H&E Equipment Services, Inc.
Form DEF 14A
April 07, 2011

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

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

H&E EQUIPMENT SERVICES, INC.

(Name of Registrant as Specified in its Charter)
N/A

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

Payment of Filing Fee (Check the appropriate box):
þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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April 7, 2011

Dear Stockholder:

I am pleased to invite you to our Annual Meeting of Stockholders of H&E Equipment Services, Inc., to be held at the Hilton Baton Rouge Capitol Center Hotel, 201 Lafayette Street, Baton Rouge, Louisiana 70801, on Tuesday, May 24, 2011, at 7:30 a.m. Central Daylight Time. At the meeting you will be asked to vote for the election of our directors and to ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2011. Additionally, you will be asked to approve, by non-binding advisory votes, Named Executive Officer compensation as disclosed in our Proxy Statement and the frequency of future advisory votes on Named Executive Officer compensation.

Pursuant to the U.S. Securities and Exchange Commission rules that authorize companies to furnish their proxy materials over the Internet, on or about April 7, 2011, we are mailing a Notice of Internet Availability of Proxy Materials to our stockholders of record and beneficial owners as of March 28, 2011. The notice contains instructions on how to access our Proxy Statement and Annual Report and how to vote on the Internet. As of the date of mailing of the Notice, all stockholders and beneficial owners will have the ability to access all of the proxy materials on a website referred to in the Notice. These proxy materials will be available free of charge.

The Notice of Internet Availability of Proxy Materials contains information on how you may request copies of the proxy materials be sent to you by mail or email. The proxy materials accessible on the Internet or sent to you will include a Proxy Card that will provide you with instructions to cast your vote on the Internet, a telephone number you may call to cast your vote, or you may complete, sign and return the Proxy Card by mail.

You are cordially invited to attend the Annual Meeting of Stockholders in person. Even if you choose to attend in person, you are encouraged to review the proxy materials and vote your shares in advance of the meeting. Your vote is extremely important, and we appreciate you taking the time to vote promptly.

Very truly yours,
H&E EQUIPMENT SERVICES, INC.

John M. Engquist
President & Chief Executive Officer
H&E Equipment Services, Inc.
11100 Mead Road, Suite 200
Baton Rouge, LA 70816

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Notice of Annual Meeting of Stockholders

To Our Stockholders:

You are invited to attend the H&E Equipment Services, Inc. 2011 Annual Meeting of Stockholders.

Date:	May 24, 2011
Time:	7:30 a.m. Central Daylight Time
Place:	Hilton Baton Rouge Capitol Center Hotel Governor s Room 201 Lafayette Street Baton Rouge, Louisiana 70801

Only stockholders who owned stock of record at the close of business on March 28, 2011 can vote at this meeting or any adjournments or postponements thereof that may take place.

At the Annual Meeting we will consider and act upon the following matters:

(1) the election of eight directors, each for a term of one year or until their respective successors have been elected and qualified;

(2) the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2011;

(3) an advisory vote on Named Executive Officer compensation as disclosed in the Proxy Statement;

(4) an advisory vote on the frequency of future advisory votes on Named Executive Officer compensation; and

(5) such other business as may properly come before the meeting.

We consider your vote important and encourage you to vote as soon as possible.

By Order of the Board of Directors,

Leslie S. Magee
Chief Financial Officer and Secretary

April 7, 2011

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PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS
H&E EQUIPMENT SERVICES, INC.

To Be Held May 24, 2011

This Proxy Statement sets forth certain information with respect to the accompanying proxy to be used at the Annual Meeting of Stockholders (the Annual Meeting) of H&E Equipment Services, Inc., or at any adjournments or postponements thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders. The Board of Directors has designated the Governor s Room of the Hilton Baton Rouge Capitol Center Hotel, 201 Lafayette Street, Baton Rouge, Louisiana as the place of the Annual Meeting. The Annual Meeting will be called to order at 7:30 a.m., Central Daylight Time, on Tuesday, May 24, 2011. Only stockholders of record as of the close of business on March 28, 2011, the Record Date, are entitled to vote. The Board of Directors solicits this proxy and encourages you to read this document thoroughly and to take this opportunity to vote on the matters to be decided at the Annual Meeting. Unless the context otherwise indicates, reference to we, us, our or the Company in this Proxy Statement means H&E Equipment Services, Inc.

Under rules and regulations of the Securities and Exchange Commission (the SEC), instead of mailing a printed copy of our proxy materials to each stockholder of record or beneficial owner of our common stock, we are furnishing proxy materials, which include our Proxy Statement and Annual Report, to our stockholders over the Internet and providing a Notice of Internet Availability of Proxy Materials by mail. *You will not receive a printed copy of the proxy materials unless you request to receive a paper copy or an email copy of these materials in hard copy by following the instructions provided in the Notice of Internet Availability of Proxy Materials.* Instead, the Notice of Internet Availability of Proxy Materials will instruct you how you may access and review all of the important information contained in the proxy materials on the Internet. The Notice of Internet Availability of Proxy Materials also instructs you how you may submit your proxy via telephone or the Internet. This proxy procedure enables all holders of common stock, many of whom are unable to attend the Annual Meeting, to vote. If you received a Notice of Internet Availability of Proxy Materials by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability of Proxy Materials.

We are mailing the Notice of Internet Availability of Proxy Materials on or about April 7, 2011, to each stockholder at the holder s address of record. SEC rules permit us to deliver only one copy of the Notice of Internet Availability of Proxy Materials or a single set of proxy materials to multiple stockholders sharing the same address. Upon written or oral request, we will deliver separate Notices and/or copies of our 2010 Annual Report and/or this Proxy Statement to any stockholder at a shared address to which a single copy of the Notice was delivered. Stockholders may notify our Company of their requests by calling or writing our Investor Relations Department, H&E Equipment Services, Inc., 11100 Mead Road, Suite 200, Baton Rouge, Louisiana 70816; (225) 298-5200.

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VOTING PROCEDURES

Your vote is very important. Your shares can only be voted at the Annual Meeting if you are present in person or represented by proxy. Whether or not you plan to attend the Annual Meeting, you are encouraged to vote by proxy to ensure that your shares will be represented. Stockholders can choose among the following methods to vote:

Via the Internet Stockholders can vote by voting their shares via the Internet as instructed on the website identified in the Notice of Internet Availability of Proxy Materials. The Internet procedures are designed to authenticate a stockholder s identity to allow stockholders to vote their shares and confirm that their instructions have been properly recorded. Internet voting for stockholders of record is available 24 hours a day and will close at 7:00 P.M., Eastern Daylight Time, on May 23, 2011. The Notice instructs you how to access and review all important information in the Proxy Statement and Annual Report. You will then be able to request that copies of proxy materials be emailed to you or you will be directed to select a link where you will be able to vote on the proposals presented here.

By Telephone The Notice of Internet Availability of Proxy Materials includes a toll-free number you can call to request printed copies of proxy materials. The printed proxy materials include a different toll-free number that you can call for voting.

By Mail Stockholders who receive a paper Proxy Card may elect to vote by mail completing, signing and dating their Proxy Card and mailing it in the pre-addressed envelope that accompanies the delivery of a paper Proxy Card. Proxy Cards submitted by mail must be received prior to the Annual Meeting in order for your shares to be voted. Stockholders who hold shares beneficially in street name may vote by mail by requesting a paper Proxy Card according to the instructions contained in the Notice of Internet Availability of Proxy Materials, and then completing, signing and dating the Proxy Card provided by the brokers or other agents and mailing it in the pre-addressed envelope provided.

At the Annual Meeting Shares held in your name as the stockholder of record may be voted by you in person at the Annual Meeting. Shares held beneficially in street name may be voted by you in person at the Annual Meeting only if you obtain a legal proxy from the broker or other agent that holds your shares giving you the right to vote the shares and you bring such proxy to the Annual Meeting.

If you vote via the Internet, by telephone or by mailing a Proxy Card, we will vote your shares as you direct. For the election of directors (Item 1), you can specify whether your shares should be voted for all, some or none of the nominees for director listed. With respect to the ratification of our Audit Committee s appointment of BDO USA, LLP as our independent registered public accounting firm (Item 2), you may vote for or against the ratification, or you may abstain from voting on the ratification. For the proposal regarding an advisory vote on Named Executive Officer compensation (Item 3), you may vote for or against the proposal, or you may abstain from voting. For the proposal regarding an advisory vote on the frequency of future advisory votes on Named Executive compensation (Item 4), you may vote for option of every year , every two years , every three years or you may abstain from voting.

You may revoke or change a previously delivered proxy at any time before the Annual Meeting by delivering another proxy with a later date, by voting again via the Internet or by telephone, or by delivering written notice of revocation of your proxy to the corporate Secretary of the Company at the Company s principal executive offices before the beginning of the Annual Meeting. You may also revoke your proxy by attending the Annual Meeting and voting in person, although attendance at the Annual Meeting will not, in and of itself, revoke a valid proxy that was previously delivered. If you hold shares through a bank or brokerage firm, you must contact that bank or brokerage firm to revoke any prior voting instructions. You may also vote in person at the Annual Meeting if you obtain a legal proxy as

described above. Unless properly revoked, properly executed and delivered proxies that are received before the Annual Meeting s adjournment or any adjournment will be voted in accordance with the directions provided and if no directions are provided on such properly executed and delivered proxy, those shares will be voted by one of the individuals named on your proxy card as recommended by the Board of Directors, as stated in this Proxy Statement and in the Notice of Internet Availability of Proxy Materials, specifically (1) in favor of our nominees for directors; (2) in favor of the ratification of the appointment of BDO USA, LLP as our independent registered public accounting firm for the year ending December 31, 2011; (3) in favor of Named Executive Officer

compensation as disclosed in this Proxy Statement; and (4) in favor of future advisory votes on Named Executive Compensation to be held every year. If you wish to give a proxy to someone other than those named on the proxy card, you should cross out those names and insert the name(s) of the person(s), not more than three, to whom you wish to give your proxy.

Who can vote? Only stockholders of record as of the close of business on March 28, 2011, the Record Date, are entitled to vote. On that day, approximately 35,028,170 shares of common stock were outstanding and eligible to vote, and there were 195 record holders. Each share is entitled to one vote on each matter presented at the Annual Meeting. A list of stockholders eligible to vote will be available at the offices of H&E Equipment Services, Inc., 11100 Mead Road, Suite 200, Baton Rouge, Louisiana 70816 beginning May 13, 2011. Stockholders may examine this list during normal business hours for any purpose relating to the Annual Meeting by contacting the Secretary of the Company.

How does the Board recommend I vote? The Board recommends the following votes:

FOR each of the Board s nominees for election (Item 1);

FOR the ratification of the Audit Committee s appointment of BDO USA, LLP as the Company s independent registered public accounting firm for the year ending December 31, 2011 (Item 2);

FOR approval of the compensation of the Company s Named Executive Officers as disclosed in this Proxy Statement (Item 3); and

FOR the holding of advisory votes on executive compensation every **YEAR** (Item 4).

How are votes counted? The Annual Meeting will be held if a quorum, consisting of a majority of the outstanding shares of common stock entitled to vote, is represented at the Annual Meeting in person or by proxy. If you are a stockholder whose shares are not registered in your name and you do not vote, then your bank, broker or other holder of record may still represent your shares at the Annual Meeting for purposes of obtaining a quorum.

In the absence of your voting instructions, your bank, broker or other holder of record may not be able to vote your shares in its discretion depending on the proposal before the Annual Meeting. As a result of rules applicable to director elections after January 1, 2010, your broker may no longer vote your shares in its discretion in the election of directors; therefore, you must vote your shares if you want them to be counted in the election of directors. In addition, your broker is also not permitted to vote your shares in its discretion regarding matters related to executive compensation, including the advisory votes on executive compensation and the future frequency of such advisory votes and such broker non-votes will not be counted as shares present and entitled to be voted with respect to these proposals. However, your broker may vote your shares in its discretion on routine matters such as the ratification of the Company s independent registered public accounting firm.

Because each director nominee is elected by the affirmative vote of the holders of a plurality of the shares of common stock voted, abstentions will have no effect on the election of director nominees (Item 1). The ratification of the appointment of BDO USA, LLP (Item 2) and the approval of the advisory votes on the compensation of the Company s Named Executive Officers as disclosed in this Proxy Statement (Item 3) and the future frequency of such votes regarding executive compensation (Item 4) require the affirmative vote of a majority of the shares present in person or by proxy and entitled to vote at the Annual Meeting. Because abstentions will be included in tabulations of the votes entitled to vote for purposes of determining whether Item 2 and Item 3 have been approved, for those proposals abstentions have the same effect as negative votes. If none of the frequency alternatives in Item 4 receives a majority vote, we will consider the highest number of votes cast by stockholders to be the frequency selected by stockholders. Because your vote on Items 3 and 4 is advisory, such votes will not be binding on the Board or the

Company. However, the Board will review the voting results and take them into consideration when making future decisions regarding executive compensation.

Who will count the vote? The votes will be tabulated by the Company s Director of Finance, W. Scott Bozzell, the inspector of elections appointed by the Board of Directors for the Annual Meeting.

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Where can I find the results of the Annual Meeting? We intend to announce preliminary voting results at the Annual Meeting and publish final results in a Current Report on Form 8-K within four business days of the Annual Meeting.

Who is soliciting this proxy? Solicitation of proxies is made on behalf of the Board of Directors of the Company. The cost of soliciting proxies, including preparing, assembling and mailing the Notice of Internet Availability of Proxy Materials, Proxy Statement, form of proxy and other soliciting materials, as well as the cost of forwarding such material to the beneficial owners of stock, will be paid by us, except for some costs associated with individual stockholders use of the Internet or telephone. In addition to solicitation by e-proxy and/or by mail, directors, officers, regular employees and others may also, but without compensation other than their regular compensation, solicit proxies personally or by telephone or other means of electronic communication. We may reimburse brokers and others holding stock in their names or in the names of nominees for their reasonable out-of-pocket expenses in sending proxy material to principals and beneficial owners.

What if I can t attend the Annual Meeting? If you are unable to attend the Annual Meeting in person and you intend to vote, you may vote your shares by proxy, via the Internet, by telephone or by mail by the applicable deadline.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on May 24, 2011.

The Proxy Statement and the 2010 Annual Report are both available free of charge at *www.he-equipment.com.* We will provide without charge to each person to whom this Proxy Statement has been delivered (whether by mail or though the Internet), on the request of any such person, up to two additional copies per request of the 2010 Annual Report, including the consolidated financial statements and financial statement schedule. Requests should be directed to our investor relations department as described below:

H&E Equipment Services, Inc.
11100 Mead Road, Suite 200
Baton Rouge, Louisiana 70816
Attention: Investor Relations
Telephone: (225) 298-5200

We make available free of charge through our Internet website (*www.he-equipment.com*) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), as well as reports on Forms 3, 4 and 5 filed pursuant to Section 16 of the Exchange Act, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the SEC. The information on our website is not, and shall not be deemed to be, a part of this Proxy Statement or incorporated into any other filings we make with the SEC.

CORPORATE GOVERNANCE

In accordance with the Delaware General Corporation Law and the Company s Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, the Company s business, property and affairs are managed under the direction of the Board of Directors. Although the Company s non-management directors are not involved in the day-to-day operating details, they are kept informed of the Company s business through reports and materials provided to them regularly, as well as by operating, financial and other reports presented by the officers of the Company at meetings of the Board of Directors and committees of the Board of Directors.

Board Leadership Structure. Gary W. Bagley serves as the Chairman of the Board and in such capacity presides over meetings of the Board. Our Chief Executive Officer (CEO) is John M. Engquist, and he manages the business and

affairs of the Company under the direction of the Board. We currently separate the positions of CEO and Chairman of the Board. The Corporate Governance and Nominating Committee has reviewed this leadership

structure and has determined that it is the most appropriate structure for the Company because it enables the CEO to focus on running the Company s business while the Board Chairman focuses on the Board. Mr. Engquist provides very hands-on leadership running the business on a day-to-day basis, and the Corporate Governance and Nominating Committee believes that currently it is most effective to keep the principal executive officer and Board chair positions separate.

The Board s Role in Risk Oversight. The Board as a whole has responsibility for the general oversight of risk, and the Board s committees address and report to the Board on any individual risk areas within their purview. Risk and risk management is a recurring agenda item at regular Board meetings, and the Board also discusses any specific risk topics as applicable. The Company s senior management makes presentations to the full Board as to the areas of principal risk, as well as on the processes that the Company has in place to identify, assess and report such risks.

The Board committees report to the Board on their consideration of any risks within their respective areas of focus. The Audit Committee primarily oversees risks relating to or arising from financial and disclosure controls and procedures, and accounting and other financial matters. The Company s Chief Financial Officer reports to the Audit Committee on such risks and related risk management, and the Company s internal auditors, compliance manager, and independent auditors each regularly provide reports at Audit Committee meetings. The Compensation Committee has considered whether the Company s compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the Company. The Corporate Governance and Nominating Committee and the Finance Committee review any risks that come within their respective areas of responsibility (e.g., governance in the case of the Corporate Governance and Nominating Committee, and in the case of the Finance Committee, any extraordinary corporate transactions that such committee may consider).

Independence. The Board has determined that five of the Company s seven current directors are independent as defined in the applicable listing standards of the Nasdaq Stock Market LLC (NASDAQ), including that each such director is free of any relationship that the Board believes would interfere with his individual exercise of independent judgment. The following directors were determined to be independent: Keith E. Alessi, Paul N. Arnold, Bruce C. Bruckmann, Lawrence C. Karlson and John T. Sawyer. The Board has also determined that Patrick L. Edsell and Thomas J. Galligan III, director nominees who do not currently serve on the Company s Board, are independent under the same standards.

In making its determinations regarding director and director nominee independence, the Board considered, among other things:

- any material relationships with the Company, its subsidiaries or its management, aside from such director s or director nominee s service as a director;

- transactions between the Company, on the one hand, and the directors and director nominees and their respective affiliates, on the other hand;

- transactions outside the ordinary course of business between the Company and companies at which some of its directors are or have been executive officers or significant stakeholders, and the amount of any such transactions with these companies; and

- relationships among the directors and director nominees with respect to common involvement with for-profit and non-profit organizations.

Conflicts of Interest and Corporate Governance Matters. Under our Code of Conduct and Ethics for Employees, Officers and Directors of H&E Equipment Services, Inc. (Code of Conduct), no employee or officer may serve as a

director of any outside business concern other than on behalf of the Company, without the written approval of the President or the Chief Financial Officer of the Company. The Charter of the Corporate Governance and Nominating Committee empowers the Corporate Governance and Nominating Committee to at least once a year review the independence of the members of the Board of Directors and consider questions of conflicts of interest. The Corporate Governance and Nominating Committee will identify, analyze, and if possible, resolve any actual and potential conflicts of interest a Board member has or may have. In connection with an actual or potential conflict of interest, the Corporate Governance and Nominating Committee may issue to such member instructions

concerning the manner in which he should conduct himself, as applicable. There are no pre-determined limitations on the number of other boards of directors on which the directors of the Company may serve; however, the Board expects individual directors to use judgment in accepting other directorships and to allow sufficient time and attention to Company matters. There are no set term limits for directors, however as long as the Board is not classified, the Corporate Governance and Nominating Committee will review each director s continuation on the Board annually.

Code of Conduct. The Company is committed to ethical business practices. We have a corporate Code of Conduct that applies to all of the Company s employees and directors and includes the code of ethics for the Company s principal executive officer, principal financial officer and principal accounting officer within the meaning of the SEC regulations adopted under the Sarbanes-Oxley Act of 2002, as amended. The Company s corporate Code of Conduct can be found on the Company s Internet website at *www.he-equipment.com* under the heading Corporate Code of Conduct and Ethics. Please note that none of the information on the Company s website is incorporated by reference in this Proxy Statement.

Communications with the Board of Directors. If you would like to communicate with the Company s directors, please send a letter to the following address: H&E Equipment Services, Inc., Attention: Board of Directors c/o corporate Secretary, 11100 Mead Road, Suite 200, Baton Rouge, Louisiana 70816. The Company s corporate Secretary will review each such communication and forward a copy to the Board of Directors.

Meetings of the Board of Directors and Stockholders. It is the policy of the Board to meet at least quarterly. The Board of Directors held six meetings in 2010. In 2010, the Board also held regular executive sessions where non-management directors met without management participation.

Each incumbent director attended at least 75% of the meetings of the Board and the committees on which he served in 2010. Directors are encouraged to attend the Annual Meeting of Stockholders. All directors attended the 2010 Annual Meeting of Stockholders.

Committees of the Board of Directors. The Board of Directors currently has four standing committees: Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Finance Committee. Charters for the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee can be found on the Company s website at *www.he-equipment.com* under the heading Investor Relations/Corporate Governance.

Audit Committee The Audit Committee operates under a written charter adopted by the Board of Directors, which is available on the Company s Internet website. The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility to the stockholders, potential stockholders, the investment community, and others relating to (i) the integrity of the Company s financial statements and financial reporting processes; (ii) the Company s systems of internal accounting and financial controls, including internal controls over financial reporting; (iii) performance of the Company s internal auditors and independent registered public accounting firm; (iv) the independent registered public accounting firm s qualifications and independence; (v) the annual independent audit of the Company s consolidated financial statements; and (vi) the Company s compliance with ethics policies, legal policies and regulatory requirements, as applicable. In so doing, it is the responsibility of the Audit Committee to maintain free and open communication among the Audit Committee, the independent registered public accounting firm, the internal auditors and Company management. In discharging its oversight role, the Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain at the expense of the Company independent outside counsel or other experts or advisers as it deems necessary to carry out its duties. A detailed list of the Audit Committee s functions is included in its charter, a copy of which can be found on the Company s Internet website. In addition, the Company has a policy that the Audit Committee will review any new transaction in which the Company and its directors, executive officers or their

immediate family members are participants to determine whether a related person has a direct or indirect material interest. This policy has been communicated orally by the Board. See the Certain Relationships and Related Transactions Related Party Transactions section of this Proxy Statement.

The current members of the Audit Committee are Messrs. Alessi, Karlson and Sawyer and Mr. Alessi is the Chair of this committee. The Board has determined in its business judgment that each member of the Audit Committee is financially literate and that Messrs. Alessi, Karlson and Sawyer are independent as defined in the applicable NASDAQ listing standards and the applicable rules under the Exchange Act. In addition, the Board has determined that Mr. Alessi is an audit committee financial expert as that term is defined in Item 407(d)(5) of Regulation S-K of the Exchange Act. The Audit Committee held seven meetings in 2010.

Compensation Committee The Compensation Committee operates under a written charter adopted by the Board of Directors, which is available on the Company s Internet website. The Compensation Committee discharges the Board s responsibilities relating to the compensation of the Company s Chief Executive Officer, the Company s other executive officers and its directors. The Compensation Committee has overall responsibility for evaluating and approving executive officer and director compensation plans, policies and programs of the Company, as well as all equity-based compensation plans and policies, including the Company s 2006 Stock-Based Incentive Compensation Plan.

On an annual basis, the Compensation Committee reviews and sets the compensation of the Chief Executive Officer taking into account a variety of factors, as more fully described in the Compensation Discussion & Analysis section of this Proxy Statement. The Compensation Committee also sets compensation for certain other executive officers after considering recommendations provided by the Chief Executive Officer and/or the Chief Operating Officer and a variety of other factors, as more fully described in the Compensation Discussion & Analysis section of this Proxy Statement.

On an as-needed basis, the Compensation Committee may retain independent compensation consultants to assist the Compensation Committee in evaluating and structuring our executive compensation programs and making compensation decisions. The Compensation Committee did not retain an independent compensation consultant in 2010.

