

ASCENDIA BRANDS, INC.  
Form 10-Q/A  
January 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q/A

AMENDMENT NO.1  
Original filed July 24, 2007

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

For the fiscal thirteen weeks ended May 26, 2007

Commission File Number: 033-25900

## **ASCENDIA BRANDS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE  
(State or other jurisdiction of  
incorporation or organization)

75-2228820  
(I.R.S. Employer  
Identification No.)

100 AMERICAN METRO BOULEVARD, SUITE 108

HAMILTON, NEW JERSEY 08619

(Address of principal executive offices)

(Zip Code)

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(609) 219-0930

(Registrant's Telephone Number, Including Area Code)

(Former Address, If Changed Since Last Report.)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

On December 28, 2007, the issuer had outstanding 41,973,590 shares of common stock, \$.001 par value per share.

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**ASCENDIA BRANDS, INC. AND SUBSIDIARIES**

**FORM 10-Q**

**THIRTEEN WEEKS ENDED MAY 26, 2007**

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EXPLANATORY NOTE

This amendment to the Company's Quarterly Report on Form 10-Q for the quarterly period ended May 26, 2007 ( First Quarter Form 10-Q/A ) filed on July 24, 2007, reflects a restatement of the Consolidated Financial Statements of Ascendia Brands, Inc. as of and for the thirteen weeks ended May 26, 2007. The restatement relates to the following adjustments:

1. To revise the allocation of the purchase price paid in connection with the purchase of certain brands and brand-related assets from Coty pursuant to an asset purchase agreement dated as of February 9, 2007 (the Asset Purchase Agreement ) to comply with the provisions of SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets* . The revised purchase price reflects a reduction for a \$7.5 million credit the Company received from Coty Inc. under a Manufacturing Agreement entered into contemporaneously with the Asset Purchase Agreement. This credit was previously allocated as a reduction of the cost assigned to the inventory acquired under the Manufacturing Agreement but will now be reflected as a reduction in the other long lived assets acquired from Coty, as described below. As a result of a higher cost being attributed to inventory acquired under the Manufacturing Agreement, cost of goods sold has been increased by \$2.5 million in the First Quarter.

2. The \$7.5 million reduction in the purchase price proportionately reduces the values previously assigned to the other long lived assets acquired from Coty, rather than being applied as a reduction in the cost assigned to the inventory acquired under the Manufacturing agreement. As a result, the amount of purchase price allocated to the long lived assets acquired from Coty has been reduced by \$7.5 million and the amortization expense associated with such assets has been reduced by \$0.2 million in the First Quarter.

This First Quarter Form 10-Q/A is being filed for purposes of amending the First Quarter Form 10-Q and provides information about the financial results for the thirteen weeks ended May 26, 2007 (as restated as described above) and May 27, 2006.

The following items have been amended as a result of the restatement:

- Part I - Item 1 Consolidated Financial Statements (unaudited)
- Part I - Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I - Item 4 Controls and Procedures
- Part II - Item 1 Legal Proceedings
- Part II - Item 1A Risk Factors

The Company has supplemented Item 6 of Part II to include current certifications of the Company's Chief Executive Officer and Chief Financial Officer pursuant to the Securities Exchange Act of 1934, as amended, filed as Exhibits 31.1, 31.2 and 32 to this First Quarter Form 10-Q/A.

The financial information that is included in this First Quarter Form 10-Q/A has been corrected as part of the restatement described above. This restatement is only related to the thirteen weeks ended May 26, 2007. All amounts included in this report as of and for the thirteen weeks ended May 27, 2006 and as of February 28, 2006 are not affected by the restatement. In general, no attempt has been made in this Form 10-Q/A to modify or update other disclosures presented in the original report on Form 10-Q except as required to reflect the effects of the restatement. Information in this First Quarter Form 10-Q/A is generally stated as of May 26, 2007 and generally does not reflect any subsequent information or events other than the restatement. However, we have included information about the Company's subsequent negotiations with its senior lenders and other pertinent related matters.

With the filing of this First Quarter Form 10-Q/A, the Company has amended the First Quarter Form 10-Q. Accordingly, the Company's Consolidated Financial Statements for the thirteen weeks ended May 26, 2007 and the related financial information contained in the Third Quarter Form 10-Q should no longer be relied upon.

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**PART I. FINANCIAL INFORMATION****Ascendia Brands, Inc. and Subsidiaries****Consolidated Balance Sheets**

(Amounts in thousands, except for share and per share data)

|  | <b>May 26, 2007</b><br>(unaudited)<br>Restated | <b>February 28, 2007</b> |
|--|--|--------------------------|
| <b><u>ASSETS</u></b>   |  |                          |
| Current Assets:  |  |                          |
| Cash and cash equivalents  | \$ 466   | \$3,303                  |
| Trade receivables, net of allowances of<br>\$3,539 at May 26, 2007 and \$2,913 at February 28, 2007  | 11,651   | 9,444                    |
| Inventories  | 24,649   | 28,633                   |
| Miscellaneous receivables  | 3,569  | 1,517                    |
| Prepaid expenses and other   | 10,386   | 5,761                    |
| Total current assets   | 50,721   | 48,658                   |
| Property, plant and equipment, net   | 8,233  | 6,500                    |
| Intangibles, net   | 141,087  | 151,634                  |
| Other assets, net  | 9,910  | 10,103                   |
| Total assets   | \$ 209,951                                     | \$216,895                |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>   |  |                          |
| Current Liabilities:   |  |                          |
| Accounts payable   | \$ 10,537                                      | \$8,943                  |
| Accrued expenses   | 4,197  | 5,480                    |
| Accrued interest   | 2,803  | 1,146                    |
| Reserve for customer returns   | 720  | 4,479                    |
| Current portion of long-term debt  | 2,000  | 2,000                    |
| Total current liabilities  | 20,257   | 22,048                   |
| Long-term debt, less current portion   | 274,732  | 271,317                  |
| Long-term pension obligation   | 691  | 668                      |
| Total liabilities  | 295,680  | 294,033                  |
| Stockholders' Equity:  |  |                          |
| Convertible preferred stock, par value \$.001 per share; Authorized<br>1,000,000 shares; issued and outstanding 330 Class B & B-1 shares<br>At May 26, 2007 and at February 28, 2007 | 42   | 37                       |
| Common stock, par value \$.001 per share; Authorized 225,000,000<br>shares; issued and outstanding 41,779,840 shares at May 26, 2007<br>and 36,758,541 at February 28, 2007          | 75,363   | 74,828                   |
| Additional paid in capital   | (160,268)                                      | (151,435)                |
| Accumulated deficit  | (866)  | (568)                    |
| Accumulated comprehensive loss   | (85,729)                                       | (77,138)                 |
| Total stockholders' deficit  | \$ 209,951                                     | \$216,895                |
| Total liabilities and stockholders' deficit  | \$ 209,951                                     | \$216,895                |

See accompanying notes to consolidated financial statements.

