.S. Dollar. During the three and six months ended September 30, 2015, approximately 12.4% and 11.9%, respectively, of our revenues were denominated in currencies other than the U.S. Dollar. As such, we are exposed to transactions that are sensitive to foreign currency exchange rates, including insignificant foreign currency forward exchange agreements. These transactions are primarily with respect to the Canadian and Australian Dollar.

We performed a sensitivity analysis with respect to exchange rates for the three and six months ended September 30, 2016. Holding all other variables constant, and assuming a hypothetical 10.0% adverse change in foreign currency exchange rates, this analysis resulted in a less than 5.0% impact on pre-tax income of approximately $1.2 million for the three months ended September 30, 2016 and a 5.1% impact on pre-tax income of approximately $2.1 million for the six months ended September 30, 2016. Excluding the pre-tax loss on the sale of assets of $55.5 million in the first quarter of 2017, and holding all other variables constant, a hypothetical 10.0% adverse change in foreign currency exchange rates would have resulted in a less than 5.0% impact on pre-tax income for the six months ended September 30, 2016.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a–15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”), as of September 30, 2016. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2016, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

As stated in our most recent Annual Report on Form 10-K, we completed the acquisition of DenTek during the fourth quarter of 2016. We are currently in the process of incorporating DenTek's historical internal control over financial reporting structure with ours. Other than the changes noted above, there have been no changes during the quarter ended September 30, 2016 in the Company's internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act, that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

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

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

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

- The timing of when we make acquisitions or introduce new products;
- Our inability to increase the sales of our existing products and expand their distribution;
- The timing of the introduction or return to the market of competitive products and the introduction of store brand products;
- Inventory management resulting from consolidation among our customers;
- Adverse regulatory or market events in the United States or in our international markets;
- Changes in consumer preferences, spending habits and competitive conditions, including the effects of competitors' operational, promotional or expansion activities;
- Seasonality of our products;
- Fluctuations in commodity prices, product costs, utilities and energy costs, prevailing wage rates, insurance costs and other costs;
- The discontinuation and return of our products from retailers;
- Our ability to recruit, train and retain qualified employees, and the costs associated with those activities;
- Changes in advertising and promotional activities and expansion to new markets;
- Negative publicity relating to us and the products we sell;
- Litigation matters;
- Unanticipated increases in infrastructure costs;

- Impairment of goodwill or long-lived assets;
- Changes in interest rates; and
- Changes in accounting, tax, regulatory or other rules applicable to our business.

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

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ITEM 6. EXHIBITS

See Exhibit Index immediately following the signature page.

SIGNATURES

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

PRESTIGE BRANDS HOLDINGS, INC.

Date: November 3, 2016 By: /s/ Christine Sacco
Christine Sacco
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

Exhibit Index

10.1	Executive Offer Letter dated as of September 12, 2016, by and between Prestige Brands Holdings, Inc. and Christine Sacco (filed as Exhibit 99.2 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 12, 2016).
31.1	Certification of Principal Executive Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Principal Financial Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of Principal Executive Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification of Principal Financial Officer of Prestige Brands Holdings, Inc. pursuant to Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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