The Compensation Committee is authorized to delegate any of its responsibilities to subcommittees, as the Compensation Committee deems appropriate. To date, the Compensation Committee has not exercised this right. For additional description of the Compensation Committee s processes and procedures for consideration and determination of executive officer and director compensation, see the Compensation Discussion & Analysis section of this Proxy Statement.

The current members of the Compensation Committee are Messrs. Arnold and Karlson and Mr. Arnold is the Chair of this committee. Mr. Alessi also served as a member of the Compensation Committee in 2010 and until his resignation from the Compensation Committee, effective January 25, 2011. The Board has determined in its business judgment that Messrs. Alessi, Arnold and Karlson are independent as defined in the applicable NASDAQ listing standards. The members of the Compensation Committee are also non-employee directors under SEC Rule 16b-3 and outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended. The Compensation Committee met five times in 2010. For additional information on the Compensation Committee, see the Compensation Discussion and Analysis beginning on page 22.

Corporate Governance and Nominating Committee The Corporate Governance and Nominating Committee operates under a written charter adopted by the Board of Directors, which is available on the Company s Internet website. The primary functions of the Corporate Governance and Nominating Committee are (i) to assist the Board by identifying individuals qualified to become Board members and members of Board committees, to recommend to the Board the director nominees for the next annual meeting of stockholders, and to recommend to the Board nominees for each committee of the Board; (ii) to lead the Board in its annual review of the Board s, its committees and management s performance; and (iii) to review, as appropriate, the Company s corporate governance structure and recommend any proposed changes to the Board. The Corporate Governance and Nominating Committee identifies individuals,

including those properly submitted and recommended by stockholders, believed to be qualified as candidates for Board membership. The Corporate Governance and Nominating Committee has the authority to retain search firms to assist it in identifying candidates to serve as directors. In addition to any other qualifications the Corporate Governance and Nominating Committee may in its discretion deem appropriate, all director candidates should possess high personal and professional ethics, integrity and values, and should have sufficient time available to devote to service on the Board and Board committees. A majority of the Board must be

comprised of independent directors. Neither the Corporate Governance and Nominating Committee nor the Board has a policy regarding consideration of diversity in selecting director candidates. In identifying and recommending director candidates, the Corporate Governance and Nominating Committee considers each individual s specific experience and qualifications to determine that individual s desirability and suitability for service on the Company s Board, and also considers the qualifications and composition of the Board as whole.

The Corporate Governance and Nominating Committee considers stockholder nominees for directors in the same manner as nominees for director from other sources. Stockholder suggestions for nominees for director should be submitted to the Company s corporate Secretary no later than the date by which stockholder proposals for action must be submitted (see Submission of Stockholder Proposals and Director Nominations below) and should include the following information: (a) the recommending stockholder s name, address, telephone number and the number of shares of the Company s common stock held by such individual or entity and (b) the recommended candidate s biographical data, statement of qualification and written consent to nomination and to serving as a director, if elected.

The current members of the Corporate Governance and Nominating Committee are Messrs. Bruckmann, Karlson and Sawyer and Mr. Karlson is the Chair of this committee. Mr. Alessi also served as a member of the Corporate Governance and Nominating Committee in 2010 and until his resignation from the Corporate Governance and Nominating Committee, effective January 25, 2011. The Board has determined in its business judgment that Messrs. Alessi, Bruckmann, Karlson and Sawyer are independent as defined in the applicable NASDAQ listing standards.The Corporate Governance and Nominating Committee held six meetings during 2010.

Finance Committee The Finance Committee was established by the Board of Directors and operates under a written charter. The Finance Committee oversees and reviews any significant financial affairs and policies of the Company and oversees all material potential business and financial transactions, as well as any other duties assigned to it by the Board of Directors. The current members of the Finance Committee are Messrs. Bagley, Bruckmann, and Engquist and Mr. Bruckmann is the Chair of this Committee. The Finance Committee met two times in 2010.

SUBMISSION OF STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

Under the rules of the SEC, stockholders wishing to have a proposal included in the Company s Proxy Statement for the Annual Meeting of Stockholders to be held in 2012 must submit the proposal so that the corporate Secretary of the Company receives it no later than December 15, 2011. The SEC rules set forth standards as to what stockholder proposals are required to be included in a proxy statement. Under the Company s Amended and Restated Bylaws, certain procedures must be followed for a stockholder to nominate persons as directors or to introduce a proposal at an annual meeting of stockholders. A stockholder wishing to make a nomination for election to the Board of Directors or to have a proposal presented at an annual meeting of stockholders must submit written notice of such nomination or proposal so that the corporate Secretary of the Company receives it not less than that date which is 120 days prior to the one year anniversary of the date the Company s proxy statement was released to stockholders in connection with the preceding year s annual meeting of stockholders; provided, however, that in the event that the Company did not hold an annual meeting of stockholders the preceding year or if the date of the annual meeting of stockholders is changed by more than 30 days from the date of the preceding year s annual meeting of stockholders, notice by the stockholder must be delivered within a reasonable time before the Company prints and mails its proxy materials (or makes them available on the Internet) in connection with the annual meeting of stockholders. The Company s Amended and Restated Bylaws also set forth certain informational requirements for stockholders nominations of directors and proposals.

ITEM 1 ELECTION OF DIRECTORS

The Company s Amended and Restated Bylaws provide that the Company s business shall be managed by a Board of Directors ranging from five to nine members. The number of directors may be increased or decreased from time to time by resolution of the Board of Directors. Directors shall be elected at the annual meeting of the stockholders and each director elected shall hold office until a successor is duly elected and qualified or until his or her death, resignation or removal.

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The Company s Board of Directors is currently comprised of seven members. In March 2011, the Board resolved to increase the size of the Board by one position, effective immediately prior to the 2011 Annual Meeting of Stockholders. Therefore, as of the 2011 Annual Meeting of Stockholders, the Board will consist of eight directors.

On January 25, 2011, Keith E. Alessi, a member of the Board of Directors, notified the Company that he will not stand for re-election to the Board at the Company s 2011 Annual Meeting of Stockholders. Mr. Alessi will continue to serve on the Board and its Audit Committee, which he chairs, for the remainder of his current term, which will conclude at the 2011 Annual Meeting of Stockholders. However, Mr. Alessi resigned, effective January 25, 2011, from the Company s Compensation Committee and Corporate Governance and Nominating Committee.

The Corporate Governance and Nominating Committee identifies and recommends director candidates to serve on the Board. Director candidates are then nominated for election by the Board of Directors. Stockholders are also entitled to nominate director candidates for election in accordance with the procedures set forth in the Company s Amended and Restated Bylaws (see Corporate Governance Committees of the Board Corporate Governance and Nominating Committee and Submission of Stockholder Proposals and Director Nominations above).

In identifying and recommending director candidates to serve on the Board, the Corporate Governance and Nominating Committee considers the qualifications and composition of the Board as a whole, taking into account the totality of experience, skills and other qualifications or attributes that the individual nominees collectively bring to the Board. The Committee also considers each individual s experience, skills and other qualifications and attributes to determine that individual s suitability and desirability for service on the Company s Board. All director candidates should possess high personal and professional ethics, integrity and values, and should have sufficient time available to devote to service on the Board and Board committees. In addition, a majority of the Board must be comprised of independent directors. The experience, skills and attributes which the Corporate Governance and Nominating Committee considers include, but are not limited to, the individual s: (i) experience serving on the board of directors of a publicly traded company, (ii) independence; (iii) financial and/or audit committee experience; (iv) compensation committee experience; (v) experience with corporate transactions, such as capital-raising and other corporate finance transactions and acquisitions; (vi) experience in the Company s industry; and (vii) demonstration of overall responsibility for a company s performance, such as managing or operating a company.

At the Annual Meeting, eight directors are to be elected. Six of the eight director nominees are currently directors of the Company and all eight nominees have been recommended for election by the Corporate Governance and Nominating Committee. All nominees have consented to being named as nominees for directors of the Company and have agreed to serve if elected. If some or all of the nominees should become unavailable to serve at the time of the Annual Meeting, the shares represented by proxy will be voted for any remaining nominee(s) and any substitute nominee(s) designated by the Board of Directors. In no event, however, will the shares represented by proxy be voted for more than eight nominees. Director elections are determined by a plurality of the votes cast.

Set forth below is information regarding each nominee for director, including the specific experience, qualifications, skills or attributes that led to conclusion that such nominee should serve as a director of the Company.

Nominees for Directors

Gary W. Bagley has served as Chairman and Director of the Company since the formation of the Company in September 2005. He had served as Chairman and Director of H&E Equipment Services LLC (H&E LLC), the predecessor to the Company, from its formation in 2002 until its merger with and into the Company in February 2006. Mr. Bagley served as President of ICM Equipment Company L.L.C. (ICM) since 1996 and Chief Executive Officer from 1998 until ICM merged with and into H&E LLC in June 2002, when he became executive Chairman of H&E LLC. He retired as an executive of H&E LLC in 2004. Prior to 1996, he held various positions at ICM, including

Salesman, Sales Manager and General Manager. Mr. Bagley also served as Vice President of Wheeler Machinery Co. Since our acquisition of Eagle High Reach Equipment, LLC and Eagle High Reach Equipment, Inc.

in February 2006, Mr. Bagley has served as a manager and director, respectively, of Eagle High Reach Equipment, LLC (now H&E Equipment Services (California), LLC) and Eagle High Reach Equipment, Inc. (now H&E California Holdings, Inc.). Previously, Mr. Bagley served as interim Chief Executive Officer and as a director of Eagle High Reach Equipment, Inc. from February 2004 to February 2006 and as Chief Executive Officer and as a director of Eagle High Reach Equipment, LLC from December 2004 to February 2006. Mr. Bagley has served in the past on a number of dealer advisory boards and industry association boards.

Mr. Bagley has extensive experience both with the Company and in the construction equipment industry. He also had overall responsibility as chief executive officer of the equipment company which merged with and into our Company s predecessor in 2002. He currently serves as a member of the Company s Finance Committee.

John M. Engquist has served as President, Chief Executive Officer and Director of the Company since its formation in September 2005. He had served as President, Chief Executive Officer and Director of H&E LLC from its formation in June 2002 until its merger with and into the Company in February 2006. He served as President and Chief Executive Officer of Head & Engquist Equipment, LLC (Head and Engquist) from 1990 and director of Gulf Wide Industries, LLC (Gulf Wide) from 1995, both predecessor companies of H&E LLC. From 1975 to 1990, he held various operational positions at Head & Engquist, starting as a mechanic s helper. Mr. Engquist serves as a director on the boards of a number of private companies. He also serves on the Leadership Council of St. Jude Children s Research Hospital in Memphis, Tennessee, as well as on the Board of Directors for Business First Bancshares, Inc. in Baton Rouge, Louisiana. Mr. Engquist owns 53% of the membership interest in New Towne Development Group, L.L.C. and serves as the Chairman of the Board of Managers. Mr. Engquist is a former board member of Baton Rouge Business Bank and Cajun Constructors, Inc.

Mr. Engquist s day-to-day leadership of the Company as its Chief Executive Officer, as well as his long history with the Company and its predecessors dating back to 1975, provides him with unparalleled experience with the Company s operations, industry and corporate transactions. He currently serves as a member of the Company s Finance Committee.

Paul N. Arnold has been a Director of the Company since November 2006. Mr. Arnold has served as a director of Town Sports International Holdings, Inc. since April 1997 and served as the non-executive Chairman of the Board of Directors from May 2006 until February 2009. Since 2000 Mr. Arnold has served as Chief Executive Officer of CORT Business Services, Inc., which was acquired by Berkshire Hathaway in 2000. From 1992 to 2000 Mr. Arnold served as President and Chief Executive Officer of CORT Business Services. Mr. Arnold also served as a director of CORT Business Services from 1991 to 2000 and from 2006 to 2009 and served as Chairman of the Board from May 2006 to February 2009. Prior to 1992, Mr. Arnold held various positions over a twenty-four year period within CORT Furniture Rental, a division of Mohasco Industries, Inc.

Mr. Arnold has experience leading a company with branch operations and also has extensive experience in the rental business and with corporate transactions. As a director of other public companies, Mr. Arnold has experience with corporate governance, compensation and audit committee matters. He currently serves as Chairman of the Company s Compensation Committee. Mr. Arnold is an independent director.

Bruce C. Bruckmann has been a Director of the Company since its formation in September 2005. He had served as a Director of H&E LLC from its formation in June 2002 until its merger with and into the Company in February 2006. Mr. Bruckmann had served as a director of both of the Company s predecessor companies, Head & Engquist and ICM. Mr. Bruckmann is a founder and has been a Managing Director of Bruckmann, Rosser, Sherrill & Co., Inc. since its formation in 1995. He served as an officer of Citicorp Venture Capital Ltd. from 1983 through 1994. Prior to joining Citicorp Venture Capital, Mr. Bruckmann was an associate at the New York law firm of Patterson, Belknap, Webb & Tyler. Mr. Bruckmann has served as a director of Mohawk Industries, Inc. since 1992, a director of MWI Veterinary

Supply, Inc. since 2002, a director of Town Sports International Holdings, Inc. since 1996 and a director of Heritage-Crystal Clean, Inc. since 2004. Mr. Bruckmann also currently serves as a director of two private companies.

Mr. Bruckmann has extensive experience with corporate transactions, such as financings and acquisitions, as well as experience as a board member of public companies, including service on audit and compensation committees. He also has significant experience with the Company s business and operations and served as a

director of both of the Company s predecessor companies. He currently serves as the Chairman of the Company s Finance Committee and as a member of the Company s Corporate Governance and Nominating Committee. Mr. Bruckmann is an independent director.

Patrick L. Edsell has over 20 years of executive experience and over 10 years of board experience. He previously served as acting Chief Financial Officer, on a part-time basis, for SpectraSensors, Inc. from 2008 to 2010 and as Senior Vice President and General Manager of Avanex Corporation from 2007 to 2008. He was Chief Executive Officer of NP Photonics, Inc. from 2004 to 2007 and Gigabit Optics Corporation from 2002 to 2004. Prior to that, he was Chairman, President and Chief Executive Officer of Spectra Physics, Inc. from 1997 to 2002 and President of Spectra-Physics Lasers and Optics Group from 1990 to 1997. Mr. Edsell was Chief Financial Officer of Pharos AB from 1984 to 1991 and Vice President, Finance of GP Technologies from 1982 to 1984. He was a director and Chairman of the Audit Committee of Captiva Software Systems from 2001 to 2005 and Chairman from 2004 to 2005. Prior to that, he was a director of FLIR Systems, Inc. in 1998 and 1999. He currently serves as a director of two private companies.

Mr. Edsell is experienced in leading other companies and is also experienced with corporate transactions, such as financings and acquisitions. As a director of other public and private companies, Mr. Edsell has experience with audit, corporate governance and compensation committee matters. Mr. Edsell was recommended to the Company s Corporate Governance and Nominating Committee as a director candidate by certain of the Company s non-management directors. If elected, Mr. Edsell, who is 62 years old, will be an independent director.

Thomas J. Galligan III has been Executive Chairman and a member of the board of directors of Papa Gino s Holdings Corp. since March 2009. Mr. Galligan served as Chairman, President and Chief Executive Officer of Papa Gino s Holdings Corp. from May 1996 until October 2008 and Chairman and Chief Executive Officer until March 2009. Prior to joining Papa Gino s in March 1995 as Executive Vice President, Mr. Galligan held executive positions at Morse Shoe, Inc. and PepsiCo., Inc. Mr. Galligan is currently a director and Chairman of the board of directors of Town Sports International Holdings, Inc. He also currently serves as a director of two private companies and two nonprofit companies

Mr. Galligan has experience leading a company with branch operations and has extensive experience with corporate transactions. As a director of other public and private companies, Mr. Galligan has experience with corporate governance, compensation and audit committee matters. Mr. Galligan was recommended to the Company s Corporate Governance and Nominating Committee as a director candidate by certain of the Company s non-management directors and security holders. If elected, Mr. Galligan, who is 66 years old, will be an independent director.

Lawrence C. Karlson has been a Director of the Company since its formation in September 2005. He had served as a Director of H&E LLC from its formation in June 2002 until its merger with and into the Company in February 2006. Mr. Karlson is a consultant for a wide variety of businesses. He previously served as Chairman and CEO of Berwind Financial Corporation from 2001 to 2004 and President of Karlson Corporation from 1986 to 1995. Mr. Karlson also previously served as Chairman of Spectra-Physics AB and President and CEO of Pharos AB. He currently serves as a director of CDI Corporation (since 1989) and as a director of Campbell Soup Company (since 2009). Previously he was Chairman and a director of Mikron Infared, Inc.

Mr. Karlson is experienced in leading other companies and is also experienced with corporate transactions. As a director of other public companies, Mr. Karlson has experience with corporate governance, compensation and audit committee matters. He currently serves as Chairman of the Company s Corporate Governance and Nominating Committee and as a member of the Company s Audit Committee and Compensation Committee. Mr. Karlson is an independent director.

John T. Sawyer has been a Director of the Company since its formation in September 2005. He had served as a Director of H&E LLC from its formation in June 2002 until its merger with and into the Company in February 2006. Mr. Sawyer served as President of Penhall Company (Penhall) from 1989 until his retirement in 2008. He joined Penhall in 1978 as the Estimating Manager of the Anaheim Division, was appointed Manager of Penhall s National Contracting Division in 1980, and in 1984 assumed the position of Vice President and became responsible for

managing all construction services divisions. Mr. Sawyer currently serves as a director of Western Oilfield Supply Company, Inc., a private company.

Mr. Sawyer has experience leading a company with branch operations in the construction industry and is also experienced with corporate transactions. With prior experience as a director of other public companies, Mr. Sawyer has experience with audit committee matters. He currently serves as a member of the Company s Audit Committee and Corporate Governance and Nominating Committee. Mr. Sawyer is an independent director.

The Board of Directors recommends a vote FOR each of the listed nominees.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth the names, ages and titles of each person who is a current director or executive officer.

Name	Age	Title
Gary W. Bagley	64	Chairman and Director
John M. Engquist	57	President, Chief Executive Officer and Director
Leslie S. Magee	42	Chief Financial Officer and Secretary
Bradley W. Barber	38	Executive Vice President and Chief Operating Officer
William W. Fox	67	Vice President, Cranes and Earthmoving
John D. Jones	53	Vice President, Product Support
Keith E. Alessi	56	Director
Paul N. Arnold	64	Director
Bruce C. Bruckmann	57	Director
Lawrence C. Karlson	68	Director
John T. Sawyer	66	Director

Gary W. Bagley is described as a director nominee above.

John M. Engquist is described as a director nominee above.

Leslie S. Magee has served as Chief Financial Officer and Secretary of the Company since its formation in September 2005. Ms. Magee served as acting Chief Financial Officer of H&E LLC from December 2004 through August 2005, at which time she was appointed Chief Financial Officer and Secretary. She continued as Chief Financial Officer and Secretary until H&E LLC s merger with and into the Company in February 2006. Previously, Ms. Magee served as Corporate Controller for H&E LLC and Head & Engquist. Prior to joining Head & Engquist in 1995, Ms. Magee spent five years working for Hawthorn, Waymouth & Carroll, L.L.P, an accounting firm based in Baton Rouge, Louisiana. Ms. Magee is a Certified Public Accountant and is a member of the American Institute of Certified Public Accountants and the Louisiana Society of Certified Public Accountants.

Bradley W. Barber has served as Executive Vice President and Chief Operating Officer of the Company since June 2008. From November 2005 to May 2008, he was Executive Vice President and General Manager. Previously, Mr. Barber served as Vice President, Rental Operations from February 2003 to November 2005 of H&E LLC. Prior to that, Mr. Barber served as Director of Rental Operations for H&E LLC and Head & Engquist from March 1998 to February 2003. Prior to joining Head & Engquist in March 1998, Mr. Barber worked in both outside sales and branch management for a regional equipment company.

William W. Fox has served as Vice President, Cranes and Earthmoving of the Company since its formation in September 2005. Prior to that, he served as Vice President, Cranes and Earthmoving of H&E LLC from its formation in 2002 until its merger with and into the Company in February 2006. Mr. Fox served as Executive Vice President and General Manager of Head & Engquist since 1995 and served as President of South Texas Equipment Co., a subsidiary for Head & Engquist, from 1995 to 1997. Prior to that, Mr. Fox held various executive and managerial positions with the Manitowoc Engineering Company and its subsidiary, North Central Crane. He was Executive Vice President/General Manager from 1989 to 1995, Vice President, Sales from 1988 to 1989, and

General Manager from 1986 to 1988 of Manitowoc Engineering Company. Mr. Fox was Executive Vice President/General Manager at North Central Crane from 1980 to 1986.

John D. Jones has served as Vice President, Product Support of the Company since its formation in September 2005. Prior to that, he served as Vice President, Product Support for H&E LLC from its formation in 2002 until its merger with and into the Company in February 2006. Mr. Jones served as Vice President of Product Support Service at Head & Engquist since 1994. From 1991 to 1994, he was General Manager of Product Support at Louisiana Machinery. From 1987 to 1991 he served as General Manager of the Parts Operation at Holt Company of Louisiana. From 1976 to 1987, Mr. Jones worked in Product Support and Marketing for Boyce Machinery.

Keith E. Alessi has been a Director of the Company since its formation in September 2005 and Chairman of the Audit Committee since January 2006. He served as a director and chairman of the Audit Committee of H&E LLC from November 2002 until its merger with and into the Company in February 2006. Mr. Alessi is President, Chief Executive Officer and a director of Westmoreland Coal Company (Westmoreland) of Colorado Springs, Colorado. Mr. Alessi became President and Chief Executive Officer of Westmoreland in January 2009 and had previously held that position from August 2007 through April 2008. Prior to that, he served as interim Chief Executive Officer and President of Westmoreland from May to August 2007. Mr. Alessi has served as a director of Westmoreland since 2007 and has also served as Westmoreland s Executive Chairman of the Board. In 2008, Mr. Alessi briefly served on an interim basis as acting Chief Executive Officer of EZ Lube LLC, a private company that filed for protection under Chapter 11 of the United Stated federal bankruptcy code in December 2008, pending its search for a new chief executive officer. He was an Adjunct Lecturer at The Ross School of Business at the University of Michigan from 2001 to 2010 and an Adjunct Professor of Law at The Washington and Lee University School of Law from 1999 to 2007. From 2003 to 2006, he was Chief Executive Officer of Lifestyles Improvement Centers, LLC. Mr. Alessi has served as a director of Town Sports International Holdings, Inc. since 1997 and a director of MWI Veterinary Supply, Inc. since 2002. Mr. Alessi is a Certified Public Accountant. As further described previously, Mr. Alessi is not standing for re-election at the 2011 Annual Meeting.

Paul N. Arnold is described as a director nominee above.

Bruce C. Bruckmann is described as a director nominee above.

Lawrence C. Karlson is described as a director nominee above.

John T. Sawyer is described as a director nominee above.

2010 DIRECTOR COMPENSATION TABLE

The annual 2010 compensation for our non-employee directors consisted of the following:

Annual Board retainer fee (payable in quarterly installments)	$ 30,000
Fee per Board or Committee meeting or call attended, in person or telephonically	$ 1,500
Chairman of the Audit Committee annual retainer fee (payable in quarterly installments)	$ 10,000
Chairman of the Corporate Governance and Nominating Committee, the Compensation Committee and the Finance Committee annual retainer fee (payable in quarterly installments)	$ 5,000

Mr. Bagley, who has a consulting agreement with the Company, did not receive compensation for his service as a director of the Company in 2010.

In addition to the fees described above, on May 25, 2010, Messrs. Alessi, Arnold, Bruckmann, Karlson and Sawyer each received grants of 1,506 shares of restricted stock under the Incentive Plan. These grants are described in more detail in the footnotes to the table below.