## Ascendia Brands, Inc. and Subsidiaries

## Consolidated Statements of Operations

(Unaudited)

(Amounts in thousands, except for share and per share data)

|   | <b>For the thirteen weeks ended</b> |                         |
|---|-------------------------------------|-------------------------|
|   | <b>May 26,<br/>2007</b>             | <b>May 27,<br/>2006</b> |
|   | Restated                            |                         |
| Net sales   | \$ 41,951                           | \$ 24,847               |
| Cost of sales   | 32,064                              | 20,193                  |
| Gross Profit  | 9,887                               | 4,654                   |
| Operating expenses:   |                                     |                         |
| Selling and marketing   | 4,390                               | 1,401                   |
| General and administrative  | 7,644                               | 2,630                   |
| Total operating expenses  | 12,034                              | 4,031                   |
| Income (loss) from operations   | (2,147 )                            | 623                     |
| Interest expense  | (7,153 )                            | (2,484 )                |
| Amortization of finance fees and debt discount                                | (834 )                              | (1,171 )                |
| Gain on revaluation of compound derivative                                    | 1,035                               |                         |
| Other income  | 552                                 | 144                     |
| Total other/ interest expense   | (6,400 )                            | (3,511 )                |
| Loss from continuing operations before income taxes                           | (8,547 )                            | (2,888 )                |
| Income taxes  |                                     |                         |
| Loss from continuing operations   | (8,547 )                            | (2,888 )                |
| Loss from discontinued operations   | (286 )                              | (656 )                  |
| Net loss  | (8,833 )                            | (3,544 )                |
| Series A Preferred stock beneficial conversion feature accreted as a dividend |                                     | 204                     |
| Net loss available to common stockholders                                     | \$ (8,833 )                         | \$ (3,748 )             |
| Basic and diluted loss per common share                                       |                                     |                         |
| Continuing operations   | \$ (0.20 )                          | \$ (0.22 )              |
| Discontinued operations   | (0.01 )                             | (0.05 )                 |
|   | \$ (0.21 )                          | \$ (0.27 )              |
| Basic and diluted loss per preferred share                                    | \$                                  | \$                      |
| Shares used in computing loss per share:                                      |                                     |                         |
| Basic and diluted - common  | 41,779,840                          | 13,907,351              |
| Basic and diluted - preferred   | 330                                 | 2,554                   |



See accompanying notes to consolidated financial statements.

**Ascendia Brands, Inc. and Subsidiaries**

**Consolidated Statements of Stockholders Equity**

For the thirteen weeks ended May 26, 2007 - Restated

(Amounts in thousands, except for share and per share data)

|                                | <b>Series B<br/>&amp;<br/>B-1<br/>Preferred<br/>Stock<br/>Shares</b> | <b>Series A<br/>Preferred<br/>Stock<br/>Amount</b> | <b>Common<br/>Stock<br/>Shares</b> | <b>Common<br/>Stock<br/>Amount</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Accumulated<br/>Deficit</b> | <b>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</b> | <b>Stockholders<br/>Equity</b> |
|--------------------------------|--|--|------------------------------------|------------------------------------|---|--------------------------------|---|--------------------------------|
| Balance at                     |  |  |                                    |                                    |   |                                |   |                                |
| February 28, 2007              | 330  | \$   | 36,758,541                         | \$ 37                              | \$ 74,828                                 | \$ (151,435 )                  | \$ (568 )   | \$ (77,138 )                   |
| Net loss                       |  |  |                                    |                                    |   | (8,833 )                       |   | (8,833 )                       |
| Other comprehensive loss:      |  |  |                                    |                                    |   |                                |   |                                |
| Foreign currency translation   |  |  |                                    |                                    |   |                                | (298 )  | (298 )                         |
| Comprehensive income           |  |  |                                    |                                    |   |                                |   | (9,131 )                       |
| Stock based compensation       |  |  |                                    |                                    | 540                                       |                                |   | 540                            |
| Common stock issued to<br>Coty |  |  | 5,021,299                          | 5                                  | (5 )                                      |                                |   |                                |
| Balance at                     |  |  |                                    |                                    |   |                                |   |                                |
| May 26, 2007 (unaudited)       | 330  | \$   | 41,779,840                         | \$ 42                              | \$ 75,363                                 | \$ (160,268 )                  | \$ (866 )   | \$ (85,729 )                   |

See accompanying notes to consolidated financial statements.

## Ascendia Brands, Inc. and Subsidiaries

## Consolidated Statements of Cash Flows

(Unaudited)

(Amounts in thousands, except for share and per share data)

|  | <b>For the thirteen weeks ended</b> |                     |
|--|-------------------------------------|---------------------|
|  | <b>May 26, 2007</b>                 | <b>May 27, 2006</b> |
|  | Restated                            |                     |
| <b>Cash flows from operating activities:</b>                 |                                     |                     |
| Net loss from continuing operations                          | \$ (8,547 )                         | \$ (2,888 )         |
| Adjustments to reconcile net loss                            |                                     |                     |
| To net cash used in continuing operations:                   |                                     |                     |
| Depreciation and amortization                                | 3,285                               | 983                 |
| Provision for uncollectible accounts receivable              | 9                                   | 77                  |
| Amortization of deferred financing costs and debt discount   | 834                                 | 1,171               |
| Gain on revaluation of compound derivative liability         | (1,035 )                            |                     |
| Stock-based compensation                                     | 540                                 |                     |
| Product purchase credit                                      | 2,499                               |                     |
| Non-cash interest on convertible notes and subordinated debt | 3,160                               |                     |
| Changes in operating assets and liabilities:                 |                                     |                     |
| Trade receivables  | (2,216 )                            | (5,755 )            |
| Inventories  | 3,984                               | 1,322               |
| Prepaid expenses and other                                   | 377                                 | 1,548               |
| Other assets   | (2,198 )                            |                     |
| Accounts payable   | 1,589                               | 2,213               |
| Accrued expenses   | (3,386 )                            | 375                 |
| Long-term pension obligations                                | 23                                  | (100 )              |
| <b>Cash used in continuing operations</b>                    | (1,082 )                            | (1,054 )            |
| <b>Cash used in discontinued operations</b>                  | (286 )                              | (350 )              |
| <b>Net cash used in operating activities</b>                 | (1,368 )                            | (1,404 )            |
| <b>Cash flows from investing activities</b>                  |                                     |                     |
| Purchase of property, plant and equipment                    | (1,993 )                            | (211 )              |
| Proceeds on disposal of property, plant and equipment        | 21                                  | 21                  |
| <b>Net cash used in investing activities</b>                 | (1,972 )                            | (190 )              |
| <b>Cash flows from financing activities</b>                  |                                     |                     |
| Net borrowings from revolver                                 | 1,293                               |                     |
| Financing costs  |                                     | (35 )               |
| Repayment of principal on first lien                         | (500 )                              |                     |
| Repayments of capital leases                                 |                                     | (10 )               |
| Proceeds from exercise of warrants                           |                                     | 31                  |
| <b>Net cash provided by (used in) financing activities</b>   | 793                                 | (14 )               |
| Effect of exchange rates on cash                             | (290 )                              | 70                  |
| <b>Net (decrease) increase in cash and cash equivalents</b>  | (2,837 )                            | (1,538 )            |
| Cash and cash equivalents at the beginning of period         | 3,303                               | 1,876               |
| <b>Cash and cash equivalents at the end of period</b>        | \$ 466                              | \$ 338              |
| Supplemental disclosures of cash flow information:           |                                     |                     |
| Cash paid for interest                                       | \$ 2,361                            | \$ 1,982            |