The table below summarizes the compensation paid by the Company to each non-employee director for the year ended December 31, 2010.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	All Other Compensation ($)	Total ($)
Keith E. Alessi	67,000	15,000		82,000
Paul N. Arnold	45,500	15,000		60,500
Gary W. Bagley			185,240(3)	185,240
Bruce C. Bruckmann	44,000	15,000		59,000
Lawrence C. Karlson	60,500	15,000		75,500
John T. Sawyer	51,000	15,000		66,000

(1) Mr. Bagley did not receive compensation for his service as a director of the Company. All other non-employee directors received a retainer and meeting fees for the Board and its committees and committee chairmanship retainers as described above.

(2) Amounts shown represent the grant date fair value of restricted common stock granted in fiscal 2010 pursuant to the Financial Accounting Standards Board s Accounting Standards Codification Topic 708 (ASC 718) (formerly, Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*). No stock option awards were granted to directors during 2010. The assumptions used to determine the valuation of the awards are discussed in note 2 to our consolidated financial statements for the year ended December 31, 2010. The fair market value, number of shares subject to each outstanding restricted stock award or stock option and the vesting schedule for each award is reported in the supplemental table below.

Supplemental Stock and Option Award Table

Director	Grant Date	Total Number of Shares (#)	Fair Value ($)	If Currently Unvested, Vesting Date	Number of Shares Vesting (#)
Stock Options					
Keith E. Alessi	2/22/06	15,000	219,324		
	6/05/07	1,500	16,535		
Paul N. Arnold	6/05/07	1,500	16,535		
Lawrence C. Karlson	2/22/06	15,000	219,324		
	6/05/07	1,500	16,535		
John T. Sawyer	2/22/06	15,000	219,324		
	6/05/07	1,500	16,535		
Restricted Stock					
Keith E. Alessi	6/30/08	500	6,010	6/30/11	167
	6/30/09	2,116	15,002	6/30/11	705
				6/30/12	706
	5/25/10	1,506	15,000	5/25/11	502
				5/25/12	502
				5/25/13	502
Paul N. Arnold	6/30/08	500	6,010	6/30/11	167
	6/30/09	2,116	15,002	6/30/11	705
				6/30/12	706
	5/25/10	1,506	15,000	5/25/11	502
				5/25/12	502
				5/25/13	502
Bruce C. Bruckmann	6/30/09	2,116	15,002	6/30/11	705
				6/30/12	706
	5/25/10	1,506	15,000	5/25/11	502
				5/25/12	502
				5/25/13	502
Lawrence C. Karlson	6/30/08	500	6,010	6/30/11	167
	6/30/09	2,116	15,002	6/30/11	705
				6/30/12	706
	5/25/10	1,506	15,000	5/25/11	502
				5/25/12	502
				5/25/13	502
John T. Sawyer	6/30/08	500	6,010	6/30/11	167
	6/30/09	2,116	15,002	6/30/11	705
				6/30/12	706
	5/25/10	1,506	15,000	5/25/11	502
				5/25/12	502
				5/25/13	502

(3) Represents compensation paid to Mr. Bagley under his consulting agreement, which is described in the Certain Relationships and Related Transactions Consulting Agreement section of this Proxy Statement.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND DIRECTORS, DIRECTOR NOMINEES AND OFFICERS

The following table sets forth certain information with respect to beneficial ownership of the Company s common stock as of March 28, 2011, the Annual Meeting Record Date, by (i) each person, or group of affiliated persons who is known by the Company to own more than 5% of its common stock, (ii) each of the Company s directors, director nominees and executive officers and (iii) all directors and executives of the Company as a group. The information provided in the table is based on our records, information filed with the SEC and information provided to the Company.

Beneficial ownership is determined in accordance with the rules of the SEC. To our knowledge, except as set forth in the footnotes to the following table and subject to appropriate community property laws, the persons in this table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

Unless otherwise noted, the address of each person listed below is c/o H&E Equipment Services, Inc., 11100 Mead Road, Suite 200, Baton Rouge, Louisiana 70816.

	Amount and Nature of Beneficial Ownership	
	Shares	**Percentage**
Stockholders of 5% or more (excludes Directors and Executive Officers)		
FMR LLC(1)	5,255,221	15.0%
T. Rowe Price Associates, Inc.(2)	4,603,456	13.1%
Columbia Wanger Asset Management, LLC(3)	3,478,600	9.9%
Dimensional Fund Advisors LP(4)	1,973,597	5.6%
Directors and Director Nominees (except Mr. Engquist)		
Bruce C. Bruckmann(5)	1,221,377	3.5%
Gary W. Bagley(6)	314,559	*
Lawrence C. Karlson(7)	33,695	*
Keith E. Alessi(7)	26,122	*
John T. Sawyer(7)	25,927	*
Paul N. Arnold(8)	13,650	*
Patrick L. Edsell		
Thomas J. Galligan III		
Executive Officers		
John M. Engquist(9)	4,590,250	13.1%
Bradley W. Barber(9)	78,268	*
Leslie S. Magee(9)	49,188	*
John D. Jones(9)	43,010	*
William W. Fox(10)	7,737	*
All executive officers and directors as a group (11 persons)	6,431,083	18.3%

* Less than 1%.

(1) The shares reported herein are beneficially owned by Fidelity Management & Research Company, a wholly-owned subsidiary of FMR LLC. Shares beneficially owned is based on the Schedule 13G amendment filed with the SEC on February 14, 2011 by FMR LLC and Edward C. Johnson 3d (together, the Reporting Persons), which reports beneficial ownership as of December 31, 2010. Each of the Reporting Persons has sole dispositive power with respect to all of the indicated shares and sole voting power with respect to none of the indicated shares. The address of FMR LLC is 82 Devonshire Street, Boston, MA 02109.

(2) The shares reported herein are beneficially owned by T. Rowe Price Associates (Price Associates). Shares beneficially owned is based on the Schedule 13G amendment filed with the SEC on February 9, 2011 by Price

Associates and T. Rowe Price Small Cap Stock Fund, Inc., which reports beneficial ownership as of December 31, 2010. These securities are owned by various individual and institutional investors, which Price Associates serves as an investment advisor with power to direct investments and/or sole power to vote the securities. Price Associates has sole dispositive power with respect to 4,506,977 of the indicated shares and sole voting power with respect to 1,013,396 of the indicated shares. For the purposes of the reporting requirements of the Securities Exchange Act of 1934, Price Associates is deemed to be a beneficial owner of such securities; however, Price Associates expressly disclaims that it is, in fact, the beneficial owner of such securities. The address of Price Associates is 100 E. Pratt Street, Baltimore, MD 21202.

(3) The shares reported herein include shares held by Columbia Acorn Trust, a Massachusetts business trust that is advised by Columbia Wanger Asset Management, LLC. Shares beneficially owned is based on the Schedule 13G amendment filed with the SEC on February 10, 2011 by Columbia Wanger Asset Management, LLC, which reports beneficial ownership as of December 31, 2010. The Reporting Person has sole dispositive power with respect to all of the indicated shares and sole voting power with respect to 3,419,800 of the indicated shares. The address of Columbia Wanger Asset Management, LLC is 227 West Monroe Street, Suite 3000, Chicago, IL 60606.

(4) The shares reported herein are beneficially owned by Dimensional Fund Advisors LP (Dimensional). Shares beneficially owned is based on the Schedule 13G amendment filed with the SEC on February 11, 2011 by Dimensional, which reports beneficial ownership as of December 31, 2010. Dimensional has sole dispositive power with respect to all of the indicated shares and sole voting power with respect to 1,885,234 of the indicated shares. The address of Dimensional is Palisades West, Building One, 6300 Bee Cave Road, Austin, TX 78746. For the purposes of the reporting requirements of the Securities Exchange Act of 1934, Dimensional is deemed to be a beneficial owner of such securities; however, Dimensional expressly disclaims that it is, in fact, the beneficial owner of such securities.

(5) Includes the June 2, 2009 and May 25, 2010 restricted stock grants of 2,116 and 1,506 shares, repectively. The restricted shares vest over a three year period and are subject to certain restrictions, as described in the recipient s applicable Restricted Stock Grant Award Letter. Also includes 73,344 shares held in a trust for the benefit of Mr. Bruckmann s children, for which he is a trustee, and 190,882 shares held in a trust for the benefit of Mr. Bruckmann s children, for which he is not a trustee. Also includes an aggregate of 40,109 shares of common stock held by the following entity and individual, for which Mr. Bruckmann holds a power of attorney in respect of such shares: BCB Family Partners, L.P., and Nancy A. Zweng. Mr. Bruckmann expressly disclaims beneficial ownership of all shares except those owned by him directly.

(6) Includes 200,973 shares held by Bagley Family Investments, L.L.C. Mr. Bagley may be deemed to share beneficial ownership of these shares by virtue of his status as manager of Bagley Family Investments, L.L.C. Mr. Bagley expressly disclaims beneficial ownership of any shares held by Bagley Family Investments L.L.C. that exceed his pecuniary interest therein.

(7) Includes 15,000 shares subject to stock options granted on February 22, 2006, which vested in three equal parts over a three-year period and 1,500 shares subject to stock options granted on June 5, 2007, which vested in three equal parts over a three-year period. Also includes the June 30, 2008, June 2, 2009 and May 25, 2010 restricted stock grants of 500, 2,116 and 1,506 shares, respectively. The restricted shares vest over a three-year period and are subject to certain restrictions, as described in the recipient s applicable Restricted Stock Grant Award Letter.

(8) Includes 1,500 shares subject to stock options granted on June 5, 2007, which vested in three equal parts over three years. Also includes the June 30, 2008, June 2, 2009 and the May 25, 2010 restricted stock grants of 500, 2,116 and 1,506 shares, respectively. The restricted shares vest over a three-year period and are subject to certain

restrictions, as described in the recipient s applicable Restricted Stock Grant Award Letter.

(9) Includes the June 30, 2008 restricted stock grant of 8,299 shares, 4,742 shares, 3,952 shares and 2,496 shares to Mr. Engquist, Mr. Barber, Ms. Magee and Mr. Jones, respectively, the June 1, 2009 restricted stock grant of 45,317 shares, 10,763 shares, 9,328 shares and 4,532 shares to Mr. Engquist, Mr. Barber, Ms. Magee and Mr. Jones, respectively, and the June 15, 2010 restricted stock grant of 31,513 shares, 7,484 shares, 6,486 shares and 3,151 shares to Mr. Engquist, Mr. Barber, Ms. Magee and Mr. Jones, respectively. The shares for all three stock grants vest over a three year period and are subject to certain restrictions, as described

in the recipient s Restricted Stock Grant Award Letter. Includes grant of 40,650 shares of restricted stock to each of Mr. Barber, Ms. Magee and Mr. Jones made on February 22, 2006 (which is net of the shares which were returned to the Company, as described below, as payment for related withholding taxes), which vested over a three year period, and were subject to certain restrictions, as described in the recipient s Restricted Stock Grant Award Letter. One-third of the shares vested on each of February 22, 2007, 2008 and 2009. In accordance with the 2006 Stock-Based Incentive Compensation Plan, on each of the respective vesting dates, Messrs. Barber and Jones and Ms. Magee returned to the Company, as payment for the related employee withholding taxes, on the vesting dates: 5,670 shares, 4,383 shares and 5,702 shares, respectively, in 2007; 4,449 shares, 4,511 shares and 4,476 shares, respectively, in 2008; 4,880 shares, 5,035 shares and 4,969 shares, respectively, in 2009; and 1,872 shares, 1,181 shares and 733 shares, respectively, in 2010. Mr. Engquist returned 6,129 shares to the Company in 2010 for payment of related employing withholding taxes.

(10) Includes the June 1, 2009 and June 15, 2010 restricted stock grants of 2,644 shares and 3,493 shares, respectively, which vest over a three year period and are subject to certain restrictions, as described in the recipient s Restricted Stock Grant Award Letter.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the SEC require the Company to disclose late filings of stock transaction reports by its executive officers and directors and by certain beneficial owners of the Company s common stock. Based on our records and other information, we believe that each of our executive officers, directors and certain beneficial owners of the Company s common stock complied with all Section 16(a) filing requirements applicable to them during 2010 on a timely basis, except for one late Form 4 filed by Mr. Bruckmann on March 7, 2011, reporting a total of two transactions that occurred on December 27 and December 28, 2010. The reports (Forms 3, 4 and 5) filed under Section 16(a) of the Exchange Act reflecting transactions in Company securities are posted on our Internet website by the end of the business day after the report s filing.

AUDIT COMMITTEE REPORT

The information contained in this report shall not be deemed to be soliciting material or filed for purposes of Section 18 of the Exchange Act or otherwise subject to liability under that Section. This report shall not be deemed incorporated by reference into any document filed under the Securities Act of 1933, as amended, or the Exchange Act, whether such filing occurs before or after the date hereof, regardless of any general incorporation language in such filings, except to the extent that the Company specifically incorporates it by reference.

The Audit Committee assists the Board in meeting its oversight responsibility to stockholders, potential stockholders, the investment community and others. The Audit Committee s function is one of oversight, recognizing that management is responsible for preparing the Company s financial statements, and the independent registered public accounting firm is responsible for auditing those statements. Management of the Company is responsible for (1) the preparation, presentation, and integrity of the Company s financial statements; (2) the appropriateness of the accounting principles and reporting policies that are used by the Company; (3) establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act; and (4) maintaining adequate disclosure controls and procedures, as such term is defined by the Exchange Act. The Company s independent registered public accounting firm is responsible for (1) auditing the Company s annual consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and expressing an opinion on the conformity of those consolidated financial statements with accounting principles generally accepted in the United States of America (GAAP); (2) auditing and attesting to the Company s internal control over financial reporting based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria); and (3) reviewing the

Company s unaudited interim condensed consolidated financial statements. The Audit Committee s primary responsibility is to oversee the Company s financial reporting process on behalf of the Board and report the results of its activities to the Board. It is not the Audit Committee s duty or responsibility to conduct auditing or accounting reviews or procedures. In performing its oversight function, the Audit Committee relies, without independent verification, on the information provided to it and on the

representations made by management and the Company s independent registered public accounting firm. The Audit Committee will however take the appropriate actions to set the overall corporate tone for quality financial reporting, sound business risk practices, and ethical behavior.

The Audit Committee is directly responsible for the selection of the independent registered public accounting firm to be retained to audit the Company s consolidated financial statements and internal control over financial reporting, and once retained, the independent registered public accounting firm reports directly to the Audit Committee. The independent registered public accounting firm is ultimately accountable to the Audit Committee and the Board. The Audit Committee consults with and reviews recommendations made by the independent registered public accounting firm with respect to the Company s consolidated financial statements and related disclosures and internal control over financial reporting of the Company and makes recommendations to the Board as it deems appropriate from time to time. The Audit Committee is responsible for approving both audit and non-audit services to be provided by the independent registered public accounting firm. The Audit Committee is currently composed of three directors, all three of whom the Board has determined to be independent as that term is defined by applicable NASDAQ listing standards and SEC rules. The Board has determined, in accordance with applicable NASDAQ listing standards, that Mr. Alessi is an audit committee financial expert, as defined in Item 407(d)(5) of Regulation S-K of the Exchange Act. The Audit Committee operates under a written charter adopted by the Board, which is available on the Company s Internet website at *www.he-equipment.com*.

The Audit Committee meets with management periodically to consider the adequacy of the Company s internal controls, and discusses these matters with the Company s independent registered public accounting firm. The Audit Committee also discusses with senior management the Company s disclosure controls and procedures. The Audit Committee s oversight of the independent registered public accounting firm includes resolution of disagreements between management and the independent registered public accounting firm regarding financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the Company s quarterly earnings releases, Quarterly Reports on Form 10-Q for the periods ended March 31, 2010, June 30, 2010 and September 30, 2010, and the audited consolidated financial statements in the Annual Report on Form 10-K for the year ended December 31, 2010 with management and the Company s independent registered public accounting firm, which included a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the consolidated financial statements.

The Audit Committee also discussed with management and the independent registered public accounting firm the Company s internal control over financial reporting. In addition, the Audit Committee discussed with the Company s independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended by the Auditing Standards Board of the American Institute of Certified Public Accountants and as adopted by the Public Company Accounting Oversight Board in Rule 3200T, SEC Rule 2-07 and such other matters as are required to be discussed under auditing standards generally accepted in the United States of America. The Audit Committee received the written disclosures and the letter from the Company s independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm s communications with the Audit Committee concerning independence. In addition, the Audit Committee discussed with the independent registered public accounting firm its independence, including the compatibility of any non-audit services with the independent registered public accounting firm s independence.

The Audit Committee discussed with the Company s independent registered public accounting firm the overall scope and plans for its 2011 audit. The Audit Committee met with the independent registered public accounting firm, with and without management present, to discuss the year 2010 results of its consolidated financial statement audit, its audit of the Company s internal controls over financial reporting and the overall quality of the Company s financial

reporting. Both the Director of Internal Audit and the independent registered public accounting firm have direct access to the Audit Committee at any time on any issue of their choosing, and the Audit Committee has the same direct access to the Director of Internal Audit and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements for the year ended December 31, 2010 be included in the 2010 Annual Report on Form 10-K for filing with the SEC.

The Audit Committee has appointed the firm of BDO USA, LLP as independent registered public accounting firm to audit and report upon the Company s consolidated financial statements and internal control over financial reporting for the year ending December 31, 2011. In making this selection, the Audit Committee has considered whether BDO USA, LLP s provision of services other than audit services is compatible with maintaining their independence.

AUDIT COMMITTEE

Keith E. Alessi, Chairman
Lawrence C. Karlson
John T. Sawyer

ITEM 2 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed BDO USA, LLP as the independent registered public accounting firm to audit the Company s consolidated financial statements for the year ending December 31, 2011 and internal control over financial reporting. Although action by the stockholders on this matter is not required under Delaware law or the Sarbanes-Oxley Act of 2002, as amended, or the rules of the SEC promulgated thereunder, the Audit Committee and the Board of Directors believe it is appropriate to seek stockholder ratification of this appointment in light of the role played by the independent registered public accounting firm in reporting on the Company s consolidated financial statements. Ratification requires the affirmative vote of a majority of eligible shares present at the Annual Meeting, in person or by proxy, and voting thereon. If this appointment is not ratified by the stockholders, the Audit Committee may reconsider its appointment. One or more representatives of BDO USA, LLP are expected to attend the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The Board of Directors recommends a vote FOR ratification of the appointment of BDO USA, LLP as the Company s independent registered public accounting firm for the year ending December 31, 2011.

Principal Accountant Fees and Services

The aggregate fees billed by our independent registered public accounting firm for professional services rendered in connection with (i) the audit of our consolidated financial statements as set forth in our Annual Report on Form 10-K for the years ended December 31, 2010 and 2009, (ii) the review of our quarterly consolidated financial statements as set forth in our Quarterly Reports on Form 10-Q for each of our quarters during 2010 and 2009, and (iii) the 2010 and 2009 audit of our internal control over financial reporting with the objective of obtaining reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects, as well as any fees paid to our independent registered public accounting firm for audit-related work, tax compliance, tax planning and other consulting services are set forth in the table below:

	2010	2009
Audit Fees(1)	$ 620,000	$ 690,000
Audit-Related Fees		

Tax Fees		
All Other Fees		
	$ 620,000	$ 690,000

(1) Represents fees for professional services provided in connection with the audits of our annual consolidated financial statements; the audit of our internal control over financial reporting and the reviews of our quarterly consolidated financial statements; consultations on accounting matters that arose during the audit and audit services provided in connection with other statutory or regulatory filings.

The Audit Committee did not engage BDO USA, LLP in 2010 or 2009 to provide any non-audit services, including services in connection with any tax compliance or tax planning matters, or other matters, such as matters related to financial information systems design and implementation.

Pre-approval of services

All audit and permissible non-audit services provided by the Company s independent registered public accounting firm, BDO USA, LLP, require pre-approval by the Audit Committee in accordance with the Audit Committee Charter. The Company s Audit Committee approves the independent registered public accounting firm s engagement prior to the independent registered public accounting firm rendering any non-audit services. The Audit Committee charter is reviewed on an annual basis by the Audit Committee and is subject to amendment from time to time. The Audit Committee pre-approved 100% of the 2010 and 2009 fees.

COMPENSATION COMMITTEE REPORT

The information contained in this report shall not be deemed to be soliciting material or filed for purposes of Section 18 of the Exchange Act or otherwise subject to liability under that Section. This report shall not be deemed incorporated by reference into any document filed under the Securities Act of 1933, as amended, or the Exchange Act, whether such filing occurs before or after the date hereof, regardless of any general incorporation language in such filings, except to the extent that the Company specifically incorporates it by reference.

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K of the Exchange Act with management and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Company s Proxy Statement for the 2011 Annual Meeting.

COMPENSATION COMMITTEE

Paul N. Arnold, Chairman
Lawrence C. Karlson

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis (CD&A) provides an overview of the Company s executive compensation program together with a description of the material factors underlying the decisions which resulted in the compensation provided to the Company s Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO) and certain other executive officers (collectively, the named executive officers (NEOs)) for 2010 (as presented in the tables which follow this CD&A).

Executive Summary

The Company s executive compensation program is designed to attract, retain and motivate a team of highly qualified senior executives who will promote both the near-term and long-term interests of our shareholders, while

simultaneously discouraging excessive risk-taking by the Company s management. The Company seeks to achieve these goals by compensating our executives through a combination of base salary, annual cash bonus opportunities and long-term equity incentive awards. The Company is committed to linking pay to performance on an individual and company-wide basis. As a result, the Company generally does not enter into employment, change in control or severance agreements with our senior executives and does not provide supplemental executive retirement benefits

(other than NEO participation in a Company sponsored 401(k) plan and accelerated vesting of certain equity awards made to NEOs upon a change in control), which the Company believes to be inconsistent with a performance-oriented approach to compensation.

The Company s compensation policies and decisions during fiscal 2010 were influenced by a variety of factors. One key factor was the significant uncertainty regarding whether, when and to what extent the worldwide economic conditions that impacted the Company s fiscal 2009 financial results would improve during fiscal 2010. As a result of this uncertainty related to the economy and how it would impact the Company s industry and business, the Compensation Committee (the Committee) of the Board of Directors took a conservative approach to compensation programs in fiscal 2010. As described herein, NEO base salaries were not increased from 2009 amounts and the Committee did not adopt bonus guidelines for fiscal year 2010.

Compensation Committee

The Committee is currently composed of two non-employee directors, each of whom is an independent director under the NASDAQ listing standards and the SEC rules. The Committee was comprised of three independent, non-employee directors until Keith E. Alessi s resignation from the Committee on January 25, 2011. The Committee has responsibility for determining and implementing the Company s philosophy with respect to executive compensation. Accordingly, the Committee has overall responsibility for approving and evaluating the various components of the Company s executive compensation program. The Committee meets at least twice per year (and more often as necessary) to discuss and review the compensation of the NEOs. The Committee annually reviews and approves the compensation of the CEO. The Committee also reviews and approves the compensation of the other NEOs after considering the recommendations of management. In establishing and reviewing compensation for the NEOs, the Committee considers, among other things, the financial results of the Company, recommendations of management and financial and compensation data for comparable equipment companies.

In 2009, the Committee retained Axiom Consulting Partners (Axiom), an independent compensation consultant, to provide a CEO competitive pay assessment as an update to the executive pay analysis for the Company s CEO, COO and CFO compensation that Axiom previously provided to the Committee in 2008. The consultant s report (the Report) provided competitive market data for a peer group of companies identified in the Report (see Setting Executive Compensation below). Although the Report was not updated and the Committee did not otherwise retain the services of an independent compensation consultant in 2010, the Committee took the Report and its historical findings into account, in a general sense, as one of the various considerations in setting 2010 compensation for the CEO, COO and CFO.

The Committee operates under a written charter adopted by the Board of Directors of the Company on February 16, 2010. A copy of this charter is available on our Internet website at www.he-equipment.com under the heading Investor Relations/Corporate Governance.

Executive Compensation Philosophy and Objectives

The Committee s goals in structuring the Company s compensation program for its NEOs are to:

- provide incentives to achieve Company financial objectives;
- provide long-term incentives for the executive officers; and
- set compensation levels sufficiently competitive to attract and retain high quality executives and to motivate them to contribute to the Company s success.

The Committee has determined that to achieve these objectives, the Company s executive compensation program should reward both individual and Company short-term and long-term performance. To this end, the Committee believes that executive compensation packages provided by the Company to its executive officers, including its NEOs, should generally include both cash and stock-based compensation. However, the Committee does not rely on any policy or formula in determining the appropriate mix of cash and equity compensation, nor does it rely on any policy or formula in allocating long-term compensation to different forms of awards.

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Setting Executive Compensation

In making compensation decisions, the Committee considers the recommendations of management. The Committee also considers corporate performance, the collective performance of the executive management team, an executive s level of experience and responsibility, an executive s current compensation level and historical compensation practices. In addition, at times the Committee reviews market data for comparable equipment companies to get a general sense of executive compensation at the Company s competitors.

In determining compensation for the CEO, COO and CFO in the past few years, the Committee also took into account, in a general sense, the Report, which both provided compensation data for the Company s industry in general and for the following 13 equipment companies: AAR Corp., Ahern Rentals, Inc., CE Franklin Ltd., Finning International Inc., GATX Corporation, Kaman Corporation, Neff Corp., RSC Holdings Inc., ShawCor Ltd., Titan Machinery Inc., Toromont Industries Ltd., United Rentals, Inc. and Wajax Ltd. (these companies are referred to elsewhere in this CD&A as the Report peer group companies). The Report relied upon the Mercer 2007 Executive Compensation Survey, the Wyatt 2007/2008 Survey Report on Top Management Compensation and the update on CEO compensation reflected updated surveys from Mercer, Watson Wyatt and ERI for industry data. The Report confirmed that the base salaries of the CEO, COO and CFO in 2007 and 2008 were below general industry norms and base salaries at the Report peer group companies. The Committee determined in 2008 that it would seek over time to make the compensation of the CEO, COO and CFO more competitive and the Committee kept this in mind, in a general sense, when making 2010 compensation decisions. The Committee did not use this data, and does not attempt, to establish or maintain a specific percentile with respect to peer group companies in determining compensation for the CEO, COO and/or CFO. However, the Committee does periodically review information regarding compensation trends and levels from a variety of sources in making compensation decisions.

Committee Processes; Role of Executives in Setting Compensation

A complete description of the Committee s processes and the role of executives in setting compensation can be found earlier in this Proxy Statement in the section entitled Corporate Governance Committees of the Board of Directors Compensation Committee.

2010 Executive Compensation Components

The Company s executive compensation program is composed of three principal components:

- base salary;
- cash bonuses; and
- long-term incentives, consisting of equity awards.

In making decisions with respect to any element of an NEO s compensation, the Committee considers the total current compensation that such NEO may be awarded and any previously granted unvested equity awards. The Committee s goal is to award compensation that is reasonable in relation to the Company s compensation philosophy and objectives when all elements of potential compensation are considered.

None of the NEOs currently has an employment contract or had an employment contract in effect during 2010. The Company generally does not employ senior executives pursuant to employment agreements.

Base Salaries

In General. The Company provides NEOs with base salaries as a component of total compensation to compensate them for services rendered during the fiscal year. In determining base salaries, the Committee takes into account several factors, including:

- historical information regarding compensation previously paid to NEOs;
- the individual executive s experience and level of responsibility; and
- the performance of the Company and the executive management team.

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In addition, at times the Committee considers base salaries paid by comparable equipment companies. The Committee uses peer group data in a general sense to gauge the range of base salary levels of executive officers of such peer group companies in order to confirm the reasonableness of the base salaries of the Company s CEO, COO and CFO. The Report, which provided competitive market data for the Report peer group companies, confirmed that the base salaries of the CEO, COO and CFO in 2007 and 2008 were below general industry norms and base salaries at the Report peer group companies.

In the absence of a promotion or special circumstances, the Committee reviews and approves executive salaries once annually.

Consideration of 2010 Base Salaries. Based on their individual experience, level of responsibility and performance as part of the Company s senior management team, the recommendations of management and other factors discussed above, the Committee approved 2010 base salaries at the same levels as 2009 base salaries as follows: Mr. Engquist $700,000; Mr. Barber $375,000; Ms. Magee $325,000; Mr. Jones $200,000; and Mr. Fox $175,000. Although the Committee had determined in 2008 to seek over time to make the compensation of the CEO, COO and CFO more competitive with general industry norms and Report peer group companies, the Committee determined to not increase 2010 base salaries from their 2009 amounts. This was based largely on the CEO s recommendation to the Committee that in light of the Company s financial results in 2009 and the challenging economic and business conditions at the end of 2009, as well as the lack of visibility about the future economy, base salaries should not be increased for 2010.

Annual Bonuses

In General. Annual cash bonuses are included as part of the executive compensation program because the Committee believes that a significant portion of each NEO s compensation should be contingent on the annual performance of the Company, as well as the collective performance of the executive management team. The Committee believes that this structure is appropriate because it aligns the interests of management and stockholders by rewarding executives for strong annual performance by the Company.

The CEO, COO and CFO are eligible for an annual bonus payable at the discretion of the Committee. In determining bonuses, the Committee typically takes into account bonus guidelines that are determined by the Committee in consultation with the CEO and other members of management. The guidelines, if adopted, are based on the Company s achievement of financial targets. The Committee reviews and approves these guidelines after discussion and in consultation with the CEO. Actual bonus amounts may differ from those provided under the guidelines since the Committee and CEO retain full discretion in determining bonuses. The other NEOs, Messrs. Fox and Jones, are also generally eligible for annual bonuses at the discretion of the Committee, the CEO and the COO.

After the close of a fiscal year, the Committee generally determines and approves the amount of the annual bonus earned by each NEO for such fiscal year. A portion of the bonus is typically paid in February or March following the fiscal year to which the annual bonus relates, while the remainder is deferred. The deferred portion is generally paid in two equal annual installments over the next two years and accrues interest at the Prime rate, which is reset annually each January 1st to the rate then in effect. Alternatively, at the Committee s discretion, the entire bonus is paid in one lump sum in February or March following the fiscal year to which it relates. There is no provision for the adjustment or recovery of a bonus paid to an NEO if the results in a previous year are subsequently restated or adjusted in a manner that would have originally resulted in a smaller or larger bonus.

Consideration of 2010 Annual Bonus. In light of the economic conditions in 2008 and 2009 and the unpredictable economic conditions that were facing the Company in fiscal 2010, the Committee determined to not adopt bonus guidelines for fiscal year 2010. Based on the performance of the executive management team as a whole in the

difficult economic environment in 2010, including the Company s ongoing efforts to protect its balance sheet and the Company s implementation of a new enterprise resource planning (ERP) system, as well as the Company s upgrade of its workforce, once the Company received audited financial statements for the 2010 fiscal year, the Committee approved, in its discretion, 2010 cash bonus awards as follows: Mr. Engquist $70,000; Mr. Barber $37,500; and Ms. Magee $32,500. Each of these awards was approximately 10% of each NEO s base salary and no portions of these bonus awards were deferred. When granting these awards the Committee felt

that the Company needed to continue to motivate executives to contribute to the Company s performance, particularly in the continuing challenging economic environment.

Long-Term Incentives

In General. The Committee believes that NEOs should be compensated in part with equity interests in the Company in order to more closely align the long-term interests of stockholders and executives. The Committee also believes that equity awards are an important means of attracting and retaining qualified executives. Accordingly, the Committee provides long-term incentives by means of periodic grants of stock awards under the Company s 2006 Stock-Based Incentive Compensation Plan (the Incentive Plan). Stock awards available under the Incentive Plan include restricted stock, stock options and deferred stock.

The Committee determines the size of long-term incentive awards in its discretion and based on a determined percentage of each NEO s base salary, and makes awards that have a fair market value on the date of grant that approximates such dollar amount. Below are guidelines the Committee used for maximum possible stock option and restricted stock grants in 2010, each with a three-year vesting schedule:

Recipient	Stock Options	Restricted Stock Awards
CEO	Stock options with the fair value of up to a maximum of 125% base salary	Shares of restricted stock with the fair value of up to a maximum of 47.5% base salary
COO	Stock options with the fair value of up to a maximum of 100% base salary	Shares of restricted stock with the fair value of up to a maximum of 38% base salary
CFO	Stock options with the fair value of up to a maximum of 100% base salary	Shares of restricted stock with the fair value of up to a maximum of 38% base salary
Other members of management	Stock options with the fair value of up to a maximum of 50% base salary	Shares of restricted stock with the fair value of up to a maximum of 19% base salary

All grants of equity compensation to NEOs are made by the Committee. Whether grants are made and the type and size of any grants are based upon Company performance, performance of the executive management team, position held, years of service, level of experience and potential of future contribution to the Company s success, as well as the guidelines discussed above, if adopted. The Committee may also consider long-term incentive grants previously awarded to the NEOs, long-term incentive grants given to other executive officers throughout the Company s history and grant practices at comparable equipment companies.

2010 Equity Grants. On June 15, 2010, in connection with awards made to Company management under the Incentive Plan, the Committee approved grants of restricted stock as follows: Mr. Engquist 31,513 shares (equal to 43% of his base salary); Mr. Barber 7,484 shares (equal to 19% of his base salary); Ms. Magee 6,486 shares (equal to 19% of her base salary); Mr. Jones 3,151 shares (equal to 15% of his base salary); and Mr. Fox 3,493 shares (equal to 19% of his base salary). When awarding grants to the CEO, COO and CFO the Committee considered a variety of factors, such as the overall performance of the Company and the performance of the executive management team as a whole in the difficult economic environment, including the Company s ongoing efforts to protect its balance sheet and the Company s implementation of a new ERP system, as well as the equity grants which were awarded in 2009. The Committee felt that equity incentive awards are an important and desirable component of executive compensation in order to more closely align the long-term interests of stockholders and executives. When awarding grants to the NEOs other than the CEO, the Committee also considered the CEO s recommendations.

The Committee determined the size of the long-term incentive awards based on a percentage of each NEO s base salary, which percentage was subject to the applicable maximums used by the Committee, and awarded shares of restricted stock that had a fair market value on the date of grant that approximated such amount. The Committee made a restricted stock grant award to Mr. Engquist with a fair market value of approximately $300,000, which is approximately 43% of the CEO s base salary (the maximum allowable grant was 47.5%). The Committee determined to make a restricted stock grant to each of the COO and CFO that would be approximately 19% of their respective base salaries (the maximum allowable grants were 38%). The awards for Messrs. Jones and Fox approximated 15% and 19% of their respective base salaries (the maximum allowable grants were 19%).

Each of these awards vests in equal annual installments on the first, second and third anniversaries of the date of grant, conditioned on the executive s continued employment with the Company on the applicable vesting date. The Committee believes that this vesting schedule serves to motivate and retain the recipients, providing continuing benefits to the Company beyond those achieved in the year of grant. Each of the awards granted to Messrs. Engquist and Barber, Ms. Magee and Mr. Jones will also vest in full upon a change in control of the Company, as described in more detail below in the section entitled Potential Payments Upon Termination or Change in Control. Under the terms of these awards, in the event that an NEO s employment with the Company is terminated for any reason, such NEO will forfeit all of his or her unvested shares of restricted stock. In addition, in the event that an NEO s employment with the Company is terminated for cause, such NEO will forfeit all of his or her vested and unvested shares of restricted stock.

The Company has no formal program, plan or practice to time option grants to its executives in coordination with the release of material non-public information.

Stock Ownership/Retention Guidelines. The Company does not require its NEOs to maintain a minimum ownership interest in the Company.

Other Compensation and Perquisite Benefits

In addition to the principal categories of compensation described above, the NEOs are eligible to participate in the Company s broad-based health and welfare benefit plans on the same terms and conditions as are available to all employees generally, including medical, dental, disability and life insurance. The Company also sponsors a 401(k) plan. The 401(k) plan is a tax-qualified retirement savings plan pursuant to which all employees, including the NEOs, are able to contribute to the 401(k) plan up to the limit prescribed by the Internal Revenue Code of 1986, as amended (the Code), on a before-tax basis. The Company makes a matching contribution of 50% of the first 4% of pay contributed by the employee to the 401(k) plan. Annual salary subject to the Company match is capped at a maximum amount prescribed by the IRS each year. All contributions made by a participant vest immediately and matching contributions made by the Company vest over the employee s first five years of eligible service, in annual increments of 25% beginning after the employee has completed two years of eligible service. These benefits are not tied to any individual or corporate performance objectives and are intended to be part of an overall competitive compensation program.

The NEOs are not generally entitled to benefits that are not otherwise available to all of our employees. In this regard it should be noted that the Company does not provide pension arrangements (other than the 401(k) Plan), post-retirement health coverage or similar benefits for its executives. However, the NEOs are entitled to long-term disability benefits, annual automobile allowances and other automobile allowances, such as fuel costs, which are noted in the All Other Compensation column in the Summary Compensation Table shown on page 29 below. Mr. Engquist does not receive any automobile allowances. Instead, Mr. Engquist is given use of an automobile which the Company purchased in 2010. The Company also provides Mr. Engquist with certain automobile benefits, such as fuel and maintenance costs, in connection with his use of this automobile. The Company also pays club membership dues for Messrs. Engquist and Fox. The Company and the Committee believe that the benefits described above are consistent with the goal of attracting and retaining superior executive talent. No executive is entitled to be grossed up by the Company in connection with taxes incurred by the executive in connection with the receipt of these perquisites.

Tax and Accounting Implications

Deductibility of Certain Compensation

Section 162(m) of the Code limits the deductions that may be claimed by a public company for compensation paid to certain individuals to $1,000,000 except to the extent that any excess compensation is performance-based compensation. None of the compensation paid to the NEOs for 2010 was considered performance-based under Section 162(m) and therefore, all such compensation is subject to the $1,000,000 limit. The Committee intends to maintain flexibility to pay compensation that is not entirely deductible when the best interests of the Company make that advisable. In approving the amount and form of compensation for the NEOs, the Committee will continue to

consider all elements of the cost to the Company of providing such compensation, including the potential impact of Section 162(m).

Section 409A

Section 409A of the Code imposes a penalty tax on nonqualified deferred compensation that fails to satisfy the requirements of the statute with respect to the timing of deferral elections, timing of payments and certain other matters. Accordingly, as a general matter, the Company attempts to structure its compensation and benefit plans and arrangements for all of its employees, including the NEOs, so that they are either exempt from, or satisfy the requirements of, Section 409A. No executive is entitled to be grossed up by the Company for any penalty tax imposed on the executive by Section 409A as a result of any compensation that is not exempt from and does not satisfy the requirements of Section 409A.

Section 280G

Section 280G of the Code imposes certain penalties on excess parachute payments made to certain executives and high-level employees in connection with a change in control. Stock options or restricted stock awards that are accelerated upon the occurrence of a change in control of the Company may give rise, in whole or in part, to excess parachute payments within the meaning of Section 280G. The Company is not permitted to take a deduction for any excess parachute payments and Section 4999 of the Code imposes a 20% excise tax on the recipients of such payments. As described in more detail below in the section entitled Potential Payments Upon Termination or Change in Control, awards under the Incentive Plan to Messrs. Engquist, Barber and Jones and Ms. Magee will vest upon a change in control of the Company and, therefore, may give rise, in whole or in part, to an excess parachute payment. No executive is entitled to be grossed up by the Company for any excise tax incurred by the executive as a result of an excess parachute payment.

Accounting Implications

The Committee considers the potential accounting impact in connection with equity compensation matters; however, these considerations do not significantly affect decisions on grants of equity compensation.

COMPENSATION RISK ASSESSMENT

The Committee has determined that there are no risks arising from the Company s compensation policies and practices for its employees that are reasonably likely to have a material adverse effect on its business or operations.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the Company s executives serve as a member of the board of directors or compensation committee of an entity that has an executive officer serving as a member of the Company s Compensation Committee. Messrs. Arnold and Karlson currently serve on the Compensation Committee. No member of the Compensation Committee is a former or current executive officer or employee of the Company or any of its subsidiaries.

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SUMMARY COMPENSATION TABLE

The table below summarizes the total compensation paid or earned by each of our NEOs for the fiscal years ended December 31, 2010, 2009 and 2008.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Changes in Pension Value and Nonqualified Deferred Compensation Earnings ($)(4)	All Other Compensation ($)(5)	Total ($)
John M. Engquist	2010	700,000	70,000	300,004		24,367	1,094,371
Chief Executive Officer,	2009	696,154		299,999		21,633	1,017,786
President and Director	2008	600,000	387,759	99,754	1,197	22,890	1,111,600
Leslie S. Magee	2010	325,000	32,500	61,746		16,825	436,071
Chief Financial Officer	2009	322,115		61,751		16,990	400,856
and Secretary	2008	248,462	146,853	47,503	426	18,513	461,757
Bradley W. Barber	2010	375,000	37,500	71,248		19,422	503,170
Executive Vice	2009	372,115		71,251		18,087	461,453
President and General Mgr.	2008	318,138	176,223	56,999	508	20,853	572,721
John D. Jones	2010	200,000		29,998		16,361	246,359
Vice President	2009	200,000		30,002		16,148	246,150
Product Support	2008	200,000	75,000	30,000	153	16,510	321,663
William W. Fox	2010	175,000		33,253		21,486	229,739
Vice President	2009	181,861		17,503		20,427	219,791
Cranes and Earthmoving	2008	234,465	75,000			23,042	332,507

(1) Amounts represent base salaries for the NEOs. The amount reported for Mr. Barber for 2008 also includes $20,445 of additional paid compensation pursuant to the Company s paid time off policy. During the periods presented, an employee could request, with certain restrictions, payment of paid time off hours earned in lieu of actually taking the hours off.

(2) The 2010 bonus amounts for Mr. Engquist, Ms. Magee and Mr. Barber were paid in cash during the first quarter of 2011. No portion of the 2010 bonus amounts were deferred.

The payout structure of the 2008 bonus amounts for Mr. Engquist, Ms. Magee, and Mr. Barber is as follows: (a) approximately 69% was paid in cash during the first quarter of 2009; and (b) the remaining 31% was deferred. The deferred portion is to be paid annually over two years in equal 50% installments beginning in 2010. The deferred portion of the bonus earns interest at the Prime interest rate in effect at January 1 of the current year and interest earned is paid at the time of the respective payments of the deferred amounts. The first 50% installment,

together with accrued interest on the deferred amount, was paid in cash in the first quarter of 2010 and the second 50% installment, together with accrued interest on the deferred amount, was paid in cash in the first quarter of 2011. Mr. Jones and Mr. Fox s bonus amounts were paid 100% in cash during the first quarter of 2009.

The Prime interest rate in effect at January 1,2009, 2010 and 2011 was 3.25%.

(3) Amounts shown represent the grant date fair value of restricted common stock granted in fiscal years 2010, 2009 and 2008 under the Company s 2006 Stock-Based Incentive Compensation Plan. Pursuant to SEC rules adopted in late 2009, the amounts in the Stock Awards column for 2008 has been revised from the Company s prior proxy statement to reflect the aggregate grant date fair value computed in accordance with Accounting Standards Codification Topic 718 (ASC 718) (formerly Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*). The Total column has been updated accordingly. No column is presented above for Option Awards as no options were granted to the NEOs during the periods presented.

(4) The amounts reported for each of the NEOs represent the earnings on non-qualified deferred compensation in excess of approximately 5.35%, 120% of the applicable federal long-term rate, based on annual compounding. With respect to bonus amounts deferred for fiscal year 2007, each NEO earned interest at the rate of 7.25% and 3.25% in 2008 and 2009, respectively. With respect to bonus amounts deferred for fiscal year 2008, each NEO earned interest at the rate of 3.25% in 2009 and 2010.

(5) The amounts reported for each of the NEO in All Other Compensation are shown below:

Name	Year	Perquisites and Other Personal Benefits ($)(a)	Insurance Premiums ($)(b)	Company Contributions to 401(k) Plan ($)	Total ($)
John M. Engquist	2010	21,347	693	2,327	24,367
	2009	18,711	693	2,229	21,633
	2008	19,968	693	2,229	22,890
Leslie S. Magee	2010	12,385	693	3,747	16,825
	2009	11,797	693	4,500	16,990
	2008	12,284	693	5,536	18,513
Bradley W. Barber	2010	14,229	693	4,500	19,422
	2009	12,894	693	4,500	18,087
	2008	15,537	693	4,623	20,853
John D. Jones	2010	11,168	693	4,500	16,361
	2009	10,955	693	4,500	16,148
	2008	11,869	693	3,948	16,510
William W. Fox	2010	17,132	674	3,680	21,486
	2009	15,253	674	4,500	20,427
	2008	18,893	693	3,456	23,042

(a) Amounts shown in this column include the following for each NEO:

Name	Year	Company Provided Automobile ($)(c)	Automobile Allowance ($)	Other Automobile Benefits ($)	Club Dues ($)	Total Perquisites and Other Personal Benefits ($)
John M. Engquist	2010	8,610		4,237	8,499	21,347
	2009	8,600		3,003	7,108	18,711
	2008	8,600		3,812	7,556	19,968
Leslie S. Magee	2010		9,000	3,385		12,385
	2009		9,000	2,797		11,797
	2008		9,000	3,284		12,284
Bradley W. Barber	2010		9,000	5,229		14,229
	2009		9,000	3,894		12,894
	2008		9,000	6,537		15,537
John D. Jones	2010		9,000	2,168		11,168
	2009		9,000	1,955		10,955
	2008		9,000	2,869		11,869

William W. Fox 2010 9,000$
240,432

$
72,549

$
312,981

Accumulated purchase price adjustments
(6,162
)

—

(6,162
)
Accumulated impairment losses
(130,170
)

(65,160
)

(195,330
)

104,100

7,389

111,489

Net adjustments

Goodwill
(4,643
)

—

(4,643
)
Accumulated impairment losses
4,643

—

4,643

—

—

—

Balance — September 30, 2010

Goodwill
235,789

72,549

308,338

Accumulated purchase price adjustments
(6,162
)

—

(6,162
)
Accumulated impairment losses
(125,527
)

(65,160
)

(190,687
)

$
104,100

$
7,389

$
111,489

As fully described in Note 3, on September 1, 2010, the Company sold certain assets related to its nail polish remover brand previously included in its Personal Care segment to an unrelated third party. In connection with this divestiture, the Company reversed the gross goodwill asset balance of $4.6 million, which was fully impaired as of March 31, 2010, and the related accumulated impairment charges of $4.6 million, which had been recorded for the nail polish remover brand. As described in Note 19, the Company's operating and reportable segments now consist of Over-the-Counter Healthcare and Household Cleaning, and any assets remaining in the Personal Care segment after the divestiture have been reclassified to the Over-the-Counter Healthcare segment. As such, the reversal of goodwill for Personal Care is included in the Over-the-Counter Healthcare in the table above.

At March 31, 2010, in conjunction with the annual test for goodwill impairment, the Company recorded an impairment charge aggregating $2.8 million to adjust the carrying amounts of goodwill related to its nail polish remover brand to its fair value of $0, as determined by use of a discounted cash flow methodology. The impairment was a result of distribution losses and increased competition from private label store brands.

The discounted cash flow methodology is a widely-accepted valuation technique utilized by market participants in the transaction evaluation process and has been applied consistently. However, the Company considered its market capitalization at March 31, 2010, as compared to the aggregate fair values of the Company's reporting units to assess the reasonableness of our estimates pursuant to the discounted cash flow methodology. Although the impairment charges represent management’s best estimate, the estimates and assumptions made in assessing the fair value of the Company’s 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 additional impairments in the future.