See accompanying notes to consolidated financial statements.

**Ascendia Brands, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements May 26, 2007**

**NOTE 1 -- DESCRIPTION OF BUSINESS AND REORGANIZATION - Restated**

**Introduction**

Ascendia Brands, Inc. ( Ascendia, or the Company, the Registrant, we or us ) manufactures, markets and sells nationally and internationally known branded products in the health and beauty care categories. Our portfolio includes *Baby Magic*<sup>®</sup>, *Binaca*<sup>®</sup>, *Mr. Bubble*<sup>®</sup>, *Calgon*, *the healing garden*<sup>®</sup>, *Lander*<sup>®</sup>, *Lander essentials*<sup>®</sup>, *Ogilvie*<sup>®</sup>, *Tek*<sup>®</sup>, *Dorothy Gray*<sup>®</sup> and *Tussy*<sup>®</sup>. We sell our products through a variety of channels, concentrating primarily on the mass merchandiser, drug, grocery and dollar store outlets.

On May 9, 2006 we changed our name from Cenuco, Inc. to Ascendia Brands, Inc. The chart below depicts our current corporate structure and the discussion that follows summarizes the functions and role of each company in the group.

*Ascendia Brands, Inc.* Ascendia Brands, Inc. is a holding company, organized under Delaware law, with its executive offices in Hamilton, New Jersey. It directly owns the equity of Hermes Acquisition Company I LLC and Cenuco, Inc. Its common stock is listed on the American Stock Exchange under the symbol ASB. Prior to the changing its name to Ascendia Brands, Inc., the company s common stock was quoted on the American Stock Exchange under the symbol ICU.

*Hermes Acquisition Company I LLC.* Hermes Acquisition Co. I LLC is a Delaware limited liability company that acts as the holding company for our health and beauty care division.

*Ascendia Brands Co., Inc.* Ascendia Brands Co., Inc. is a New Jersey corporation with its executive offices in Hamilton, New Jersey. As of May 1, 2006, it assumed the manufacturing and distribution operations formerly conducted through Lander Co., Inc. (*see*, below). Ascendia Brands Co., Inc operates a manufacturing plant in Binghamton, New York, which is leased from a related party, Ascendia Real Estate LLC.

*Lander Co., Inc.* Lander Co., Inc. is a Delaware corporation with its executive offices in Wilmington, Delaware. During the period ended February 28, 2006, Lander Co., Inc. was the principal operating company in Ascendia s health and beauty care division. Following the transition of manufacturing and distribution activities to Ascendia Brands Co., Inc., Lander Co., Inc. has been as an intellectual property holding company for trademarks and other intellectual property associated with the *Lander* brands.

*Ascendia Brands. (Canada) Ltd.* Ascendia Brands (Canada) Ltd, a Canadian limited company, is the Canadian manufacturing and distribution arm of Ascendia's health and beauty care division. It operates a manufacturing facility in Toronto, Ontario, which it leases from a third party. Prior to June 11, 2007, Ascendia Brands (Canada) Ltd was known as Lander Co. Canada, Ltd.

*Ascendia Real Estate LLC.* Ascendia Real Estate LLC, a New York limited liability company, is a real estate holding company. Its sole asset is the Binghamton plant, which it leases to Ascendia Brands Co., Inc.

*Lander Intangibles Corporation.* Lander Intangibles Corporation is a Delaware corporation with its executive offices in Wilmington, Delaware. Lander Intangibles Corporation an intellectual property holding company that was formed to acquire and hold certain of the intellectual property that we purchased from Playtex Products Inc. and its affiliates on November 16, 2005, and from Coty Inc. and its affiliates on February 9, 2007.

*Cenuco, Inc.* Cenuco, Inc. Wireless is a Florida corporation with executive offices in Boca Raton, Florida. Cenuco, Inc. formerly developed and marketed wireless data applications, with a focus on live video streaming to cellular devices across any carrier or handset platform. Cenuco, Inc. ceased operations as of June 30, 2007 and is being accounted for as a discontinued operation.

#### **ACQUISITION FOLLOWING FORMATION**

Hermes Acquisition Company I LLC ( HACI ) was formed on April 25, 2003 to acquire the business activities of Lander Co., Inc. ( Lander ) and Lander Co. Canada Ltd. ( Lander Canada ). Effective May 31, 2003, HACI purchased certain assets and assumed certain liabilities associated with the Lander business operations and acquired 100 percent of the outstanding stock of Lander Canada for an aggregate purchase price of \$11.1 million, including acquisition costs of \$1.2 million. In addition, Ascendia Real Estate (f/k/a Hermes Real Estate I LLC ( Ascendia Real Estate ) purchased the Lander production plant located in Binghamton, New York for a purchase price of \$3.3 million, including acquisition costs of \$0.3 million, on October 15, 2003. Property, plant and equipment was recorded at fair value reduced by the excess of fair value of net assets acquired over the purchase price of \$1.1 million. In accounting for these acquisitions, the Company followed the provisions of SFAS No. 141, *Business Combinations*. This Statement requires the purchase method of accounting be used for all business combinations and provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. On March 1, 2005, Ascendia Real Estate became a wholly owned subsidiary of HACI. Prior thereto, HACI and Ascendia Real Estate were under common control.

#### **THE MERGER**

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc. (the parent company of Cenuco Wireless, and a public company traded on the American Stock Exchange under the symbol ICU ), merged with HACI. Cenuco, Inc. was engaged in a wireless application technology business, primarily related to the transmission of secure and non-secured video onto cellular platforms via proprietary technologies.

The merger was completed through the issuance of 2,553.7 shares of Cenuco, Inc.'s Series A Junior Participating Preferred Stock (representing 65 percent of the aggregate outstanding voting power of Cenuco, Inc.'s capital stock) in exchange for all the outstanding membership units of HACI. As a consequence of the Merger, HACI, together with its wholly owned subsidiaries Ascendia Brands (Canada) Ltd, (then called Lander Co. Canada, Ltd), Ascendia Real Estate (then called Hermes Real Estate I LLC) and Lander, became wholly owned subsidiaries of Cenuco, Inc.

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For financial reporting purposes, the merger was treated as a recapitalization of HACI followed by the reverse acquisition of Cenuco, Inc. by HACI for a purchase price equivalent to the total market value of Cenuco, Inc. stock outstanding prior to the announcement of the merger, plus the fair value of the options that automatically vested on the date of the merger (approximately \$64.4 million in the aggregate). Consistent with the accounting and presentation for reverse acquisitions, the historical financial statements of the Company prior to the date of the merger reflect the financial position and results of operations of HACI and its subsidiaries, with the results of operations of Cenuco, Inc. being consolidated with HACI commencing on May 20, 2005. Effective with the completion of the Merger, the Company changed its fiscal year end to the last day of February, consistent with HACI's fiscal year, and the operations of Cenuco, Inc. became the Company's wireless division.

In accordance with SFAS No. 141, Business Combinations, we determined the fair value of the assets acquired and liabilities assumed in the reverse acquisition of Cenuco, Inc. as follows, as revised in the quarter ended February 28, 2006:

|  |          |
|--|----------|
| (Amounts in thousands)   |          |
| Cash and cash equivalents  | \$6,003  |
| Other current assets   | 497      |
| Total current assets   | 6,500    |
| Property, plant, and equipment   | 111      |
| Goodwill - see discussion below regarding impairment charge in subsequent quarters | 49,675   |
| Intangibles - acquired core software technology                                    | 8,000    |
| Other assets   | 592      |
| Total assets acquired  | 64,878   |
| Total liabilities assumed  | (474 )   |
| Estimated fair value of net assets acquired  | \$64,404 |

The allocation of the purchase price equivalent was finalized by the Company in the quarter ended February 28, 2006 as noted above. During the quarters ended February 28, 2007 and 2006, in accordance with SFAS No. 142, the Company tested the carrying value of goodwill for impairment, which led to Goodwill impairment charges of \$14.6 million and \$35.1 million, respectively.

### DISCONTINUED OPERATIONS

In February 2007, the Company committed to the sale of its wireless subsidiary and as a result this operation has been presented as a discontinued operation in the accompanying financial statements. Subsequent to year-end the Company made a determination that a sale was no longer likely and decided to liquidate the wireless operations. Cenuco, Inc. ceased operations as of June 30, 2007 and is being accounted for as a discontinued operation.

Summarized financial information for the discontinued operation is as follows:

|                            |   |   |
|----------------------------|---|---|
|                            | (Amounts in thousands)                          |   |
|                            | <b>Thirteen weeks<br/>ended May 26<br/>2007</b> | <b>Thirteen weeks<br/>ended May 27<br/>2006</b> |
| Net sales                  | \$  | \$ 75   |
| Net loss from operations   | (286 )  | (656 )  |
| Income (loss) per share:   |   |   |
| Basic and diluted - common | \$ (0.01 )                                      | \$ (0.05 )                                      |

Net assets related to discontinued operations as of May 26, 2007 and February 28, 2007 were fully impaired resulting in no carrying value.

The restatement included in this amended Form 10-Q reflects the following adjustments:

1. To revise the allocation of the purchase price paid in connection with the purchase of certain brands and brand-related assets from Coty pursuant to an asset purchase agreement dated as of February 9, 2007 (the Asset Purchase Agreement ) to comply with the provisions of SFAS 141, *Business Combinations*, and SFAS 142, *Goodwill and Other Intangible Assets* . The revised purchase price reflects a reduction for a \$7.5 million credit the Company received from Coty Inc. under a Manufacturing Agreement entered into contemporaneously with the Asset Purchase Agreement. This credit was previously allocated as a reduction of the cost assigned to the inventory acquired under the Manufacturing Agreement but will now be reflected as a reduction in the other long lived assets acquired from Coty, as described below. As a result of a higher cost being attributed to inventory acquired under the Manufacturing Agreement, cost of goods sold has been increased by \$2.5 million in the First Quarter.

2. The \$7.5 million reduction in the purchase price proportionately reduces the values previously assigned to the other long lived assets acquired from Coty, rather than being applied as a reduction in the cost assigned to the inventory acquired under the Manufacturing agreement. As a result, the amount of purchase price allocated to the long lived assets acquired from Coty has been reduced by \$7.5 million and the amortization expense associated with such assets has been reduced by \$0.2 million in the First Quarter.

**NOTE 2 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION - Restated**

The accompanying financial statements of Ascendia Brands, Inc. and its subsidiaries as of and for the thirteen weeks ended May 26, 2007 and May 27, 2006 have been prepared in accordance with generally accepted accounting principles. The financial information furnished reflects all adjustments, consisting only of normal recurring accruals, that are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented.

The Company anticipates that its current cash and cash equivalents, cash flow expected to be generated from operations and available credit facilities, if any, will not be sufficient to meet the Company's operating requirements, except for the near term and for a period substantially less than 12 months. Therefore, unless the Company is able to reduce its cash operating requirements, increase income from operations, modify the terms of its loan agreements and/or raise additional capital, it will become unable to continue to meet its obligations as they fall due.

On October 9, 2007, the Company entered into an agreement with its senior lenders amending certain financial covenants in its first and second lien credit facilities applicable as of the end of the fiscal quarter ended August 25, 2007. Absent such amendment, an event of default would have occurred under the senior credit facilities. There can be no assurance that the Company will be able to negotiate amendments to the financial covenants applicable to future fiscal quarters, and absent such amendments it is probable that an event of default will occur under the senior credit facilities at the end of future reporting periods and there can be no assurance that the senior lenders will waive any such future default.