8. Intangible Assets

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

	Indefinite Lived Trademarks	Finite Lived Trademarks	Non Compete Agreement	Totals
Carrying Amounts				
Balance — March 31, 2010	$454,571	$142,994	$158	$597,723
Additions	—	—	—	—
Balance — September 30, 2010	$454,571	$142,994	$158	$597,723
Accumulated Amortization				
Balance — March 31, 2010	$—	$43,206	$158	$43,364
Additions	—	4,504	—	4,504
Balance — September 30, 2010	$—	$47,710	$158	$47,868
Intangibles, net — September 30, 2010	$454,571	$95,284	$—	$549,855

The table above represents intangible assets related to continuing operations. As fully described in Note 3, on September 1, 2010, the Company sold certain assets related to its nail polish remover brand previously included in its Personal Care segment to an unrelated third party. In connection with this divestiture, the Company excluded gross intangible assets of $8.3 million and the related accumulated amortization of $3.4 million as of March 31, 2010 from the table above. The net intangible assets of $4.9 million as of March 31, 2010 are presented separately on the Consolidated Balance Sheets.

In a manner similar to goodwill, the Company completed a test for impairment of its intangible assets during the fourth quarter of 2010. The Company recorded no impairment charge as facts and circumstances indicated that the fair values of the intangible assets for such segments exceeded their carrying values. Additionally, for the indefinite-lived intangible assets, an evaluation of the facts and circumstances as of September 30, 2010 continues to support an indefinite useful life for these assets.

At September 30, 2010, intangible assets are expected to be amortized over a period of 3 to 30 years as follows (in thousands):

Year Ending September 30	
2011	$8,878
2012	8,466
2013	7,615
2014	6,256
2015	5,596
Thereafter	58,473
	$95,284

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9. Other Accrued Liabilities

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

	September 30, 2010	March 31, 2010
Accrued marketing costs	$4,900	$3,823
Accrued payroll	3,051	5,233
Accrued commissions	362	285
Accrued income taxes	—	372
Accrued professional fees	1,193	1,089
Accrued severance	404	929
Other	2	2
	$9,912	$11,733

10. Long-Term Debt

Long-term debt consists of the following (in thousands), as of the dates indicated:

	September 30, 2010	March 31, 2010
Senior secured term loan facility ("2010 Senior Term Loan") that bears interest at the Company's option at either the prime rate plus a margin of 2.25% or LIBOR plus 3.25% with a LIBOR floor of 1.5%. At September 30, 2010, the average interest rate on the 2010 Senior Term Loan was 4.75%. Principal payments of $375,000 plus accrued interest are payable quarterly, with the remaining principal due on the 2010 Senior Term Loan maturity date. The 2010 Senior Term Loan matures on March 24, 2016 and is collateralized by substantially all of the Company's assets. The 2010 Senior Term Loan is unconditionally guaranteed by Prestige Brands Holdings, Inc. and its domestic wholly-owned subsidiaries, other than Prestige Brands, Inc., 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.	$145,500	$150,000
Senior unsecured notes ("2010 Senior Notes") that bear interest at 8.25% which are payable on April 1st and October 1st of each year. The 2010 Senior Notes mature on April 1, 2018; however, the Company may earlier redeem some or all of the 2010 Senior Notes at redemption prices set forth in the indenture governing the 2010 Senior Notes. The 2010 Senior Notes are unconditionally guaranteed by Prestige Brands Holdings, Inc. and its domestic wholly-owned subsidiaries other than Prestige Brands, Inc., the issuer. Each of these guarantees is joint and several. There are no significant restrictions on the ability of any of the guarantors to obtain funds from their subsidiaries.	150,000	150,000

Senior subordinated notes (“Senior Subordinated Notes”) that bore interest of 9.25% which was payable on April 15th and October 15th of each year. The balance outstanding on the Senior Subordinated Notes as of March 31, 2010 was repaid in full, on April 15, 2010. The Senior Subordinated Notes were unconditionally guaranteed by Prestige Brands Holdings, Inc., and its domestic wholly-owned subsidiaries other than Prestige Brands, Inc., the issuer.	—	28,087
	295,500	328,087
Current portion of long-term debt	(1,500)	(29,587)
	$294,000	$298,500
Less: unamortized discount on the 2010 Senior Term Loan and the 2010 Senior Notes	(3,658)	(3,943)
Long-term debt, net of unamortized discount	$290,342	$294,557

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On March 24, 2010, Prestige Brands, Inc. issued the 2010 Senior Notes for $150.0 million, with an interest rate of 8.25% and a maturity date of April 1, 2018; and entered into a senior secured term loan facility for $150.0 million, with an interest rate at LIBOR plus 3.25% with a LIBOR floor of 1.5% and a maturity date of March 24, 2016; and entered into a non-amortizing senior secured revolving credit facility ("2010 Revolving Credit Facility") in an aggregate principal amount of up to $30.0 million. The Company's 2010 Revolving Credit Facility was available for maximum borrowings of $30.0 million at September 30, 2010.

The $150.0 million 2010 Senior Term Loan was entered into with a discount to lenders of $1.8 million and net proceeds to the Company of $148.2 million, yielding a 5.0% effective interest rate. The 2010 Senior Notes were issued at an aggregate face value of $150.0 million with a discount to the initial purchasers of $2.2 million and net proceeds to the Company of $147.8 million, yielding an 8.5% effective interest rate.

In connection with entering into the 2010 Senior Term Loan, the 2010 Revolving Credit Facility and the 2010 Senior Notes, the Company incurred $7.3 million in issuance costs, of which $6.6 million was capitalized as deferred financing costs and $0.7 million expensed. The deferred financing costs are being amortized over the terms of the related loan and notes.

In connection with the acquisition of Blacksmith, as discussed in Note 2, subsequent to September 30, 2010, the Company amended its existing debt agreements and increased the amount borrowed and the amount available thereunder as follows.

On October 22, 2010, Prestige Brands, Inc. (the "Issuer" or "Borrower") issued senior notes in an aggregate principal amount of $100.0 million (the "New 2010 Senior Notes"). The New 2010 Senior Notes have the same terms and are part of the same series as the 2010 Senior Notes, and will mature on April 1, 2018. Delivery of, and payment for, the New 2010 Senior Notes occurred on November 1, 2010.

On November 1, 2010, the Company, together with the Borrower and certain other subsidiaries of the Company, executed an Increase Joinder to the Company's Credit Agreement dated March 24, 2010 pursuant to which the Borrower borrowed an incremental term loan in the amount of $115.0 million. The incremental term loan will mature on March 24, 2016 and otherwise has the same terms as the 2010 Senior Term Loan.

On November 1, 2010, pursuant to the Increase Joinder, the amount of the Borrower's 2010 Revolving Credit Facility was increased by $10.0 million and the Borrower had borrowing capacity under the revolving credit facility in an aggregate principal amount of up to $40.0 million. Except for the increase in the amount of the revolving credit facility, no other changes were made to the 2010 Revolving Credit Facility.

In March and April 2010, the Company retired its Tranche B Term Loan facility with an original maturity date of April 6, 2011 and Senior Subordinated Notes that bore interest at 9.25% with a maturity date of April 15, 2012. The Company recognized a $0.3 million loss on the extinguishment of debt for the six months ended September 30, 2010.

The 2010 Senior Notes and the New 2010 Senior Notes are senior unsecured obligations of the Company and are guaranteed on a senior unsecured basis. The 2010 Senior Notes and the New 2010 Senior Notes are effectively junior in right of payment to all existing and future secured obligations of the Company, equal in right of payment with all existing and future senior unsecured indebtedness of the Company, and senior in right of payment to all future subordinated debt of the Company.

At any time prior to April 1, 2014, the Company may redeem the 2010 Senior Notes and the New 2010 Senior Notes in whole or in part at a redemption price equal to 100% of the principal amount of the notes redeemed, plus a "make-whole premium" calculated as set forth in the Indenture, together with accrued and unpaid interest, if any, to the date of redemption. The Company may redeem the 2010 Senior Notes and the New 2010 Senior Notes in whole or in part at any time on or after the 12-month period beginning April 1, 2014 at a redemption price of 104.125% of the principal amount thereof, at a redemption price of 102.063% of the principal amount thereof if the redemption occurs during the 12-month period beginning on April 1, 2015, and at a redemption price of 100% of the principal amount

thereof if the redemption occurs on and after April 1, 2016, in each case, plus accrued and unpaid interest, if any, to the redemption date. In addition, prior to April 1, 2013, with the net cash proceeds from certain equity offerings, the Company may redeem up to 35% in aggregate principal amount of the 2010 Senior Notes and the New 2010 Senior Notes at a redemption price of 108.250% of the principal amount of the 2010 Senior Notes and the New 2010 Senior Notes to be redeemed, plus accrued and unpaid interest to the redemption date.

The Company's Credit Agreement contains various financial covenants, including provisions that require the Company to maintain certain leverage and interest coverage ratios and not to exceed annual capital expenditures of $3.0 million. The Credit Agreement, together with the Indenture governing the 2010 Senior Notes and the New 2010 Senior Notes also contain provisions that restrict the Company from undertaking specified corporate actions, such as asset dispositions, acquisitions,

dividend payments, repurchases of common shares outstanding, changes of control, incurrences of indebtedness, creation of liens, making of loans and transactions with affiliates. Additionally, the Credit Agreement and the Indenture 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, the Indenture and the Indenture governing the Senior Subordinated Notes. At September 30, 2010, the Company was in compliance with the applicable financial covenants under its long-term indebtedness.

Future principal payments required in accordance with the terms of the Credit Agreement and the Indenture are as follows (in thousands):

Year Ending September 30	
2011	$1,500
2012	1,500
2013	1,500
2014	1,500
2015	1,500
Thereafter	288,000
	$295,500

11. Fair Value Measurements

As deemed appropriate, the Company uses derivative financial instruments to mitigate the impact of changing interest rates associated with its long-term debt obligations. At September 30, 2010, the Company had no open financial derivative financial obligations. While the Company has not historically entered into derivative financial instruments for trading purposes, all of the Company's derivatives were over-the-counter instruments with liquid markets. The notional, or contractual, amount of the Company's derivative financial instruments was used to measure the amount of interest to be paid or received and did not represent an actual liability. The Company accounted for the interest rate cap and swap agreements as cash flow hedges.

The Company entered into an interest rate swap agreement, effective March 26, 2008, in the notional amount of $175.0 million, decreasing to $125.0 million at March 26, 2009 to replace and supplement the interest rate cap agreement that expired on May 30, 2008. The Company agreed to pay a fixed rate of 2.88% while receiving a variable rate based on LIBOR. The agreement terminated on March 26, 2010, and was neither renewed nor replaced.

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

Based upon the above, the following fair value hierarchy was created:

Level 1 — Quoted market prices for identical instruments in active markets,

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

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

A summary of the fair value of the Company's derivative instruments, their impact on the consolidated statements of operations and comprehensive income and the amounts reclassified from other comprehensive income is as follows (in thousands):

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Cash Flow Hedging Instruments	September 30, 2010			For the Three Months Ended September 30, 2010		
	Balance Sheet Location	Notional Amount	Fair Value Asset/ (Liability)	Income Statement Account Gains/ Losses Charged	Amount Income (Expense) Recognized In Income	Amount Gains (Losses) Recognized In OCI
Interest Rate Swap	n/a	$—	$—	n/a	$—	$—

Cash Flow Hedging Instruments	September 30, 2010			For the Six Months Ended September 30, 2010		
	Balance Sheet Location	Notional Amount	Fair Value Asset/ (Liability)	Income Statement Account Gains/ Losses Charged	Amount Income (Expense) Recognized In Income	Amount Gains (Losses) Recognized In OCI
Interest Rate Swap	n/a	$—	$—	n/a	$—	$—

Cash Flow Hedging Instruments	September 30, 2009			For the Three Months Ended September 30, 2009		
	Balance Sheet Location	Notional Amount	Fair Value Asset/ (Liability)	Income Statement Account Gains/ Losses Charged	Amount Income (Expense) Recognized In Income	Amount Gains (Losses) Recognized In OCI
Interest Rate Swap	Other Accrued Liabilities	$125,000	$(1,572)	Interest Expense	$(729)	$444

Cash Flow Hedging Instruments	September 30, 2009			For the Six Months Ended September 30, 2009		
	Balance Sheet Location	Notional Amount	Fair Value Asset/ (Liability)	Income Statement Account Gains/ Losses Charged	Amount Income (Expense) Recognized In Income	Amount Gains (Losses) Recognized In OCI
Interest Rate Swap	Other Accrued Liabilities	$125,000	$(1,572)	Interest Expense	$(1,260)	$580

The determination of fair value is based on closing prices for similar instruments traded in liquid over-the-counter markets. The changes in the fair value of this interest rate swap were recorded in Accumulated Other Comprehensive Income in the balance sheet due to its designation as a cash flow hedge. As the interest swap agreement terminated on March 26, 2010, the ending balance in Accumulated Other Comprehensive Income on the Consolidated Balance Sheet as of March 31, 2010 is $0.

At September 30, 2010 and March 31, 2010, the Company was not a party to any outstanding interest rate swap agreements.

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.

At September 30, 2010 and March 31, 2010, the carrying value of the 2010 Senior Term Loan was $145.5 million and $150.0 million, respectively. The terms of the facility provide that the interest rate is adjusted, at the Company's option, on either a

monthly or quarterly basis, to the prime rate plus a margin of 2.25% or LIBOR, with a floor of 1.50%, plus a margin of 3.25%. The market value of the Company's 2010 Senior Term Loan was approximately $145.7 million and $150.8 million at September 30, 2010 and March 31, 2010, respectively.

At September 30, 2010 and March 31, 2010, the carrying value of the Company's 2010 Senior Notes was $150.0 million. The market value of these notes was approximately $155.3 million and $152.3 million at September 30, 2010 and March 31, 2010, respectively. The market values have been determined from market transactions in the Company's debt securities. Also at March 31, 2010, the Company maintained a residual balance of $28.1 million relating to the Senior Subordinated Notes, all of which was redeemed on April 15, 2010 at par value.

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 stock outstanding having priority rights as to dividends. No dividends have been declared or paid on the Company's common stock through September 30, 2010.

There were no share repurchases during the year ended March 31, 2010. During the three and six month periods ended September 30, 2010, the Company received 7,000 shares of common stock from employees in satisfaction of applicable withholding taxes payable upon vesting of restricted common stock on May 25, 2010. The average price of the shares used to satisfy these withholding obligations was $7.51 per share. All of such shares have been recorded as treasury stock.

13. Comprehensive Income

The following table describes the components of comprehensive income for the three and six month periods ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30	
	2010	2009
Components of Comprehensive Income		
Net income	$11,022	$9,923
Unrealized gain on interest rate swaps, net of income tax of $168 (2009)	—	276
Comprehensive Income	$11,022	$10,199

	Six Months Ended September 30	
	2010	2009
Components of Comprehensive Income		
Net income	$20,628	$18,248

Unrealized gain on interest rate swaps, net of income tax of $220 (2009)	—	360
Comprehensive Income	$20,628	$18,608

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14. Earnings Per Share

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

	Three Months Ended September 30		Six Months Ended September 30	
	2010	2009	2010	2009
Numerator				
Income from continuing operations	$11,410	$8,875	$20,618	$16,203
Income from discontinued operations and loss on sale of discontinued operations	(388)	1,048	10	2,045
Net income	$11,022	$9,923	$20,628	$18,248
Denominator				
Denominator for basic earnings per share — weighted average shares	50,053	50,012	50,045	49,997
Dilutive effect of unvested restricted common stock (including restricted stock units) and options issued to employees and directors	88	43	78	83
Denominator for diluted earnings per share	50,141	50,055	50,123	50,080
Earnings per Common Share:				
Basic earnings per share from continuing operations	$0.23	$0.18	$0.41	$0.32
Basic earnings per share from discontinued operations	(0.01)	0.02	—	0.04
Basic net earnings per share	$0.22	$0.20	$0.41	$0.36
Diluted earnings per share from continuing operations	$0.23	$0.18	$0.41	$0.32
Diluted earnings per share from discontinued operations	(0.01)	0.02	—	0.04
Diluted net earnings per share	$0.22	$0.20	$0.41	$0.36

At September 30, 2010, 280,492 shares of restricted stock granted to employees and directors, including restricted stock units, subject only to time vesting, were unvested and excluded from the calculation of basic earnings per share; however, such shares were included in the calculation of diluted earnings per share. Additionally, 73,266 shares of restricted stock granted to employees have been excluded from the calculation of both basic and diluted earnings per share because vesting of such shares is subject to contingencies that were not met as of September 30, 2010. Lastly, at September 30, 2010, there were options to purchase 1,508,592 shares of common stock outstanding that were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common stock over the three month period ended September 30, 2010, and therefore, their inclusion would be antidilutive.

At September 30, 2009, 209,952 shares of restricted stock granted to employees and directors, subject only to time-vesting, were unvested and excluded from the calculation of basic earnings per share; however, such shares were included in the calculation of diluted earnings per share. Additionally, 101,802 shares of restricted stock granted to employees have been excluded from the calculation of both basic and diluted earnings per share because vesting of such shares is subject to contingencies that were not met as of September 30, 2009. Lastly, at September 30, 2009, there were options to purchase 1,391,172 shares of common stock outstanding that were not included in the

computation of diluted earnings because their exercise price was greater than the average market price of the common stock over the three month period ended September 30, 2009, and therefore, their inclusion would be antidilutive.

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15. Share-Based Compensation

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

During the six month period ended September 30, 2010, net compensation costs charged against income and the related income tax benefit recognized were $1.7 million and $666,000, respectively. During the six month period ended September 30, 2009, net compensation costs charged against income and the related income tax benefit recognized were $848,000 and $321,000, respectively.

Restricted Shares
Restricted shares granted to employees under the Plan generally vest in 3 to 5 years, contingent on attainment by the Company of revenue and earnings before income taxes, depreciation and amortization growth targets, or the attainment of certain time vesting thresholds. The restricted share awards provide for accelerated vesting if there is a change of control, as defined in the the Plan or agreement pursuant to which the awards were made. The fair value of nonvested restricted shares is determined as the closing price of the Company's common stock on the day preceding the grant date. The weighted-average fair value of restricted shares granted during the six month periods ended September 30, 2010 and 2009 were $8.85 and $7.16, respectively.

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

Restricted Shares	Shares (in thousands)	Weighted-Average Grant-Date Fair Value
Nonvested at March 31, 2010	287.1	$8.86
Granted	130.2	8.85
Vested	(48.5)	9.23
Forfeited	(15.0)	10.45
Nonvested at September 30, 2010	353.8	8.74
Nonvested at March 31, 2009	342.4	11.31
Granted	171.6	7.16
Vested	(47.8)	10.97
Forfeited	(152.2)	11.54
Nonvested at September 30, 2009	314.0	8.94

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

to 5 years. The option awards provide for accelerated vesting if there is a change in control.

The fair value of each option award is estimated on the date of grant using the Black-Scholes Option Pricing Model that uses the assumptions noted in the following table. Expected volatilities are based on the historical volatility of the Company's common stock and other factors, including the historical volatilities of comparable companies. The Company uses appropriate historical, 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 management's estimates and consideration of information derived from the public filings of companies similar to the Company and represent the period of time that options granted are expected to be outstanding. The risk-free rate represents the yield on U.S. Treasury bonds with a maturity equal to the expected term of the

granted option. The weighted-average grant-date fair value of the options granted during the six month periods ended September 30, 2010 and 2009 were $4.81 and $3.64, respectively.

	Six Months Ended September 30	
	2010	2009
Expected volatility	52.7 %	45.6 %
Expected dividends	$—	$—
Expected term in years	6.5	7.0
Risk-free rate	3.4 %	2.8 %

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

Options	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Outstanding at March 31, 2009	662.6	$11.65	8.8	$—
Granted	1,125.0	7.16	10.0	—
Exercised	—	—	—	—
Forfeited or expired	(142.6)	11.26	1.5	—
Outstanding at September 30, 2009	1,645.0	8.61	9.4	—
Outstanding at March 31, 2010	1,584.2	8.50	8.9	—
Granted	362.1	9.03	9.5	311.4
Exercised	—	—	—	—
Forfeited or expired	(26.8)	10.44	7.1	—
Outstanding at September 30, 2010	1,919.5	8.57	8.6	2,533.7
Exercisable at September 30, 2010	616.4	10.18	7.8	—

Since the Company's closing stock price of $9.89 at September 30, 2010 exceeded the weighted-average exercise price of the outstanding options, the aggregate intrinsic value of the outstanding options was $2.5 million at September 30, 2010. Since the weighted-average exercise price of the outstanding options exceeded the Company's closing stock price of $7.04 at September 30, 2009, the aggregate intrinsic value of outstanding options was $0 at September 30, 2009.

At September 30, 2010, there were $4.8 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. The Company expects to recognize such costs over a weighted average period of 3.2 years. However, certain of the restricted shares vest upon the attainment of Company performance goals and if such goals are not met, no compensation costs would ultimately be recognized and any previously recognized compensation cost would be reversed. The total fair value of shares vested during the six months ended September 30, 2010 and 2009 was $448,000 and $525,000, respectively. There were no options exercised during either of the six month periods ended September 30, 2010 and 2009; hence, there were no tax benefits realized during these periods. At September 30, 2010, there were 2.6 million shares available for issuance under the Plan.

16. Income Taxes

Income taxes are recorded in the Company's quarterly financial statements based on the Company's 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 38.2% and 37.9%, respectively, for the three and six month periods ended September 30, 2010 and 2009.

At September 30, 2010, Medtech Products Inc., a wholly-owned subsidiary of the Company, had a net operating loss

carryforward of approximately $1.9 million which may be used to offset future taxable income of the consolidated group and which begins to expire in 2020. The net operating loss carryforward is subject to an annual limitation as to usage pursuant to Internal Revenue Code Section 382 of approximately $240,000.

Uncertain tax liability activity is as follows:

	2010	2009
(In thousands)		
Balance — March 31	$315	$225
Adjustments based on tax positions related to the current year	—	—
Balance — September 30	$315	$225

The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. The Company does not anticipate any significant events or circumstances that would cause a change to these uncertainties during the ensuing year. For the three and six months ended September 30, 2010 and 2009, the Company did not incur or recognize any material interest or penalties related to income taxes.

17. Commitments and Contingencies

San Francisco Technology Inc. Litigation

On April 5, 2010, Medtech Products Inc. ("Medtech"), a wholly-owned subsidiary of the Company, was served with a Complaint filed by San Francisco Technology Inc. ("SFT") in the U.S. District Court for the Northern District of California, San Jose Division (the "California Court"). In the Complaint, SFT asserted a qui tam action against Medtech alleging false patent markings with the intent to deceive the public regarding Medtech's two Dermoplast® products. Medtech filed a Motion to Dismiss or Stay and a Motion to Sever and Transfer Venue to the U.S. District Court for the Southern District of New York (the "New York Court").

On July 19, 2010, the California Court issued an Order in which it severed the action as to each and every separate defendant (including Medtech). In addition, in the Order the California Court transferred the action against Medtech to the New York Court.

On October 25, 2010, Medtech filed with the New York Court a Motion to Dismiss, or in the Alternative, to Stay, the action brought by SFT which, on August 11, 2010, was transferred to the New York Court from the California Court. Medtech intends to vigorously defend against the action.

In addition to the matter described above, the Company is involved from time to time in other routine legal matters and other claims incidental to its business. The Company reviews outstanding claims and proceedings internally and with external counsel as necessary to assess probability and amount of potential loss. These assessments are re-evaluated at each reporting period and as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under 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). The Company believes the resolution of routine matters and other incidental claims, taking insurance into account, will not have a material adverse effect on its business, financial condition or results from operations.

Lease Commitments

The Company has operating leases for office facilities and equipment in New York and Wyoming, which expire at various dates through 2014.

The following summarizes future minimum lease payments for the Company's operating leases (in thousands) as of September 30, 2010:

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	Facilities	Equipment	Total
Year Ending September 30			
2011	$715	$81	$796
2012	610	54	664
2013	587	37	624
2014	348	—	348
Thereafter	—	—	—
	$2,260	$172	$2,432

Rent expense for the three months ended September 30, 2010 and 2009 was $201,000 and $158,000, respectively, while rent expense for the six months ended September 30, 2010 and 2009 was $406,000 and $348,000, respectively.

Purchase Commitments

The Company has entered into a 10 year supply agreement for the exclusive manufacture of a portion of one of its household cleaning brands. Although the Company is committed under the supply agreement to pay the minimum amounts set forth in the table below, the total commitment is less than 10 percent of the estimated purchases that are expected to be made during the course of the agreement.

(In thousands)	
Year Ending September 30	
2011	$10,687
2012	1,971
2013	1,151
2014	1,120
2015	1,090
Thereafter	4,131
	$20,150

18. Concentrations of Risk

The Company's sales are concentrated in the areas of over-the-counter healthcare and household cleaning products. The Company sells its products to mass merchandisers, food and drug accounts, and dollar and club stores. During the three and six month periods ended September 30, 2010, approximately 65.3% and 66.7%, respectively, of the Company's total sales were derived from its four major brands, while during the three and six month periods ended September 30, 2009 approximately 65.9% and 65.8%, respectively, of the Company's total sales were derived from its four major brands. During the three and six month periods ended September 30, 2010, approximately 21.5% and 22.5%, respectively, of the Company's sales were made to one customer, while during the three and six month periods ended September 30, 2009, approximately 24.6% and 25.3%, respectively, of sales were to this customer. At September 30, 2010, approximately 17.9% of accounts receivable were owed by the same customer.

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

reopen or replace its distribution center. As a result, any such disruption could have a material adverse effect on the Company's sales and profitability.

At September 30, 2010, the Company had relationships with over 37 third party manufacturers. Of those, the Company had long-term contracts with 18 manufacturers that produced items that accounted for approximately 58.9% of gross sales for the six months ended September 30, 2010. At September 30, 2009, the Company had relationships with over 38 third party manufacturers. Of those, the Company had long-term contracts with 19 manufacturers that produced items that accounted for

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approximately 58.9% of gross sales for the six months ended September 30, 2009. The fact that the Company does not have long term contracts with certain manufacturers means they could cease producing these products at any time and for any reason, or initiate arbitrary and costly price increases which could have a material adverse effect on the Company's business, financial condition and results from operations.

19. Business Segments

Segment information has been prepared in accordance with the Segment Topic of the FASB ASC. As fully described in Note 3, on September 1, 2010, the Company sold certain assets related to its nail polish remover brand previously included in its Personal Care segment to an unrelated third party. The sold assets comprised a substantial majority of the assets in the Personal Care segment. The remaining assets and revenue generated do not constitute a reportable segment under the Segment Reporting topic of the FASB ASC. The Company reclassified the remaining assets and results to the Over-the-Counter Healthcare segment for all periods presented. The Company's operating and reportable segments now consist of (i) Over-the-Counter Healthcare and (ii) Household Cleaning.

There were no inter-segment sales or transfers during any of the periods presented. The Company evaluates the performance of its operating segments and allocates resources to them based primarily on contribution margin.

The tables below summarize information about the Company's operating and reportable segments.

	For the Three Months Ended September 30, 2010		
	Over-the-Counter Healthcare	Household Cleaning	Consolidated
(In thousands)			
Net sales	$50,658	$26,830	$77,488
Other revenues	181	634	815
Total revenues	50,839	27,464	78,303
Cost of sales	17,798	17,915	35,713
Gross profit	33,041	9,549	42,590
Advertising and promotion	6,912	1,328	8,240
Contribution margin	$26,129	$8,221	34,350
Other operating expenses			10,514
Operating income			23,836
Other expense			5,373
Provision for income taxes			7,053
Income from continuing operations			11,410
Income from discontinued operations, net of income tax			162
Loss on sale of discontinued operations, net of income tax benefit			(550)
Net income			$11,022

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	For the Six Months Ended September 30, 2010		
	Over-the-Counter Healthcare	Household Cleaning	Consolidated
(In thousands)			
Net sales	$95,364	$52,645	$148,009
Other revenues	195	1,334	1,529
Total revenues	95,559	53,979	149,538
Cost of sales	33,649	35,328	68,977
Gross profit	61,910	18,651	80,561
Advertising and promotion	12,075	3,651	15,726
Contribution margin	$49,835	$15,000	64,835
Other operating expenses			20,337
Operating income			44,498
Other expense			11,135
Provision for income taxes			12,745
Income from continuing operations			20,618
Income from discontinued operations, net of income tax			560
Loss on sale of discontinued operations, net of income tax benefit			(550)
Net income			$20,628

	For the Three Months Ended September 30, 2009		
	Over-the-Counter Healthcare	Household Cleaning	Consolidated
(In thousands)			
Net sales	$51,706	$28,602	$80,308
Other revenues	10	411	421
Total revenues	51,716	29,013	80,729
Cost of sales	19,453	18,483	37,936
Gross profit	32,263	10,530	42,793
Advertising and promotion	7,390	2,285	9,675
Contribution margin	$24,873	$8,245	33,118
Other operating expenses			13,184
Operating income			19,934
Other expense			5,642
Provision for income taxes			5,417
Income from continuing operations			8,875

Income from discontinued operations, net of income tax	1,048
Net income	$9,923

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	For the Six Months Ended September 30, 2009		
	Over-the-Counter Healthcare	Household Cleaning	Consolidated
(In thousands)			
Net sales	$92,362	$55,443	$147,805
Other revenues	20	1,017	1,037
Total revenues	92,382	56,460	148,842
Cost of sales	33,242	36,284	69,526
Gross profit	59,140	20,176	79,316
Advertising and promotion	14,139	4,204	18,343
Contribution margin	$45,001	$15,972	60,973
Other operating expenses			23,586
Operating income			37,387
Other expense			11,295
Provision for income taxes			9,889
Income from continuing operations			16,203
Income from discontinued operations, net of income tax			2,045
Net income			$18,248

During the three and six month periods ended September 30, 2010, approximately 95.6% and 95.8%, respectively, of the Company's sales were made to customers in the United States and Canada, while during the three and six month periods ended September 30, 2009, approximately 94.7% and 95.7%, respectively, of sales were made to customers in the United States and Canada. Other than the United States, no individual geographical area accounted for more than 10% of net sales in any of the periods presented.

At September 30, 2010, substantially all of the Company's long-term assets were located in the United States and have been allocated to the operating segments as follows:

(In thousands)	Over-the-Counter Healthcare	Household Cleaning	Consolidated
Goodwill	$104,100	$7,389	$111,489
Intangible assets			
Indefinite-lived	334,750	119,821	454,571
Finite-lived	63,013	32,271	95,284
	397,763	152,092	549,855
	$501,863	$159,481	$661,344

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20. Condensed Consolidating Financial Statements

As described in Note 10, the Company, together with certain of its wholly-owned subsidiaries, have fully and unconditionally guaranteed, on a joint and several basis, the obligations of Prestige Brands, Inc. (a wholly-owned subsidiary of the Company) set forth in that certain Indenture dated March 24, 2010, including, without limitation, the obligation to pay principal and interest with respect to the 2010 Senior Notes . The wholly-owned subsidiaries of the Company which have guaranteed the 2010 Senior Notes are as follows: Prestige Personal Care Holdings, Inc., Prestige Personal Care, Inc., Prestige Services Corp., Prestige Brands Holdings, Inc. (a Virginia corporation), Prestige Brands International, Inc., Medtech Holdings, Inc., Medtech Products Inc., The Cutex Company, The Denorex Company and The Spic and Span Company (collectively, the "Subsidiary Guarantors"). A significant portion of the Company's operating income and cash flow is generated by its subsidiaries. As a result, funds necessary to meet Prestige Brands, Inc.'s debt service obligations are provided in part by distributions or advances from the Company's subsidiaries. Under certain circumstances, contractual and legal restrictions, as well as the financial condition and operating requirements of the Company's subsidiaries, could limit Prestige Brands, Inc.'s ability to obtain cash from the Company's subsidiaries for the purpose of meeting its debt service obligations, including the payment of principal and interest on the 2010 Senior Notes. Although holders of the 2010 Senior Notes will be direct creditors of the guarantors of the 2010 Senior Notes by virtue of the guarantees, the Company has indirect subsidiaries located primarily in the United Kingdom and in the Netherlands (collectively, the "Non-Guarantor Subsidiaries") that have not guaranteed the 2010 Senior Notes, and such subsidiaries will not be obligated with respect to the 2010 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 2010 Senior Notes.

Presented below are supplemental condensed consolidating balance sheets as of September 30, 2010 and March 31, 2010 and condensed consolidating statements of operations for the three and six month periods ended September 30, 2010 and 2009, and condensed consolidating statements of cash flows for the six month periods ended September 30, 2010 and 2009. Such consolidating information includes separate columns for:

a) Prestige Brands Holdings, Inc., the parent,
b) Prestige Brands, Inc., the issuer,
c) Combined Subsidiary Guarantors,
d) Combined Non-Guarantor Subsidiaries,
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 wholly-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 footnote should be read in conjunction with the consolidated financial statements presented and other notes related thereto.

Condensed Consolidating Statement of Operations
Three Months Ended September 30, 2010

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$—	$49,713	$26,830	$945	$—	$ 77,488
Other Revenue	—	181	634	513	(513)	815
Total Revenue	—	49,894	27,464	1,458	(513)	78,303
Cost of Sales						
Cost of Sales (exclusive of depreciation)	—	17,980	17,915	331	(513)	35,713
Gross Profit	—	31,914	9,549	1,127	—	42,590
Advertising and promotion	—	6,651	1,328	261	—	8,240
General and administrative	(25)	5,677	2,811	(362)	—	8,101
Depreciation and amortization	115	1,819	463	16	—	2,413
Total operating expenses	90	14,147	4,602	(85)	—	18,754
Operating income (loss)	(90)	17,767	4,947	1,212	—	23,836
Other (income) expense						
Interest income	(13,095)	(2,322)	—	(25)	15,442	—
Interest expense	—	17,254	3,561	—	(15,442)	5,373
Equity in income of subsidiaries	(3,026)	—	—	—	3,026	—
Total other (income) expense	(16,121)	14,932	3,561	(25)	3,026	5,373
Income (loss) from continuing operations before income taxes	16,031	2,835	1,386	1,237	(3,026)	18,463
Provision for income taxes	5,009	1,302	529	213	—	7,053
Income (loss) from continuing operations	11,022	1,533	857	1,024	(3,026)	11,410
Discontinued operations						
Income from discontinued operations, net of income tax	—	161	1	—	—	162
Loss on sale of discontinued operations, net of income tax benefit	—	(550)	—	—	—	(550)
Net income (loss)	$11,022	$1,144	$858	$1,024	$ (3,026)	$ 11,022

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Condensed Consolidating Statement of Operations
Three Months Ended September 30, 2009

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$—	$50,417	$28,601	$1,290	$—	$80,308
Other Revenue	—	9	412	491	(491)	421
Total Revenue	—	50,426	29,013	1,781	(491)	80,729
Cost of Sales						
Cost of Sales (exclusive of depreciation)	—	19,418	18,483	526	(491)	37,936
Gross Profit	—	31,008	10,530	1,255	—	42,793
Advertising and promotion	—	6,998	2,285	392	—	9,675
General and administrative	(86)	6,492	4,043	32	—	10,481
Depreciation and amortization	91	2,122	472	18	—	2,703
Total operating expenses	5	15,612	6,800	442	—	22,859
Operating income (loss)	(5)	15,396	3,730	813	—	19,934
Other (income) expense						
Interest income	(13,185)	(2,330)	—	(33)	15,548	—
Interest expense	—	17,604	3,586	—	(15,548)	5,642
Equity in income of subsidiaries	(1,742)	—	—	—	1,742	—
Total other (income) expense	(14,927)	15,274	3,586	(33)	1,742	5,642
Income (loss) from continuing operations before income taxes	14,922	122	144	846	(1,742)	14,292
Provision for income taxes	4,999	151	55	212	—	5,417
Income (loss) from continuing operations	9,923	(29)	89	634	(1,742)	8,875
Discontinued operations						
Income from discontinued operations, net of income tax	—	939	109	—	—	1,048
Net income (loss)	$9,923	$910	$198	$634	$(1,742)	$9,923

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Condensed Consolidating Statement of Operations
Six Months Ended September 30, 2010

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$—	$93,682	$52,645	$1,682	$—	$ 148,009
Other Revenue	—	195	1,334	990	(990)	1,529
Total Revenue	—	93,877	53,979	2,672	(990)	149,538
Cost of Sales						
Cost of Sales (exclusive of depreciation)	—	34,017	35,328	622	(990)	68,977
Gross Profit	—	59,860	18,651	2,050	—	80,561
Advertising and promotion	—	11,632	3,651	443	—	15,726
General and administrative	(151)	10,205	5,399	61	—	15,514
Depreciation and amortization	226	3,638	926	33	—	4,823
Total operating expenses	75	25,475	9,976	537	—	36,063
Operating income (loss)	(75)	34,385	8,675	1,513	—	44,498
Other (income) expense						
Interest income	(26,070)	(4,625)	—	(47)	30,742	—
Interest expense	—	34,487	7,090	—	(30,742)	10,835
Loss on extinguishment of debt	—	300	—	—	—	300
Equity in income of subsidiaries	(4,622)	—	—	—	4,622	—
Total other (income) expense	(30,692)	30,162	7,090	(47)	4,622	11,135
Income (loss) from continuing operations before income taxes	30,617	4,223	1,585	1,560	(4,622)	33,363
Provision for income taxes	9,989	1,771	605	380	—	12,745
Income (loss) from continuing operations	20,628	2,452	980	1,180	(4,622)	20,618
Discontinued operations						
Income (loss) from discontinued operations, net of income tax	—	563	(3)	—	—	560
Loss on sale of discontinued operations, net on income tax benefit	—	(550)	—	—	—	(550)
Net income (loss)	$20,628	$2,465	$977	$1,180	$(4,622)	$ 20,628

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Condensed Consolidating Statement of Operations
Six Months Ended September 30, 2009

(In thousands)	Prestige Brands Holdings, Inc.	Prestige Brands, Inc., the issuer	Combined Subsidiary Guarantors	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$—	$90,606	$55,443	$1,756	$—	$ 147,805
Other Revenue	—	20	1,017	798	(798)	1,037
Total Revenue	—	90,626	56,460	2,554	(798)	148,842
Cost of Sales						
Cost of Sales (exclusive of depreciation)	—	33,340	36,284	700	(798)	69,526
Gross Profit	—	57,286	20,176	1,854	—	79,316
Advertising and promotion	—	13,597	4,204	542	—	18,343
General and administrative	(247)	11,770	7,330	(178)	—	18,675
Depreciation and amortization	178	3,754	945	34	—	4,911
Total operating expenses (income)	(69)	29,121	12,479	398	—	41,929
Operating income	69	28,165	7,697	1,456	—	37,387
Other (income) expense						
Interest income	(26,249)	(4,645)	—	(60)	30,954	—
Interest expense	—	35,110	7,139	—	(30,954)	11,295
Equity in income of subsidiaries	(1,971)	—	—	—	1,971	—
Total other (income) expense	(28,220)	30,465	7,139	(60)	1,971	11,295
Income (loss) from continuing operations before income taxes	28,289	(2,300)	558	1,516	(1,971)	26,092
Provision (benefit) for income taxes	10,041	(668)	212	304	—	9,889
Income (loss) from continuing operations	18,248	(1,632)	346	1,212	(1,971)	16,203
Discontinued operations						
Income from discontinued operations, net of income tax	—	1,823	222	—	—	2,045
Net income (loss)	$18,248	$191	$568	$1,212	$(1,971)	$ 18,248

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Condensed Consolidating Balance Sheet
September 30, 2010

(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	$54,323	$—	$—	$709	$—	$ 55,032
Accounts receivable	1,013	20,369	9,911	963	—	32,256
Inventories	—	16,397	7,746	854	—	24,997
Deferred income tax assets	2,658	3,577	427	1	—	6,663
Prepaid expenses and other current assets	2,190	854	157	2	—	3,203
Current assets of discontinued operations	—	14	—	—	—	14
Total current assets	60,184	41,211	18,241	2,529	—	122,165
Property and equipment	847	118	224	18	—	1,207
Goodwill	—	104,099	7,390	—	—	111,489
Intangible assets	—	397,296	152,092	467	—	549,855
Other long-term assets	—	6,456	—	—	—	6,456
Intercompany receivable	716,220	736,784	92,165	4,944	(1,550,113)	—
Investment in subsidiary	456,119	—	—	—	(456,119)	—
Total Assets	$1,233,370	$1,285,964	$270,112	$7,958	$(2,006,232)	$ 791,172
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	$1,694	$6,701	$4,730	$855	$—	$ 13,980
Accrued interest payable	—	6,428	—	—	—	6,428
Other accrued liabilities	(1,129)	15,957	(5,152)	236	—	9,912
Current portion of long-term debt	—	1,500	—	—	—	1,500
Total current liabilities	565	30,586	(422)	1,091	—	31,820
Long-term debt						
Principal amount	—	294,000	—	—	—	294,000
Less unamortized discount	—	(3,658)	—	—	—	(3,658)
Long-term debt, net of unamortized discount	—	290,342	—	—	—	290,342
Deferred income tax liabilities	(5)	95,411	22,129	95	—	117,630
Intercompany payable	713,618	661,864	173,906	725	(1,550,113)	—
Intercompany equity in subsidiaries	167,812	—	—	—	(167,812)	—
Total Liabilities	881,990	1,078,203	195,613	1,911	(1,717,925)	439,792
Stockholders' Equity						

Common Stock	502	—	—	—	—	502
Additional paid-in capital	385,771	337,458	118,637	24	(456,119)	385,771
Treasury stock	(114)	—	—	—	—	(114)
Retained earnings (accumulated deficit)	(34,779)	(135,424)	(44,138)	11,750	167,812	(34,779)
Intercompany dividends	—	5,727	—	(5,727)	—	—
Total Stockholders' Equity	351,380	207,761	74,499	6,047	(288,307)	351,380
Total Liabilities and Stockholders' Equity	$1,233,370	$1,285,964	$270,112	$7,958	$(2,006,232)	$ 791,172

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Condensed Consolidating Balance Sheet
March 31, 2010

(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	$40,644	$—	$—	$453	$—	$ 41,097
Accounts receivable	1,054	18,865	10,025	677	—	30,621
Inventories	—	19,798	7,257	621	—	27,676
Deferred income tax assets	2,315	3,639	398	1	—	6,353
Prepaid expenses and other current assets	4,442	226	248	1	—	4,917
Current assets of discontinued operations	—	1,486	—	—	—	1,486
Total current assets	48,455	44,014	17,928	1,753	—	112,150
Property and equipment	841	236	297	22	—	1,396
Goodwill	—	104,099	7,390	—	—	111,489
Intangible assets	—	400,900	152,964	495	—	554,359
Other long-term assets	—	7,148	—	—	—	7,148
Long-term assets of discontinued operations	—	4,870	—	—	—	4,870
Intercompany receivable	712,224	729,069	90,251	3,989	(1,535,533)	—
Investment in subsidiary	456,119	—	—	—	(456,119)	—
Total Assets	$1,217,639	$1,290,336	$268,830	$6,259	$(1,991,652)	$ 791,412
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	$2,526	$5,837	$4,060	$348	$—	$ 12,771
Accrued interest payable	—	1,561	—	—	—	1,561
Other accrued liabilities	10,234	4,960	(3,476)	15	—	11,733
Current portion of long-term debt	—	29,587	—	—	—	29,587
Total current liabilities	12,760	41,945	584	363	—	55,652
Long-term debt						
Principal amount	—	298,500	—	—	—	298,500
Less unamortized discount	—	(3,943)	—	—	—	(3,943)
Long-term debt, net of unamortized discount	—	294,557	—	—	—	294,557
Deferred income tax liabilities	(4)	91,828	20,224	96	—	112,144
Intercompany payable	703,389	656,711	174,500	933	(1,535,533)	—
Intercompany equity in subsidiaries	172,435	—	—	—	(172,435)	—
Total Liabilities	888,580	1,085,041	195,308	1,392	(1,707,968)	462,353

Stockholders' Equity						
Common Stock	502	—	—	—	—	502
Additional paid-in capital	384,027	337,458	118,637	24	(456,119)	384,027
Treasury stock	(63)	—	—	—	—	(63)
Retained earnings (accumulated deficit)	(55,407)	(137,890)	(45,115)	10,570	172,435	(55,407)
Intercompany dividends	—	5,727	—	(5,727)	—	—
Total Stockholders' Equity	329,059	205,295	73,522	4,867	(283,684)	329,059
Total Liabilities and Stockholders' Equity	$1,217,639	$1,290,336	$268,830	$6,259	$(1,991,652)	$ 791,412

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Condensed Consolidating Statement of Cash Flows
Six Months Ended September 30, 2010

(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)	$20,628	$2,465	$977	$1,180	$(4,622)	$20,628
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization	226	3,867	926	33	—	5,052
Loss on sale of discontinued operations	—	890	—	—	—	890
Deferred income taxes	(345)	3,645	1,877	(1)	—	5,176
Amortization of deferred financing costs	—	504	—	—	—	504
Stock-based compensation costs	1,744	—	—	—	—	1,744
Loss on extinguishment of debt	—	300	—	—	—	300
Amortization of debt discount	—	285	—	—	—	285
Loss on disposal of equipment	—	105	20	—	—	125
Changes in operating assets and liabilities						
Accounts receivable	41	(1,504)	114	(286)	—	(1,635)
Inventories	—	3,401	(489)	(233)	—	2,679
Inventories held for sale	—	1,100	—	—	—	1,100
Prepaid expenses and other current assets	2,252	(628)	91	(1)	—	1,714
Accounts payable	(832)	864	670	507	—	1,209
Accrued liabilities	(4,178)	8,679	(1,676)	221	—	3,046
Net cash provided by (used for) operating activities	19,536	23,973	2,510	1,420	(4,622)	42,817
Investing Activities						
Purchases of equipment	(230)	(22)	—	(2)	—	(254)
Proceeds from sale of discontined operations	—	4,122	—	—	—	4,122
Net cash (used for) provided by investing activities	(230)	4,100	—	(2)	—	3,868
Financing Activities						
Payment of deferred financing costs	—	(112)	—	—	—	(112)
Repayment of long-term debt	—	(32,587)	—	—	—	(32,587)
Purchase of treasury stock	(51)	—	—	—	—	(51)
Intercompany activity, net	(5,576)	4,626	(2,510)	(1,162)	4,622	—
Net cash (used for) provided by financing activities	(5,627)	(28,073)	(2,510)	(1,162)	4,622	(32,750)

Increase in cash	13,679	—	—	256	—	13,935
Cash - beginning of year	40,644	—	—	453	—	41,097
Cash - end of year	$54,323	$—	$—	$709	$—	$ 55,032

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Condensed Consolidating Statement of Cash Flows
Six Months Ended September 30, 2009

(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)	$18,248	$191	$568	$1,212	$(1,971)	$ 18,248
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation and amortization	179	4,328	1,543	34	—	6,084
Loss on sale of discontinued operations	—	—	—	—	—	—
Deferred income taxes	(552)	2,409	1,823	7	—	3,687
Amortization of deferred financing costs	—	956	—	—	—	956
Stock-based compensation costs	848	—	—	—	—	848
Loss on extinguishment of debt	—	—	—	—	—	—
Amortization of debt discount	—	—	—	—	—	—
Loss on disposal of equipment	—	—	—	—	—	—
Changes in operating assets and liabilities						
Accounts receivable	505	(3,734)	852	(750)	—	(3,127)
Inventories	—	713	122	(430)	—	405
Inventories held for sale	—	203	(121)	—	—	82
Prepaid expenses and other current assets	(780)	(236)	(85)	(1)	—	(1,102)
Accounts payable	525	2,199	2,197	625	—	5,546
Accrued liabilities	4,284	4,003	(306)	272	—	8,253
Net cash provided by (used for) operating activities	23,257	11,032	6,593	969	(1,971)	39,880
Investing Activities						
Purchases of equipment	(178)	(24)	—	(30)	—	(232)
Proceeds from sale of discontined operations	—	—	—	—	—	—
Net cash used for investing activities	(178)	(24)	—	(30)	—	(232)
Financing Activities						
Payment of deferred financing costs	—	—	—	—	—	—
Repayment of long-term debt	—	(40,000)	—	—	—	(40,000)
Purchase of treasury stock	—	—	—	—	—	—
Intercompany activity, net	(23,343)	28,992	(6,593)	(1,027)	1,971	—
Net cash (used for) provided by financing activities	(23,343)	(11,008)	(6,593)	(1,027)	1,971	(40,000)
Increase (decrease) in cash	(264)	—	—	(88)	—	(352)

Cash - beginning of year	34,458	—	—	723	—	35,181
Cash - end of year	$34,194	$—	$—	$635	$—	$ 34,829

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21. Subsequent Events

In October 2010, the Company received the remaining $1 million relating to the sale of certain assets related to its shampoo brands. The sale is more fully described in Note 3.
On November 1, 2010, the Company acquired 100% of the capital stock of Blacksmith for $190 million in cash, plus a working capital adjustment of $13.4 million. The acquisition is more fully described in Note 2.
On November 1, 2010, in connection with the acquisition of Blacksmith, the Company amended its then-existing debt agreements and increased the amounts outstanding thereunder as well as the amount available for borrowing under its revolving credit facility, all as more fully described in Note 10.