Further, unless a waiver is provided by its lenders, the Company is required to make a prepayment of its senior debt if and to the extent that, at the end of any month, the amount of first lien debt then outstanding (including the balance outstanding under the Company's revolving credit facility) exceeds three times the Company's adjusted *pro forma* trailing twelve month ( TTM ) earnings before interest, taxes, depreciation and amortization ( EBITDA ). Any such prepayment must be made not later than one business day following the submission of the monthly financial statements that the Company is required to furnish to its lenders under the terms of the senior credit facilities. On December 10, 2007 the Company notified its senior lenders that, based upon its estimated adjusted *pro forma* TTM EBITDA as of October 27, 2007, a prepayment in the amount of approximately \$26 million is currently required to be paid. The Company's failure to make such payment constitutes an event of default under its first and second lien credit facilities and entitles its senior lenders to accelerate the Company's first and second lien indebtedness. In addition, as a result of the Company's inability to make the required prepayments, and as a consequence of the Company's financial condition generally, certain representations and warranties that are deemed to be made whenever the Company makes drawings under its revolving credit facility may no longer be true and correct. These include representations and warranties that the Company and its subsidiaries, taken as a whole, are solvent and that there has been no material adverse change in the condition of the Company since August 26, 2006. The Company has notified its lenders that it cannot make such representations and warranties.



As a result of the Company's failure to make the prepayment and its inability to make the representations and warranties described above, the Company's revolving lender is entitled to cease to make advances under the Company's revolving credit facility. On December 12, 2007 the Company received notice from the agent for the first lien lenders reserving such lenders' rights under the first lien credit facility generally, including the right to cease making advances under the revolving credit facility. The Company's lenders have not yet exercised, or notified the Company that they intend to exercise, any remedies. However, if the lenders were to declare the loans to be due and payable, or if the Company becomes unable to draw on its revolving credit facility, it would become unable to fund continuing operations unless alternative sources of capital were found.

The Company is in negotiations with its lenders to amend its first and second lien loan facilities and is actively seeking additional capital in order to provide the liquidity necessary to fund future operations. On December 31, 2007 we announced that we had reached agreement in principle to amend our senior debt facility. The proposed amendment would include the waiver of certain existing events of default, including those described above, and the restatement of certain financial covenants through the period ending February 28, 2009.

Further, on November 19, 2007, the Company obtained a 180-day \$2.0 million unsecured loan from Prencen Lending LLC, an affiliate of Prentice Capital Management, and an additional \$1.5 million advance under its first lien credit facility, to fund short-term working capital requirements. In consideration for the Prencen Lending loan, we issued to Prencen Lending an unsecured convertible note and warrants to purchase 3,000,000 shares of our common stock at an exercise price of \$0.26 (which corresponded to the closing price of the common stock on the last trading day prior to the date of issuance of the note).

The note will mature on the earlier of (i) the date upon which we complete a subsequent transaction with Prentice or any of its affiliates for the sale of preferred equity securities, or (ii) 180 days from the date of issuance. The note accrues interest on a monthly basis at the rate of fifteen percent *15% per annum*, subject to increase to 20% upon the occurrence of an event of default, as defined in the note. If we enter into a preferred equity transaction with Prentice within 180 days of the issuance of the note, the principal and accrued interest then outstanding will be repaid through the issuance of preferred equity securities at the applicable transaction price. If we do not enter into a preferred equity transaction with Prentice, we are required to issue to Prencen Lending, upon maturity of the note and in satisfaction of the principal and accrued interest thereon, shares of our common stock at a price corresponding to 85% of the weighted average price of the stock for the 10 trading days immediately preceding maturity. If we enter into an equity financing with a third party prior to the note's maturity, Prencen Lending has the option to convert the unpaid principal and interest into such equity securities, at the lowest price paid by such third party.

On December 14, Prentice signed a non-binding letter of intent for a \$26.5 million preferred equity investment in the Company by an affiliate of Prentice. Such investment, which includes conversion of the 2.0 million loan described above, is subject to the negotiation of definitive transaction documents, the successful completion of negotiations currently being conducted between the Company and its senior lenders regarding a re-structuring of its first and second lien loan facilities, and the fulfillment of certain other closing conditions.

There can be no assurance that the transactions contemplated in this letter of intent or the agreement in principle with our senior lenders to amend our senior loan facility will be completed, or that the Company otherwise will be successful in obtaining waivers from its lenders regarding current or future defaults, or that alternative sources of funding will be located.

The accompanying financial statements do not include any adjustments that may in the future be required based upon the resolution of the circumstances described above.

A summary of our significant accounting policies follows:

**Basis of Consolidation:** As of and for the thirteen week ended May 26, 2007 and May 27, 2006, the statements are prepared on a consolidated basis. The accompanying consolidated financial statements include the accounts of Ascendia Brands, Inc. and subsidiaries. All intercompany accounts have been eliminated in consolidation.

**Cash Equivalents:** We consider all highly liquid investments with original maturities of three months or less, when purchased, to be cash equivalents.

**Accounts Receivable:** Trade accounts receivables are recorded at the invoiced amount and do not bear interest. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, which would increase our operating costs.

**Sales Returns:** In connection with the acquisition of the *Calgon* and *the healing garden* brands from Coty we established a reserve for sales returns in anticipation of *Calgon* and *the healing garden* holiday gift set returns from retail customers. We estimate the reserve for returns based on historical and current sales patterns and retail sell-through, and will adjust the reserve amount periodically as necessary. When the customer does not have a related accounts receivable balance the return reserve is recorded in accrued liabilities.

**Miscellaneous Receivables:** In the normal course of business, we generate minor non-trade receivables. As of May 26, 2007, the balance was \$3.6 million, which included a receivable of \$3.5 million from Coty with respect to the transition services agreement associated with the acquisition of the former Coty brands (*see Note 3*). As of February 28, 2007, the balance was \$1.5 million, which included a receivable of \$1.4 million from Coty with respect to the transition services agreement associated with the acquisition of the former Coty brands (*see Note 3*).

**Inventories:** Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture our health, beauty and oral care products, as well as finished goods that we sell to our customers. We write down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

**Prepaid Expenses:** Prepaid expenses were \$5.4 million and \$5.8 million, respectively as of May 26, 2007 and February 28, 2007. Prepaid expenses consists primarily of the unamortized portion of the signing bonus of \$2.0 million paid in February 2007 to incoming CEO Steven R. Scheyer (start date of March 12, 2007) and approximately \$3.0 million paid to Coty to be used to purchase raw materials for product production (no draw-downs as of May 26, 2007 and February 28, 2007). The balance of prepaid expenses for both thirteen-week periods consisted of various payments that are for items that are amortized and expensed in the normal course of business.

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

|                                 |               |
|---------------------------------|---------------|
| Computer equipment and software | 1 to 3 years  |
| Furniture and fixtures          | 3 to 10 years |
| Building                        | 25 years      |
| Machinery and equipment         | 5 to 10 years |
| Dies and molds                  | 1 to 3 years  |

If we determine that a change is required to the useful life of an asset, future depreciation/amortization is adjusted accordingly.

**Impairment of Long-Lived Assets:** Accounting for the impairment of long-lived assets, including property, plant and equipment, requires that long-lived assets and certain identifiable intangibles to be held and used or disposed of by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Under such circumstances, the accounting principles require that such assets be reported at the lower of their carrying amount or fair value less cost to sell. Accordingly, when events or circumstances indicate that long-lived assets may be impaired, we estimate the assets' future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the excess of the carrying amount over the fair value of the asset.

#### **Goodwill and Indefinite Lived Intangibles**

As a result of the merger on May 20, 2005 (see Note 1), the Company recorded goodwill of \$49.7 million associated with the subsequently discontinued wireless applications development division. Goodwill represents the excess of cost over the fair value of identifiable net assets acquired. As a result of the purchase of assets from Playtex on November 16, 2005 (see Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in \$16.9 million being allocated to intangible assets (brand names and product formulae), initially estimated to have indefinite lives. As a result of the purchase of assets from Coty on February 9, 2007 (see Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in \$10.3 million being allocated to intangible assets (product formulae), initially estimated to have indefinite lives. SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS No. 142 ), requires that

goodwill and other intangibles that have indefinite lives not be amortized but be reviewed for impairment annually or more frequently if impairment indicators arise. During the quarters ended February 28, 2007 and 2006, in accordance with SFAS No. 142, we tested the carrying value of goodwill for impairment, which led to goodwill impairment charges of \$14.6 million and \$35.1 million, respectively being recorded in the statement of operations, which are now presented as discontinued operations. During the quarter ended February 28, 2007, we tested the carrying value of the \$16.9 million of indefinite lived intangible assets related to the acquisition of the former Playtex brands. This led to an impairment charge of \$1.8 million being recorded in the statement of operations for some of the brands acquired from Playtex. In the quarter ended May 26, 2007, the Company assigned a finite life to all brands and formulae and began to amortize the assets over the expected useful life (*see* Amortizable Intangible Assets below). As a result there are no remaining indefinite lived intangible assets as of May 26, 2007.

#### Amortizable Intangible Assets - Restated

SFAS No. 142 also requires that intangible assets with finite useful lives be amortized over their respective estimated useful lives and be reviewed for impairment. As a result of the acquisition of the former Playtex brands on November 16, 2005, an allocation of the purchase price resulted in \$30.4 million being allocated to customer relationships. The estimated useful life is 10 years and amortization is being recorded on a straight-line basis. In addition, beginning with the quarter ended May 26, 2007, the Company has assigned an estimated useful life of 5 or 20 years to former Playtex brands of \$12.6 million. Prior to this quarter, the brands and formulae had been assigned an indefinite life. The amortization expense recorded for the thirteen weeks ended May 26, 2007 and May 27, 2006 was \$1.0 million and \$0.8 million respectively.

As a result of the acquisition of the former Coty brands on February 9, 2007, an allocation of the purchase price resulted in \$45.8 million being allocated to customer relationships, \$47.6 being allocated to brand names, \$9.6 million being allocated to formulations and \$0.3 million being allocated to the order backlog. The estimated useful lives are 10 years for customer relationships and formulations and 10 to 20 years for the brand names, to be amortized on a straight-line basis. The amortization expense recorded for the thirteen weeks ended May 26, 2007 was \$2.5 million.

#### Intangible Assets - Restated

Balances of acquired intangible assets for the thirteen weeks ended May 26, 2007 are as follows

|   | (Amounts in thousands) |               |            |
|---|------------------------|---------------|------------|
|   | Formulae               | Customer      |            |
|   | And                    | Relationships | Total      |
|   | Trademarks             |               |            |
| Carrying value at February 28, 2007       | \$ 76,251              | \$ 75,383     | \$ 151,634 |
| Adjustment - product purchase credit      | (4,154 )               | (3,346 )      | (7,500 )   |
| Amortization                              | (1,247 )               | (1,800 )      | (3,047 )   |
| Carrying value, May 26, 2007              | \$ 70,850              | \$ 70,237     | \$ 141,087 |
| Weighted average original life (in years) | 10 to 20               | 10            |            |

Customer relationships are estimated to have a useful life of 10 years and have a carrying value of \$70.2 million at May 26, 2007. Amortization expense for the thirteen weeks ended May 26, 2007 and May 27, 2006 respectively, was \$1.8 million and \$0.8 million.

Trademark rights purchased from Coty are estimated to have a useful life of 20 years for *Calgon* (based on the term of the agreement through which we acquired the rights to sell products under the *Calgon* name) and 10 years for *the healing garden* and have a carrying value of \$47.6 million at May 26, 2007. Amortization expense for the thirteen weeks ended May 26, 2007 was \$0.8 million.

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Trademarks purchased from Playtex are estimated to have a useful life of 5 or 20 years and have a carrying value of \$12.3 million at May 26, 2007. This carrying value reflects the impact of an impairment charge of \$1.8 million recorded in the year ended February 28, 2007 and amortization expense of \$0.2 million for the thirteen weeks ended May 26, 2007.

Product formulae purchased from Playtex and Coty are estimated to have a useful life of 10 years and have a carrying value of \$11.8 million at May 26, 2007. Amortization expense for the thirteen weeks ended May 26, 2007 is \$0.3 million. The Company did not assign a useful life to the Playtex formulae until the thirteen weeks ended May 26, 2007, thus there is no amortization expense for the thirteen weeks ended May 27, 2006.

Amortization expense for intangible assets for the thirteen weeks ended May 26, 2007 and May 27, 2006 respectively, is \$3.0 million and \$0.8 million.

Estimated future aggregate amortization expense based on the current carrying value of intangible assets is as follows:

| Fiscal Year | Amount     |
|-------------|------------|
| 2008        | \$ 9,555   |
| 2009        | 12,624     |
| 2010        | 12,624     |
| 2011        | 12,624     |
| 2012        | 12,624     |
| thereafter  | 81,036     |
|             | \$ 141,087 |

**Other Assets, Net:** Other assets, net of approximately \$9.9 million, consist primarily of \$9.8 million of deferred financing costs related to the financing with respect to the acquisition of the former Coty brands (*see* Note 3). The deferred financing costs are being amortized using the effective interest method over the term of the respective financing arrangements. Amortization expense related to deferred financing costs was \$0.3 million and \$1.2 million respectively, for the thirteen weeks ended May 26, 2007 and May 27, 2006.

**Fair Value of Financial Instruments:** The carrying amounts reported in the accompanying balance sheets for accounts receivable, accounts payable, accrued expenses and financing debt approximate fair value due to the short-term nature of these accounts. Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a periodic basis. Management determines the allowance for doubtful accounts by regularly evaluating individual customer receivables and considering a customer's financial condition, credit history and current economic conditions. As discussed further in Note 6, in accordance with Emerging Issues Task Force (EITF) 96-19 the convertible secured note was recorded at estimated fair value as of December 30, 2006, the date on which there was deemed to have been an extinguishment of such debt due to the modification of its terms.