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, 2010. 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, 2010, as well as those described in future reports filed with the SEC.
See also "Cautionary Statement Regarding Forward-Looking Statements" on page 52 of this Quarterly Report on Form 10-Q.

General
We are engaged in the marketing, sales and distribution of brand name over-the-counter healthcare and household cleaning products to mass merchandisers, drug stores, supermarkets and dollar and club stores primarily in the United States, Canada and certain other international markets. We continue to use the strength of our brands, our established retail distribution network, a low-cost operating model and our experienced management team as a competitive advantage to grow our presence in these categories and, as a result, grow our sales and profits.

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

Acquisition of Blacksmith Brands Holdings, Inc.

On November 1, 2010, the Company acquired 100% of the capital stock of Blacksmith Brands Holdings, Inc. ("Blacksmith") for $190 million in cash, plus a working capital adjustment of $13.4 million. In connection with this acquisition, Prestige acquired five leading consumer Over-the-Counter brands: Efferdent®, Effergrip®, PediaCare®, Luden's®, and NasalCrom®. These brands are complementary to the Company's existing Over-the-Counter brands. The Company expects that the acquisition of the five brands will enhance the Company's position in the Over-the-Counter market. Additionally, the Company believes that these newly acquired brands will benefit from a targeted advertising and marketing program, as well as the Company's business model of outsourcing manufacturing and the elimination of redundant operations. The purchase price was funded by cash provided by the issuance of long term debt and additional bank borrowings, which are discussed further in Note 10 to the Consolidated Financial Statements. As of the date of this Quarterly Report on Form 10-Q, the Company has not yet completed the initial accounting for the acquisition, and the acquisition-date fair values of the acquired assets and assumed liabilities have not yet been determined.
Discontinued Operations and Sale of Certain Assets

On September 1, 2010, the Company sold certain assets related to the nail polish remover brand previously included in its Personal Care products segment to an unrelated third party. In accordance with the Discontinued Operations Topic of the ASC, the Company reclassified the related assets as assets of discontinued operations in the consolidated

balance sheets as of September 30, 2010 and March 31, 2010, and reclassified the related operating results as discontinued operations in the consolidated financial statements and related notes for all periods presented. The Company recognized a loss of $890,000 on a pre-tax basis and $550,000 net of tax effects on the sale in the quarter ended September 30, 2010. The total sales price for the assets was $4.1 million, the proceeds for which were received upon closing. As the sold assets comprised a substantial majority of the assets in the Personal Care segment, the Company reclassified the remaining assets to the Over-the-Counter Healthcare segment for all periods presented.

In October 2009, the Company sold certain assets related to the shampoo brands previously included in its Personal Care products segment to an unrelated third party. In accordance with the Discontinued Operations Topic of the ASC, the Company reclassified the related assets as held for sale in the consolidated balance sheets as of March 31, 2009 and the Company

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reclassified the related operating results as discontinued in the consolidated financial statements and related notes for all periods presented. The Company recognized a gain of $253,000 on a pre-tax basis and $157,000 net of tax effects on the sale in the quarter ended December 31, 2009. The total sales price for the assets was $9 million, subject to adjustments for inventory, as defined, with $8 million received upon closing. The remaining $1 million was received by the Company in October 2010.

The following table presents the assets related to the discontinued operations as of September 30, 2010 and March 31, 2010 (in thousands):

	September 30, 2010	March 31, 2010
Inventory	$14	$1,486
Intangible assets	—	4,870
Total assets of discontinued operations	$14	$6,356

The following table summarizes the results of discontinued operations (in thousands):

	Three Months Ended September 30		Six Months Ended September 30	
	2010	2009	2010	2009
Components of Income				
Revenues	$1,769	$5,587	$3,943	$10,698
Income before income taxes	263	1,687	906	3,293

Three Month Period Ended September 30, 2010 compared to the Three Month Period Ended September 30, 2009

Revenues (in thousands)

	2010 Revenues	%	2009 Revenues	%	Increase (Decrease)	%
OTC Healthcare	$50,839	64.9	$51,716	64.1	$(877)	(1.7)
Household Cleaning	27,464	35.1	29,013	35.9	(1,549)	(5.3)
	$78,303	100.0	$80,729	100.0	$(2,426)	(3.0)

Revenues for the three month period ended September 30, 2010 were $78.3 million, a decrease of $2.4 million, or 3.0%, versus the three month period ended September 30, 2009. Revenues for both the Over-the-Counter Healthcare and Household Cleaning segments decreased versus the comparable period in the prior year. Revenues from customers outside of North America, which represent 4.4% of total revenues, decreased by $862,000, or 20.0%, during 2010 compared to 2009, primarily due to reduced shipments of eye care products to our Australian distributor,

as well as decreased sales of sore throat relief products by our United Kingdom subsidiary.

Over-the-Counter Healthcare Segment
Revenues for the Over-the-Counter Healthcare segment decreased $877,000, or 1.7%, during 2010 versus 2009. Revenue decreases for Chloraseptic, The Doctor's, Allergen Block, Murine Ear and Murine Tears were partially offset by revenue increases for Little Remedies, Compound W and Clear Eyes. Chloraseptic revenues decreased primarily due to non-recurrence during the current period of heavy retailer buy-in that took place in the comparable prior year period in anticipation of an unusually strong cold and flu season. The Doctor's revenues decrease was primarily the result of the Company's largest customer discontinuing the sale of The Doctor's Brushpicks and reducing the number of stores in which The Doctor's Nightguard is sold. Allergen Block revenues decreased as a result of a decrease in consumer consumption. Murine Ear revenues decreased primarily as the result of slowing consumer consumption and increased returns reserves for Earigate. The decrease in revenues for Murine Tears was primarily the result of reduced shipments to markets outside of North America. Little Remedies revenues increased as the result of the successful sell-in of its new medicated pediatric product and increased consumer consumption of its non-medicated pediatric products. Compound W revenues increased as the result of an increase in consumer consumption for both cryogenic and non-cryogenic products, and the continued sell-in of the new Compound W Skin Tag Remover in Canada. Clear Eyes revenues increased primarily due to distribution gains for its new multi-symptom relief eye drop product.

Household Cleaning Segment
Revenues for the Household Cleaning segment decreased $1.5 million, or 5.3%, during 2010 versus 2009. Revenue decreases for Comet and Spic and Span were partially offset by a revenue increase for Chore Boy. Comet revenues decreased primarily due to lower consumer demand for bathroom spray. Spic and Span revenues decreased as a result of weaker consumer consumption of dilutibles. Chore Boy revenues increased primarily due to increased customer shipments of metal scrubbers.

Gross Profit (in thousands)

	2010 Gross Profit	%	2009 Gross Profit	%	Increase (Decrease)	%
OTC Healthcare	$33,041	65.0	$32,263	62.4	$778	2.4
Household Cleaning	9,549	34.8	10,530	36.3	(981)	(9.3)
	$42,590	54.4	$42,793	53.0	$(203)	(0.5)

Gross profit for 2010 decreased $203,000, or 0.5%, when compared with 2009. As a percent of total revenues, gross profit increased from 53.0% in 2009 to 54.4% in 2010. The increase in gross profit as a percent of revenues was primarily due to decreases in returns reserves and inventory obsolescence costs, partially offset by increased product and distribution costs.

Over-the-Counter Healthcare Segment
Gross profit for the Over-the-Counter Healthcare segment increased $778,000, or 2.4%, during 2010 versus 2009. As a percent of Over-the-Counter Healthcare revenues, gross profit increased from 62.4% during 2009 to 65.0% during 2010. The increase in gross profit percentage was primarily the result of decreases in returns reserves and inventory obsolescence costs, partially offset by higher product and distribution costs. The decrease in returns reserves was primarily due to a reduction in anticipated returns of Allergen Block products. The decrease in inventory obsolescence costs was primarily due to reductions in short dated and slow moving sore throat, eye care and Allergen Block products. The increase in product and distribution costs resulted from the change in manufacturers for certain Clear

Eyes products.

Household Cleaning Segment

Gross profit for the Household Cleaning segment decreased by $981,000, or 9.3%, during 2010 versus 2009. As a percent of Household Cleaning revenue, gross profit decreased from 36.3% during 2009 to 34.8% during 2010. The decrease in gross profit percentage was primarily the result of higher product costs for Chore Boy, and an unfavorable sales mix and higher distribution costs for Comet, partially offset by lower product costs for Spic and Span.

Contribution Margin (in thousands)

	2010 Contribution Margin	%	2009 Contribution Margin	%	Increase (Decrease)	%
OTC Healthcare	$26,129	51.4	$24,873	48.1	$1,256	5.0
Household Cleaning	8,221	29.9	8,245	28.4	(24)	(0.3)
	$34,350	43.9	$33,118	41.0	$1,232	3.7

Contribution Margin, defined as gross profit less advertising and promotional expenses, increased $1.2 million, or 3.7%, during 2010 versus 2009. The contribution margin increase was the result of the decrease in gross profit as previously discussed and a $1.4 million, or 14.8%, decrease in advertising and promotional spending. The decrease in advertising and promotional spending was primarily attributable to a decrease in media support in the Household Cleaning segment, and a decrease in trade promotion activity in both the Over-the-Counter Healthcare and Household Cleaning segments, partially offset by an increase in consumer promotion in the Household Cleaning segment.

Over-the-Counter Healthcare Segment

Contribution margin for the Over-the-Counter Healthcare segment increased $1.3 million, or 5.0%, during 2010 versus 2009. The contribution margin increase was the result of the increase in gross profit as previously discussed and a $478,000, or 6.5%, decrease in advertising and promotional spending. The decrease in advertising and promotional spending was primarily attributable to a decrease in trade promotion activity for Chloraseptic, Clear Eyes, Little Remedies, Murine Ear and The Doctor's.

Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased $24,000, or 0.3%, during 2010 versus 2009. The contribution margin decrease was the result of the decrease in gross profit as previously discussed, and a $957,000, or 41.9%, decrease in advertising and promotional spending. The decrease in advertising and promotional spending was primarily attributable to a decrease in media support for Comet bathroom spray, and decreases in trade promotion for Comet and Spic and Span, partially offset by an increase in consumer promotion for Comet bathroom spray.

General and Administrative

General and administrative expenses were $8.1 million for 2010 versus $10.5 million for 2009. The decrease in expense was primarily due to decreases in salary and legal expenses, partially offset by an increase in stock based compensation expense.

Last year we incurred expenses related to a reduction in force that took place during the second quarter ,which resulted in the increased compensation expense due to severance accruals, which expenses did not recur in the current year.

Depreciation and Amortization

Depreciation and amortization expense was $2.4 million for 2010 versus $2.7 million for 2009. The decrease in expense was primarily due to the prior year period reduction of the useful life on some of our trademarks which resulted in a one time expense adjustment in that period.

Interest Expense

Net interest expense was $5.4 million during 2010 versus $5.6 million during 2009. The reduction in interest expense was primarily the result of a lower level of indebtedness combined with a reduction of variable interest rates on our senior debt offset by an increase in amortized debt issue costs included in interest expense in 2010 compared to 2009. The average cost of funds increased from 6.5% for 2009 to 7.2% for 2010 while the average indebtedness decreased

from $349.8 million during 2009 to $297.6 million during 2010.

Income Taxes

The provision for income taxes during 2010 was $7.1 million versus $5.4 million during 2009. The effective tax rate during 2010 was 38.2% versus 37.9% during 2009. The increase in the effective rate was a result of the divestiture of the shampoo business which increased the overall effective state tax rate on continuing operations.

Six Month Period Ended September 30, 2010 compared to the
Six Month Period Ended September 30, 2009

Revenues (in thousands)

	2010 Revenues	%	2009 Revenues	%	Increase (Decrease)	%
OTC Healthcare	$95,559	63.9	$92,382	62.1	$3,177	3.4
Household Cleaning	53,979	36.1	56,460	37.9	(2,481)	(4.4)
	$149,538	100.0	$148,842	100.0	$696	0.5

Revenues for the six month period ended September 30, 2010 were $149.5 million, an increase of $696,000, or 0.5%, versus the six month period ended September 30, 2009. Revenues for the Over-the-Counter Healthcare segment increased, while revenues for the Household Cleaning segment decreased, versus the comparable period in the prior year. Revenues from customers outside of North America, which represent 4.2% of total revenues, decreased by $80,000, or 1.3%, during 2010 compared to 2009, primarily due to reduced shipments of eye care products to our Australian distributor, partially offset by increased shipments of eye care products to our Venezuelan distributor.

Over-the-Counter Healthcare Segment
Revenues for the Over-the-Counter Healthcare segment increased $3.2 million, or 3.4%, during 2010 versus 2009. Revenue increases for Clear Eyes, Compound W and Little Remedies were partially offset by revenue decreases for Chloraseptic, Murine Ear, Allergen Block, Dermoplast and The Doctor's. Clear Eyes revenues increased primarily due to increased consumer consumption and distribution gains for its new multi-symptom relief eye drop product. Compound W revenues increased as the result of an increase in consumer consumption for both cryogenic and non-cryogenic products, and the sell-in of the new Compound W Skin Tag Remover in Canada. Little Remedies revenues increased as the result of the successful sell-in of its new medicated pediatric product and increased consumer consumption of its non-medicated pediatric products. Chloraseptic revenues decreased primarily due to non-recurrence during the current period of heavy retailer buy-in that took place in the comparable prior year period in anticipation of an unusually strong cold and flu season. Murine Ear revenues decreased primarily as the result of slowing consumer consumption and increased returns reserves for Earigate. Allergen Block revenues decreased as a result of a decrease in consumer consumption. Dermoplast revenues decreased as the result of customers buying in advance of a March 2010 price increase on our institutional item. The Doctor's revenues decrease was primarily the result of the Company's largest customer discontinuing the sale of The Doctor's Brushpicks and reducing the number of stores in which The Doctor's Nightguard is sold.

Household Cleaning Segment
Revenues for the Household Cleaning segment decreased $2.5 million, or 4.4%, during 2010 versus 2009. Revenues decreased across the segment. Comet revenues decreased primarily due to lower consumer demand for bathroom spray. Spic and Span revenues decreased as a result of weaker consumer consumption of dilutibles. Chore Boy revenues decreased primarily due to decreased customer shipments of metal scrubbers.

Gross Profit (in thousands)

	2010 Gross Profit	%	2009 Gross Profit	%	Increase (Decrease)	%

OTC Healthcare	$61,910	64.8	$59,140	64.0	$2,770	4.7
Household Cleaning	18,651	34.6	20,176	35.7	(1,525)	(7.6)
	$80,561	53.9	$79,316	53.3	$1,245	1.6

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Gross profit for 2010 increased $1.2 million, or 1.6%, when compared with 2009. As a percent of total revenues, gross profit increased from 53.3% in 2009 to 53.9% in 2010. The increase in gross profit as a percent of revenues was primarily due to decreases in returns reserves and inventory obsolescence costs, partially offset by increased product and distribution costs.

Over-the-Counter Healthcare Segment
Gross profit for the Over-the-Counter Healthcare segment increased $2.8 million, or 4.7%, during 2010 versus 2009. As a percent of Over-the-Counter Healthcare revenues, gross profit increased from 64.0% during 2009 to 64.8% during 2010. The increase in gross profit percentage was primarily the result of decreases in returns reserves and inventory obsolescence costs, partially offset by higher product and distribution costs. The decrease in returns reserves was primarily due to a reduction in anticipated returns of Allergen Block products. The decrease in inventory obsolescence costs was primarily due to reductions in short dated and slow moving eye care and Allergen Block products. The increase in product and distribution costs resulted from the change in manufacturers for certain Clear Eyes products.

Household Cleaning Segment
Gross profit for the Household Cleaning segment decreased by $1.5 million, or 7.6%, during 2010 versus 2009. As a percent of Household Cleaning revenue, gross profit decreased from 35.7% during 2009 to 34.6% during 2010. The decrease in gross profit percentage was primarily the result of higher product costs for Chore Boy and Spic and Span, and an unfavorable sales mix and higher distribution costs for Comet, partially offset by lower product costs and inventory obsolescence costs for Comet.

Contribution Margin (in thousands)

	2010 Contribution Margin	%	2009 Contribution Margin	%	Increase (Decrease)	%
OTC Healthcare	$49,835	52.2	$45,001	48.7	$4,834	10.7
Household Cleaning	15,000	27.8	15,972	28.3	(972)	(6.1)
	$64,835	43.4	$60,973	41.0	$3,862	6.3

Contribution Margin, defined as gross profit less advertising and promotional expenses, increased $3.9 million, or 6.3%, during 2010 versus 2009. The contribution margin increase was the result of the increase in gross profit as previously discussed and a $2.6 million, or 14.3%, decrease in advertising and promotional spending. The decrease in advertising and promotional spending was primarily attributable to a decrease in media support in both the Over-the Counter Healthcare and Household Cleaning segments, and a decrease in trade promotion activity in the Over-the-Counter Healthcare segment, partially offset by an increase in consumer promotion in the Household Cleaning segment.

Over-the-Counter Healthcare Segment
Contribution margin for the Over-the-Counter Healthcare segment increased $4.8 million, or 10.7%, during 2010 versus 2009. The contribution margin increase was the result of the increase in gross profit as previously discussed and a $2.1 million, or 14.6%, decrease in advertising and promotional spending. The decrease in advertising and promotional spending was primarily attributable to a significant decrease in media support for the Allergen Block products, partially offset by increases in media support for the Clear Eyes, Compound W and The Doctor's products. In addition, there was a decrease in trade promotion activity for Chloraseptic, Clear Eyes, Little Remedies, Murine Ear

and The Doctor's.

Household Cleaning Segment

Contribution margin for the Household Cleaning segment decreased $1.0 million, or 6.1%, during 2010 versus 2009. The contribution margin decrease was the result of the decrease in gross profit as previously discussed, and a $553,000, or 13.2%, decrease in advertising and promotional spending. The decrease in advertising and promotional spending was primarily attributable to a decrease in media support for Comet bathroom spray, and decreases in trade promotion for Comet and Spic and Span, partially offset by an increase in consumer promotion for Comet bathroom spray.

General and Administrative

General and administrative expenses were $15.5 million for 2010 versus $18.7 million for 2009. The decrease in expense was primarily due to decreases in salary and legal expenses, partially offset by an increase in stock based compensation expense.

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Depreciation and Amortization

Depreciation and amortization expense was $4.8 million for 2010 versus $4.9 million for 2009. The decrease in expense was primarily due to the prior year period reduction of the useful life on some of our trademarks which resulted in a one time expense adjustment in that period.

Interest Expense

Net interest expense was $10.8 million during 2010 versus $11.3 million during 2009. The reduction in interest expense was primarily the result of a lower level of indebtedness combined with a reduction of variable interest rates on our senior debt offset by an increase in debt issue costs included in interest expense in 2010 compared to 2009. The average cost of funds increased from 6.3% for 2009 to 6.9% for 2010 while the average indebtedness decreased from $358.3 million during 2009 to $311.8 million during 2010.

Income Taxes

The provision for income taxes during 2010 was $12.7 million versus $9.9 million during 2009. The effective tax rate during 2010 was 38.2% versus 37.9% during 2009. The increase in the effective rate was a result of the divestiture of the shampoo business, during the second half of 2010, which increased the overall effective state tax rate on continuing operations.

Liquidity and Capital Resources

Liquidity

We have financed and expect to continue to finance our operations 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. During the year ended March 31, 2010, we issued $150.0 million of 8.25% senior notes due in 2018 and entered into a senior secured term loan facility of $150.0 million maturing in 2016. The proceeds from the preceding transactions, in addition to cash that was on hand, were used to purchase, redeem or otherwise retire all of the previously issued senior subordinated notes and to repay all amounts under our former credit facility and terminate the associated credit agreement.

Operating Activities

Net cash provided by operating activities was $42.8 million for the six month period ended September 30, 2010 compared to $39.9 million for the comparable period in 2009. The $2.9 million increase in net cash provided by operating activities was primarily the result of an increase in net income from continuing operations.

Consistent with the six months ended September 30, 2009, our cash flow from operations exceeded net income due to the substantial non-cash charges related to depreciation and amortization of intangibles, increases in deferred income tax liabilities resulting from differences in the amortization of intangible assets and goodwill for income tax and financial reporting purposes, the amortization of certain deferred financing costs, as well as stock-based compensation costs.

Investing Activities

Net cash provided by investing activities was $3.9 million for the six month period ended September 30, 2010. Net cash used for investing activities was $(232,000) for the six month period ended September 30, 2009. Net cash provided by investing activities for the six month period ended September 30, 2010 was primarily the result of the Cutex divestiture and net cash used for investing activity for the six month period ended September 30, 2009 was primarily for the acquisition of property and equipment.

Financing Activities

Net cash used for financing activities was $32.8 million for the six month period ended September 30, 2010 compared to $40.0 million for the comparable period in 2009. During the six month period ended September 30, 2010, we redeemed the remaining $28.1 million of Senior Subordinated Notes that bore interest at 9.25%, and paid the required principal amount on the 2010 Senior Term Loan of $750,000 plus an additional principal amount of $3.8 million. This reduced our outstanding indebtedness to $295.5 million at September 30, 2010 from $328.1 million at March 31, 2010.