**Share-Based Awards:** As of March 1, 2006 the Company adopted the Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, (SFAS No. 123(R)). SFAS No. 123(R) requires the Company to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors, including employee stock options and restricted stock. SFAS No. 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), which the Company previously applied for all periods prior to 2007.

Prior to the adoption of SFAS No. 123(R), we accounted for share-based payment awards using the intrinsic value method in accordance with APB No. 25 as allowed under SFAS No. 123, *Accounting for Stock Based Compensation* (SFAS No. 123). As a result of adopting SFAS No. 123(R), the Company's net loss increased \$0.8 million or \$0.06 per basic and diluted loss per share for the year ended February 28, 2007. For the thirteen weeks ended May 26, 2007, the Company's net loss increased \$0.4 million or \$0.01 per basic and diluted loss per share. There was no expense for the thirteen weeks ended May 27, 2006.

For purposes of determining the estimated fair value of share-based payment awards issued in the form of stock options, under SFAS No. 123(R), we utilize the Black-Scholes option-pricing model. The Black-Scholes model requires the input of certain assumptions that involve judgment. Because stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the existing models may not provide a reliable single measure of the fair value of our stock options. Management will continue to assess the assumptions and methodologies used to calculate estimated fair value under the Black-Scholes model. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies, and thereby materially impact our fair value determination.

The fair value of options granted during the year ended February 28, 2007 was estimated on the grant date using the Black Scholes Model with the following weighted average assumptions.

| Weighted average assumptions          | Year ended<br>February 28, 2007 |   |
|---------------------------------------|---------------------------------|---|
| Expected holding period (years)       | 5.42                            |   |
| Risk-free rate                        | 4.64                            | % |
| Volatility factor                     | 34.13                           | % |
| Dividend yield                        | 0.00                            | % |
| Fair value per share at date of grant | \$0.80                          |   |

The expected holding period was determined based on management's assessment including the Company's historical data. Due to the limited history of the Company, volatility was estimated considering the historical volatility of similar publicly traded health and beauty companies over a period similar to the expected holding period of the option. The risk-free interest rate was based on U.S. Treasury rates appropriate for the expected holding period of the option.

No options were granted in the two years ended February 28, 2006 and 2005. Accordingly, no pro forma disclosures as required under SFAS No. 123 are presented for the prior two years.

See Note 9, Stock Awards, Stock Options And Warrants, for a more detailed discussion of share-based awards.

**Revenue Recognition:** Revenue from sales of our health and beauty care products is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable. Such revenue is recorded net of a reserve for returns, customer rebates and promotional spending determined by customer agreements.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to our customers is recognized at the time the products are shipped and included in cost of sales.

**Cooperative Advertising:** Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Issues Task Force 01-09, *Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor's Products*, in the period in which the related sales are recognized. Cooperative advertising expenses were approximately \$2.8 million and \$0.5 million, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006.

**Foreign Currency Translation:** In accordance with SFAS No. 52, *Foreign Currency Translation*, the financial statements are measured using local currency as the functional currency. Assets and liabilities of Lander Canada have been translated into U.S. dollars at the fiscal period-end exchange rates. Revenues and expenses have been translated at average exchange rates for the related period. Net translation gains and losses are reflected as a separate component of stockholders' equity until there is a sale or liquidation of the underlying foreign investment.

Foreign currency gains and losses resulting from transactions are included in the consolidated statements of operations.

**Estimates:** The preparation of these financial statements requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate the estimates and may adjust them based upon the latest information available. These estimates generally include those related to product returns, bad debts, inventory reserves for excess and discontinued products, the fair value of indefinite lived intangibles used in annual impairment testing, income taxes, contingencies and estimates related to the fair market values of the components of the compound derivative liability discussed in Note 6. We base the estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. As necessary and generally in the situation where an estimate of fair value is required, the company will engage outside experts to assist in the determination of such values. Actual results could differ from these estimates.

**Concentration of Credit Risk:** We provide credit to our customers in the normal course of business and do not require collateral. To reduce credit risk, we perform ongoing credit evaluations of our customers.

Five trade customers comprised 64 percent of our net sales, with our top two customers comprising approximately 45 percent and 9 percent, respectively, for the thirteen weeks ended May 26, 2007. At May 26, 2007 the same five trade customers represented 54 percent of receivables, with one customer comprising 41 percent.

Five trade customers comprised 48 percent of our net sales, with our top two customers comprising approximately 34 percent and 5 percent, respectively, for the thirteen weeks ended May 27, 2006. At May 27, 2006 the same five trade customers represented 55 percent of receivables, with one customer comprising 40 percent.

Accordingly, if these customers were not able to pay the amount owed to us and/or stopped purchasing from us, the impact would have a material adverse effect on liquidity, financial position, and results of operations.

**Income Taxes:** Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. As a limited liability company prior to the merger, we elected to be treated as a corporation for income tax purposes.

In assessing our ability to realize deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. A full valuation allowance at May 26, 2007, February 28, 2007 and May 26, 2006 has been recorded by management due to the uncertainty that future income will be generated and the related deferred tax assets realized.

**Earnings per share:** EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* ( EITF 03-6 ) provides guidance in determining when the two-class method, as defined in SFAS No. 128, *Earnings per Share*, must be utilized in calculating earnings per share by a company that has issued securities other than common stock that contractually entitles the holder to participate in dividends and earnings of the company when, and if, the company declares dividends on its common stock. Under the two-class method earnings are allocated to common stock and participating securities to the extent that each security may share in such earnings and as if such

earnings for the period had been distributed. Under the two-class method losses are allocated to participating securities to the extent that such security is obligated to fund the losses of the issuing entity or the contractual principal or mandatory redemption amount of the participating security is reduced as a result of losses incurred by the issuing entity. In accordance with EITF 03-6, basic earnings per share for our common stock and Series A Junior Participating Preferred Stock ( Series A Preferred stock ) have been calculated by dividing net income allocated to common stock and Series A Preferred by the weighted average number of shares of common stock and Series A Preferred stock outstanding, respectively. Diluted earnings per share for our common stock was calculated similarly, except that the calculation included the effect, if dilutive, of (a) the assumed exercise of stock options issuable under our stock-based employee compensation plan, (b) the assumption of the conversion of all of our Series A Preferred stock to common stock and (c) the assumption of the conversion of the Company's convertible debt. Basic and diluted loss per share for our common stock is calculated by dividing the net loss for the period during which such shares were outstanding by the weighted average number of shares outstanding. No losses are allocated to the Series A and B Preferred for the period during which our common stock is outstanding, because the holders of the Series A and B Preferred stock are not obligated to share in the Company's losses as described above.