	Six Months Ended September 30	
(In thousands)	2010	2009
Cash provided by (used for):		
Operating Activities	$42,817	$39,880
Investing Activities	3,868	(232)
Financing Activities	(32,750)	(40,000)

Capital Resources

In March and April 2010, we retired our Senior Secured Term Loan facility with a maturity date of April 6, 2011 and Senior Subordinated Notes that bore interest at 9.25% with a maturity date of April 15, 2012, and replaced them with a 2010 Senior Term Loan with a maturity of March 24, 2016, a Senior Revolving Credit facility with a maturity of March 24, 2015 and Senior Notes that bear interest at 8.25% with a maturity of April 1, 2018. This debt refinancing improved our liquidity position due to the ability to increase the amount of the 2010 Senior Term Loan, obtaining a revolving line of credit and extending the maturities of our indebtedness. The new debt also better positions us to pursue acquisitions as part of our growth strategy.

On March 24, 2010, we entered into a $150.0 million 2010 Senior Term Loan with a discount to the lenders of $1.8 million and net proceeds of $148.2 million. The Senior Notes were issued at an aggregate face value of $150.0 million with a discount to the initial purchasers of $2.2 million and net proceeds to us of $147.8 million. The discount was offered to improve the yield to maturity to lenders reflective of market conditions at the time of the offering. In addition to the discount, we incurred $7.3 million of costs primarily related to bank arrangers' fee and legal advisors, of which $6.6 million was capitalized as deferred financing costs and $0.7 million expensed. The deferred financing costs are being amortized over the term of the loan and notes.

As of September 30, 2010, we had an aggregate of $295.5 million of outstanding indebtedness, which consisted of the following:

- $145.5 million of borrowings under the 2010 Senior Term Loan, and

- $150.0 million of 8.25% Senior Notes due 2018.

We had $30.0 million of borrowing capacity under the revolving credit facility as of September 30, 2010, as well as $200.0 million under the Senior Credit Facility.

All loans under the 2010 Senior Term Loan bear interest at floating rates, based on either the prime rate, or at our option, the LIBOR rate, plus an applicable margin. The LIBOR rate option contains a floor rate of 1.5%. At September 30, 2010, an aggregate of $145.5 million was outstanding under the Senior Credit Facility at an interest rate of 4.75%.

In connection with the acquisition of Blacksmith, subsequent to the end of the current reporting period, on November 1, 2010, the Company amended its existing debt agreements and increased the amount borrowed and the amount available thereunder as follows. On November 1, 2010, we issued an additional $100 million in Senior Notes due 2018, which have the same terms and are part of the same series as the 2010 Notes, and will mature on April 1, 2018. On November 1, 2010, we executed an Increase Joinder to the Credit Agreement dated March 24, 2010, and borrowed an additional $115 million as an incremental term loan, which will mature on March 24, 2016 and has the same terms as the existing 2010 Senior Term Loan. Additionally, on November 1, 2010, we increased our borrowing capacity under the revolving credit facility by $10 million to $40 million.

We are able to, and sometimes do, use derivative financial instruments to mitigate the impact of changing interest rates associated with our long-term debt obligations. Although we do not enter into derivative financial instruments for trading purposes, all of our derivatives are straightforward over-the-counter instruments with liquid markets. The notional, or contractual, amount of our derivative financial instruments is used to measure the amount of interest to be paid or received and does not represent an actual liability. We account for these financial instruments as cash flow hedges.

In February 2008, we entered into an interest rate swap agreement in the notional amount of $175.0 million, decreasing to $125.0 million at March 26, 2009 to replace and supplement the interest rate cap agreement that expired on May 30, 2008. Under this swap, we agreed to pay a fixed rate of 2.88% while receiving a variable rate based on LIBOR. The agreement terminated on March 26, 2010. At September 30, 2010 and March 31, 2010, we were not a party to any outstanding interest rate swap agreements.

The 2010 Senior Term Loan contains various financial covenants, including provisions that require us to maintain certain leverage and interest coverage ratios and not to exceed annual capital expenditures of $3.0 million. The 2010 Senior Term Loan, as well as the Indenture governing the 2010 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 4.30 to 1.0 for the quarter ended September 30, 2010, decreasing over time to 3.50 to 1.0 for the quarter ending March 31, 2014, and remaining level thereafter, and
- Have an interest coverage ratio of greater than 2.75 to 1.0 for the quarter ended September 30, 2010, increasing over time to 3.25 to 1.0 for the quarter ending March 31, 2013, and remaining level thereafter.

At September 30, 2010, we were in compliance with the applicable financial and restrictive covenants under the Senior Credit Facility and the Indenture governing the 2010 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 ensuing year.

At September 30, 2010, we had $145.5 million outstanding under the 2010 Senior Term Loan which matures in April 2016. We are obligated to make quarterly principal payments on the loan equal to $375,000, representing 0.25% of the initial principal amount of the term loan. We also have the ability to borrow an additional $30.0 million under a revolving credit facility and $200.0 million pursuant to the 2010 Senior Term Loan “accordion” feature.

We did not make repayments against outstanding indebtedness in excess of scheduled maturities for the quarter ended September 30, 2010, compared to payments in excess of outstanding maturities of $60.5 million made during the year ended March 31, 2010. During the six months ended September 30, 2010, we redeemed the remaining $28.1 million of Senior Subordinated Notes.

Off-Balance Sheet Arrangements

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

Inflation

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

Critical Accounting Policies and Estimates

The Company's significant accounting policies are described in the notes to the unaudited financial statements included elsewhere in this Quarterly Report on Form 10-Q, as well as in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010. While all significant accounting policies are important to our consolidated financial statements, certain of these policies may be viewed as being critical. Such policies are those that are both most important to the portrayal of our financial condition and results from operations and require our most difficult, subjective and complex estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses or the related disclosure of contingent assets and liabilities. These estimates are based upon our historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different conditions. The most critical accounting estimates 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 product has been shipped and the customer takes ownership and assumes the risk of loss; (iii) the selling price is fixed or determinable; and (iv) collection of the resulting receivable is reasonably assured. We have determined that the transfer of risk of loss generally occurs when product is received by the customer, and, accordingly recognize revenue at that time. Provision is made for estimated discounts related to customer payment terms and estimated product returns at the time of sale based on our historical experience.

As is customary in the consumer products industry, we participate in the promotional programs of our customers to enhance the sale of our products. The cost of these promotional programs is recorded as advertising and promotional expenses or as a reduction of sales. Such costs vary from period-to-period based on the actual number of units sold during a finite period of time. We estimate the cost of such promotional programs at their inception based on historical experience and current market conditions and reduce sales by such estimates. These promotional programs consist of direct to consumer incentives such as coupons and temporary price reductions, as well as incentives to our customers, such as allowances for new distribution, including slotting fees, and cooperative advertising. We do not provide incentives to customers for the acquisition of product in excess of normal inventory quantities since such incentives increase the potential for future returns, as well as reduce sales in the subsequent fiscal periods.

Estimates of costs of promotional programs are based on (i) historical sales experience, (ii) the current offering, (iii) forecasted data, (iv) current market conditions, and (v) communication with customer purchasing/marketing personnel. At the completion of the promotional program, the estimated amounts are adjusted to actual results. Our related promotional expense for the year ended March 31, 2010 was $17.7 million. 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 year ended March 31, 2010, our sales and operating income would have been adversely affected by approximately $1.8 million. Net income would have been adversely affected by approximately $1.1 million. Similarly, had we underestimated the promotional program rate by 10% for the three and six month periods ended September 30, 2010, our sales and operating income would have been adversely affected by approximately $498,000 and $945,000. Net income would have been adversely affected by approximately $308,000 and $584,000 for the three and six month periods ended September 30, 2010.

We also periodically run coupon programs in Sunday newspaper inserts or as on-package instant redeemable coupons. We utilize a national clearing house to process coupons redeemed by customers. At the time a coupon is distributed, a provision is made based upon historical redemption rates for that particular product, information provided as a result of the clearing house's experience with coupons of similar dollar value, the length of time the coupon is valid, and the seasonality of the coupon drop, among other factors. During the year ended March 31, 2010, we had 25 coupon events. The amount recorded against revenues and accrued for these events during the year was $1.3 million. Cash settlement of coupon redemptions during the year was $1.3 million. During the six month period ended September 30, 2010, we had 16 coupon events. The amount recorded against revenue and accrued for these events during the three and six month periods ended September 30, 2010 was $276,000 and $712,000, respectively. Cash settlement of coupon redemptions during the three and six month periods ended September 30, 2010 was $344,000 and $693,000, 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 the recording of sales. Such estimates are made after analyzing (i) historical return rates, (ii) current economic trends, (iii) changes in customer demand, (iv) product acceptance, (v) seasonality of our product offerings, and (vi) the impact of changes in product formulation, packaging and advertising.

We construct our returns analysis by looking at the previous year's return history for each brand. Subsequently, each month, we estimate our current return rate based upon an average of the previous six months' return rate and review that calculated rate for reasonableness giving consideration to the other factors described above. Our historical return rate has been relatively stable; for example, for the years ended March 31, 2010, 2009 and 2008, returns represented 3.9%, 3.8% and 4.4%, respectively, of gross sales. The 2008 rate of 4.4% included cost associated with the voluntary withdrawal from the marketplace of Little Remedies medicated pediatric cough and cold products in October 2007. Had the voluntary withdrawal not occurred, the actual returns rate would have been 3.9%. For the three and six month periods ended September 30, 2010, product returns represented 2.5% and 2.7% of gross sales, respectively. At September 30, 2010 and March 31, 2010, the allowance for sales returns was $5.3 million and $5.8 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 in a manner similar to the Little Remedies voluntary withdrawal discussed above. Based upon 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 4.4% to 3.8% of gross sales. An increase of 0.1% in our estimated return rate as a percentage of gross sales would have adversely affected our reported sales and operating income for the year ended March 31, 2010 by approximately $346,000. Net income would have been adversely affected by approximately $215,000. An increase of 0.1% in our estimated return rate as a percentage of gross sales for the three and six month periods ended September 30, 2010 would have adversely affected our reported sales and operating income by approximately $91,000 and $174,000, respectively, while our net income would have been adversely affected by approximately $56,000 and $108,000, respectively.

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

Many of our products are subject to expiration dating. As a general rule our customers will not accept goods with expiration dating of less than 12 months from the date of delivery. To monitor this risk, management utilizes a detailed compilation of inventory with expiration dating between zero and 15 months and reserves for 100% of the cost of any item with expiration dating of 12 months or less. At September 30, 2010 and March 31, 2010, the allowance for obsolete and slow moving inventory was $2.2 million and $2.0 million, representing 8.1% and 7.0%, respectively, of total inventory. Inventory obsolescence costs charged to operations were $1.7 million for the year ended March 31, 2010, while for the three month period ended September 30, 2010, the Company recorded obsolescence costs of ($133,000). A 1.0% increase in our allowance for obsolescence at March 31, 2010 would have adversely affected our reported operating income and net income for the year ended March 31, 2010 by approximately $286,000 and $178,000, respectively. Similarly, a 1.0% increase in our allowance at September 30, 2010 would have adversely affected our reported operating income and net income for the three and six month periods ended September 30, 2010 by approximately $272,000 and $168,000, respectively.

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 which file for bankruptcy, have no payment activity for 180 days or have reported major negative changes to their financial condition. The allowance for bad debts amounted to 0.9% and 0.7% of accounts receivable at September 30, 2010 and March 31, 2010, respectively. Bad debt expense for the year ended March 31, 2010 was $200,000, while during the three and six month periods ended September 30, 2010, the Company recorded bad debt expense of $53,000 and $80,000, respectively.

While management believes that it is diligent in its evaluation of the adequacy of the allowance for doubtful accounts, an unexpected event, such as the bankruptcy filing of a major customer, could have an adverse effect on our future

financial results. A 0.1% increase in our bad debt expense as a percentage of sales during the year ended March 31, 2010 would have resulted in a decrease in reported operating income of approximately $302,000, and a decrease in our reported net income of approximately $188,000. Similarly, a 0.1% increase in our bad debt expense as a percentage of sales for the three and six month periods ended September 30, 2010 would have resulted in a decrease in reported operating income of approximately $80,000 and $154,000, and a decrease in our reported net income of approximately $49,000 and $95,000, respectively.

Valuation of Intangible Assets and Goodwill

Goodwill and intangible assets amounted to $661.3 million and $665.8 million at September 30, 2010 and March 31, 2010, respectively. At September 30, 2010, goodwill and intangible assets were apportioned among our two operating segments as follows:

(In thousands)	Over-the-Counter Healthcare	Household Cleaning	Consolidated
Goodwill	$104,100	$7,389	$111,489
Intangible assets			
Indefinite-lived	334,750	119,821	454,571
Finite-lived	63,013	32,271	95,284
	397,763	152,092	549,855
	$501,863	$159,481	$661,344

Our Clear Eyes, New-Skin, Chloraseptic, Compound W and Wartner brands comprise the majority of the value of the intangible assets within the Over-The-Counter Healthcare segment. The Comet, Spic and Span and Chore Boy brands comprise substantially all of the intangible asset value within the Household Cleaning segment.

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

- Brand History

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

- Market Position

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

- Recent and Projected Sales Growth

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

- History of and Potential for Product Extensions

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

After consideration of the factors described above, as well as current economic conditions and changing consumer behavior, management prepares a determination of the intangible assets' 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 no longer 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 of each year, or more frequently if conditions indicate that the carrying value of the asset may not be recovered, management performs a review of both the values and useful lives assigned to goodwill and intangible assets and tests for impairment.

We report goodwill and indefinite-lived intangible assets in two operating segments; Over-the-Counter Healthcare and Household Cleaning. We identify our reporting units in accordance with the Segment Reporting topic of the FASB Accounting Standards Codification, which is at the brand level, and one level below the operating segment level. 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.

Goodwill

(In thousands) Operating Segment	March 31, 2010	Percent by which Fair Value Exceeded Carrying Value in Annual Test
Over-the-Counter Healthcare	$104,100	26.9
Household Cleaning	7,389	8.6
	$111,489	

As of March 31, 2010, the Over-the-Counter Healthcare segment had four reporting units with goodwill and their aggregate fair value exceeded the carrying value by 26.9%. No individual reporting unit's fair value in the Over-the-Counter Healthcare segment exceeded its carrying value by less than 5%. The Household Cleaning segment had one operating unit and the fair value exceeded its carrying value by 8.6%.

As part of our annual test for impairment of goodwill, management estimates the discounted cash flows of each reporting unit, which is at the brand level, and one level below the operating segment level, to estimate their respective fair values. In performing this analysis, management considers the same types of information as listed above in regards to finite-lived intangible assets. In the event that the carrying amount of the reporting unit exceeds the fair value, management would then be required to allocate the estimated fair value of the assets and liabilities of the reporting unit as if the unit was acquired in a business combination, thereby revaluing the carrying amount of goodwill. In a manner similar to indefinite-lived assets, future events, such as competition, technological advances and reductions in advertising support for our trademarks and trade names could cause subsequent evaluations to utilize different assumptions.

Indefinite-Lived Intangible Assets

(In thousands) Operating Segment	March 31, 2010	Percent by which Fair Value Exceeded Carrying Value in Annual Test
Over-the-Counter Healthcare	$334,750	63.7
Household Cleaning	119,821	20.2
	$454,571	

As of March 31, 2010, the Over-the-Counter Healthcare segment had five reporting units with indefinite-lived classification and their aggregate fair value exceeded the carrying value by 63.7%. No individual reporting unit's fair value in the Over-the-Counter Healthcare segment exceeded its carrying value by less than 9%. The Household Cleaning segment had one reporting unit and the fair value exceeded its carrying value by 20.2%.

In a manner similar to finite-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. Should circumstance warrant 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 performing this analysis, management considers the same types of information as listed above in regards to finite-lived intangible assets. Once that analysis is completed, a discount rate is applied to the cash flows to estimate fair value. Future events, such as competition, technological advances and reductions in advertising support for our trademarks and trade names could cause subsequent evaluations to utilize different assumptions.

Finite-Lived Intangible Assets
As mentioned above, when events or changes in circumstances indicate the carrying value of the assets may not be recoverable, management performs a review to ascertain the impact of events and circumstances on the estimated useful lives and carrying values of our trademarks and trade names. In connection with this analysis, management:

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

Should analysis of any of the aforementioned factors warrant a change in the estimated useful life of the intangible asset, management will reduce the estimated useful life and amortize the carrying value prospectively over the shorter remaining useful life. Management's projections are utilized to assimilate all of the facts, circumstances and expectations related to the trademark or trade name and estimate the cash flows over its useful life. In the event that the long-term projections indicate that the carrying value is in excess of the undiscounted cash flows expected to result from the use of the intangible assets, management is required to record an impairment charge. Once that analysis is completed, a discount rate is applied to the cash flows to estimate fair value. The impairment charge is measured as the excess of the carrying amount of the intangible asset

over fair value as calculated using the discounted cash flow analysis. Future events, such as competition, technological advances and reductions in advertising support for our trademarks and trade names could cause subsequent evaluations to utilize different assumptions.

Impairment Analysis

We estimate the fair value of our intangible assets and goodwill using a discounted cash flow method. This discounted cash flow methodology is a widely-accepted valuation technique utilized by market participants in the valuation process and has been applied consistently with prior periods. In addition, we considered our market capitalization at March 31, 2010, 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.

During the three month period ended March 31, 2010, we recorded a $2.8 million non-cash impairment charge of goodwill of a nail polish remover brand previously included in the Personal Care segment. The impairment was a result of distribution losses and increased competition from private label store brands.

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 continue to 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, the Company may be required to record additional impairment charges in the future. However, the Company was not required to recognize an additional impairment charge during the three or six month period ended September 30, 2010.

Stock-Based Compensation

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

- Type of instrument (i.e., restricted shares vs. an option, warrant or performance shares),
- Strike price of the instrument,
- Market price of the Company's common stock on the date of grant,
- Discount rates,
- Duration of the instrument, and
- Volatility of the Company's common stock in the public market.

Additionally, management must estimate the expected attrition rate of the recipients to enable it to estimate the amount of non-cash compensation expense to be recorded in our financial statements. While management uses diligent analysis to estimate the respective variables, a change in assumptions or market conditions, as well as changes in the anticipated attrition rates, could have a significant impact on the future amounts recorded as non-cash compensation expense. The Company recorded non-cash compensation expense of $886,000 and $1.7 million during the three and six month periods ended September 30, 2010, respectively, and non-cash compensation expense of $177,000 and $848,000 during the three and six month periods ended September 30, 2009, respectively. During the three and six month periods ended September 30, 2010, management was required to reverse previously recorded stock-based compensation costs of $29,000 recorded in 2010, as the service requirements related to those grants were not met. During the three and six month periods ended September 30, 2009, management was required to reverse previously recorded stock-based compensation costs of $564,000 recorded in 2009, as the service requirements related to those grants were not met.

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.

Recent Accounting Pronouncements

In May 2009, the FASB issued guidance regarding subsequent events, which was subsequently updated in February 2010. This guidance established general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this guidance set forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This guidance was effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009, and was therefore adopted by the Company for the second quarter 2009 reporting. The adoption did not have a significant impact on the subsequent events that the Company reports, either through recognition or disclosure, in the consolidated financial statements. In February 2010, the FASB amended its guidance on subsequent events to remove the requirement to disclose the date through which an entity has evaluated subsequent events, alleviating conflicts with current SEC guidance. This amendment was effective immediately and accordingly, the Company has not presented that disclosure in this Quarterly Report.

In January 2010, the FASB issued authoritative guidance requiring new disclosures and clarifying some existing disclosure requirements about fair value measurement. Under the new guidance, a reporting entity should (a) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and (b) present separately information about purchases, sales, issuances, and settlements in the reconciliation for fair value measurements using significant unobservable inputs. This guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company does not expect this guidance to have a material impact on its consolidated financial statements.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “PSLRA”), including, without limitation, information within Management's Discussion and Analysis of Financial Condition and Results of Operations. The following cautionary statements are being made pursuant to the provisions of the PSLRA and with the intention of obtaining the benefits of the “safe harbor” provisions of the PSLRA. Although we believe that our expectations are based on reasonable assumptions, actual results may differ materially from those in the forward-looking statements.

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

These forward-looking statements generally can be identified by the use of words or phrases such as “believe,” “anticipate,” “expect,” “estimate,” “project,” “will be,” “will continue,” “will likely result,” or other similar words and phrases. Forward-looking statements and our plans and expectations are subject to a number of risks and uncertainties that could cause actual results to differ materially from those anticipated, and our business in general is subject to such risks. For more information, see “Risk Factors” contained in Part I, Item 1A. of our Annual Report on Form 10-K for our fiscal year ended March 31, 2010. In addition, our expectations or beliefs concerning future events involve risks and uncertainties, including, without limitation:

- General economic conditions affecting our products and their respective markets,
- Our ability to increase organic growth via new product introductions or line extensions,
- The high level of competition in our industry and markets (including, without limitation, vendor and SKU rationalization and expansion of private label product offerings),
- Our ability to invest in research and development,
- Our dependence on a limited number of customers for a large portion of our sales,
- Disruptions in our distribution center,
- Acquisitions, dispositions or other strategic transactions diverting managerial resources, or incurrence of additional liabilities or integration problems associated with such transactions,
- Changing consumer trends or pricing pressures which may cause us to lower our prices,
- Increases in supplier prices and transportation and fuel charges,
- Our ability to protect our intellectual property rights,
- Shortages of supply of sourced goods or interruptions in the manufacturing of our products,

- Our level of indebtedness, and ability to service our debt,
- Any adverse judgments rendered in any pending litigation or arbitration,
- Our ability to obtain additional financing, and
- The restrictions on our operations imposed by our Senior Credit Facility and the Indenture governing our Senior Notes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to changes in interest rates because our Senior Secured Credit Facility is variable rate debt. Interest rate changes generally do not affect the market value of the Senior Secured Credit Facility, 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, 2010 we had variable rate debt of approximately $145.5 million related to our Senior Secured Credit Facility.

Holding other variables constant, including levels of indebtedness, a one percentage point increase in interest rates on our variable rate debt would have an adverse impact on pre-tax earnings and cash flows for the twelve months ending September 30, 2011 of approximately $1.5 million.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, with the participation of its Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a–15(e) of the Securities Exchange Act of 1934 ("Exchange Act") as of September 30, 2010. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2010, 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

There have been no changes during the quarter ended September 30, 2010 in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Each of (i) Part I, Item 3 in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010; and (ii) Part II, Item 1 in our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010 is incorporated herein by this reference. Except as set forth below, there have been no material developments in our pending legal proceedings since June 30, 2010.

San Francisco Technology Inc. Litigation

On October 25, 2010, Medtech Products Inc. (a wholly-owned subsidiary of the Company) filed a Motion to Dismiss, or in the Alternative, to Stay, the action brought by San Francisco Technology Inc. which, on August 11, 2010, was transferred to the U.S. District Court for the Southern District of New York from the U.S. District Court for the

Northern District of California, San Jose Division. Medtech intends to vigorously defend against the action.

In addition to the matter referred to above, the Company is involved from time to time in other routine legal matters and other claims incidental to its business. The Company reviews outstanding claims and proceedings internally and with external counsel as necessary to assess probability and amount of potential loss. These assessments are re-evaluated at each reporting period and as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under 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). The Company believes the resolution of routine matters and other incidental claims, taking insurance into account, will not have a material adverse effect on its business, financial condition, results from operations or cash flows.

ITEM 6. EXHIBITS

See Exhibit Index immediately following signature page.

SIGNATURES

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

PRESTIGE BRANDS HOLDINGS, INC.

Date: November 5, 2010

By: /s/ PETER J. ANDERSON
Peter J. Anderson
Chief Financial Officer
(Principal Financial Officer and
Duly Authorized Officer)

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Exhibit Index

2.1	Stock Purchase Agreement, dated as of September 14, 2010, by and among Prestige Brands Holdings, Inc., Blacksmith Brands Holdings, Inc. and the Stockholders of Blacksmith Brands Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Commission on September 20, 2010)
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.

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