The dilutive share base excludes incremental shares of 81,697,418 due to their anti-dilutive effect. The excluded shares relate to convertible debt, options and warrants in the money and preferred stock, all of which are convertible into common stock.

During the fiscal year ended February 28, 2007, all of the Series A Preferred stock was redeemed by the Company or converted to Common Stock (see Note 10).

**Comprehensive Income (Loss):** We calculated comprehensive income (loss) in accordance with SFAS No. 130, Reporting Comprehensive Income. Comprehensive income (loss) includes net income (loss), foreign currency translation adjustments and adjustments to the minimum pension liability, net of tax, which are currently presented as a component of stockholders' equity (deficit). The Company's total comprehensive loss was \$6.8 million and \$3.5 million for the thirteen weeks ended May 26, 2007 and May 27, 2006, respectively. The components of accumulated other comprehensive income (loss) were as follows:

|  | Amounts in thousands |                   |
|--|----------------------|-------------------|
|  | May 26, 2007         | February 28, 2007 |
| Foreign currency translation adjustment    | \$ 583               | \$ 285            |
| Minimum pension liability                  | 283                  | 283               |
| Total accumulated other comprehensive loss | \$ 866               | \$ 568            |

## RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, FASB issued Staff Position Aug Air-1, *Accounting for Planned Major Maintenance Activities ( AIR-1 )*. AIR-1 amends APB Opinion No. 28, *Interim Financial Reporting ( APB 28 )*, and prohibits the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. We do have planned major maintenance activities associated with our annual or semi-annual plant shutdowns. We adopted the provisions of AIR-1 beginning March 1, 2007. The guidance in the AIR-1 was applied retrospectively for all financial statements presented, unless it is impracticable to do so. The impact was not material to our historical annual financial results or financial position from the adoption of AIR-1.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159)*. This statement gives entities the option to carry most financial assets and liabilities at fair value, with changes in fair value recorded in earnings. This statement, which will be effective in the first quarter of fiscal 2009, is not expected to have a material impact on our consolidated financial position or results of operations.



In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements* ( SAB 108 ), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The provisions of SAB 108 are effective for the Company after November 15, 2006. The Company followed the guidance of SAB 108 starting in the first quarter of the current year and noted there was no impact on the current or prior consolidated financial statements. .

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS No. 157 applies under a number of other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157 are effective for the Company beginning March 1, 2009. We are currently evaluating the impact of adopting SFAS No. 157 on our financial position and results of operations, but it is not expected to have a significant effect.

In July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109* ( FIN 48 ), which clarifies the accounting for uncertainty in tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principal, if any, recorded as an adjustment to opening retained earnings. We adopted FIN 48 on March 1, 2007 and no such adjustment was necessary.

### NOTE 3 ASSET ACQUISITIONS AND RELATED FINANCING

#### COTY ASSET ACQUISITION - Restated

On February 9, 2007, we acquired the *Calgon* and *the healing garden* brands and certain brand-related assets from Coty Inc. and certain affiliates. The purchase price of \$119.2 million (prior to certain closing adjustments), consisted of \$90.1 million in cash , \$4.9 million in assumed liabilities, a \$20.0 million subordinated note, \$10.0 million in our common stock, \$1.7 million in capitalized transaction costs, reduced by a \$7.5 million credit against the purchase price of finished goods inventory manufactured for the Company by Coty subsequent to February 9, 2007 as a reduction to purchase price of the assets acquired.

The asset purchase agreement contains earn-out provisions under which we could be required to pay Coty up to an additional \$15 million in cash and to issue up to an additional \$5 million in subordinated debt in July 2009, subject to sales of *the healing garden* products meeting specified revenue targets. The Company will account for this contingent consideration when it is finally determined by adjusting the purchase price. The note is subordinated to our senior indebtedness referred to below, matures on September 9, 2012 and bears interest at the rate of 17.25% per annum (19.75% from and during the continuation of certain defaults under our senior indebtedness). Unless each of our senior lenders otherwise agrees, interest on the note is required to be capitalized (deferred and added to the value of the note).

In accordance with SFAS No. 142, we allocated the total purchase price to the assets (liabilities) acquired based on relative fair value. The allocation is as follows:

|  |                   |
|--|-------------------|
| (Amounts in thousands)                           |                   |
| Inventory  | \$ 15,771         |
| Brand names, product formulae and backlog        | 57,522            |
| Customer relationships                           | 45,842            |
| <b>Total assets acquired</b>                     | <b>119,135</b>    |
| Less liabilities assumed in lieu of cash payment | (4,862 )          |
| <b>Total net assets acquired</b>                 | <b>\$ 114,273</b> |

In connection with the closing of the Coty transaction, Ascendia Brands and Coty US LLC ( Coty US ) entered into a Transition Services Agreement (the Transition Services Agreement ), pursuant to which, for a period of 120 days following the closing date, Coty US will provide certain marketing, sales, inventory, distribution, finance, IT and research and development services for Ascendia Brands for a consideration of \$710,000 per month, plus certain personnel costs. In addition, on February 9, 2007 ASBCO and Coty US entered into a Manufacturing Agreement (the Manufacturing Agreement ) pursuant to which, for a period of one year (unless earlier terminated by the parties), Coty US will produce Brand products for sale by Ascendia Brands.

In connection with the financing of the Coty transaction, Ascendia and its subsidiaries entered into a \$160 million senior secured loan facility comprised of a First Lien Facility, a Second Lien Facility and a Revolving Credit Facility. The First Lien Facility of \$80.0 million and the Second Lien Facility of \$50.0 million provided the funding for the acquisition of the Coty net assets. Details of the terms and conditions of the facilities are as follows:

(1) First Lien Facility: On February 9, 2007, Ascendia, each of its domestic subsidiaries, certain lenders and Wells Fargo Foothill, Inc. ( WFF ), as arranger and administrative agent, entered into a Credit Agreement (the First Lien Credit Agreement ) providing a \$110 million credit facility, comprised of a term loan A-1 of \$40 million (the Term Loan A-1 ), a term loan A-2 of \$40 million (the Term Loan A-2 ) and a revolving line of credit of up to \$30 million (the Revolver ), each for a term of five years (the Term Loan A-1, the Term Loan A-2 and the Revolver, collectively, the First Lien Facility ).

At our option, borrowings under the First Lien Facility are based on either LIBOR or prime rate. Initially, the Revolver interest rate is 275 basis points above LIBOR for LIBOR borrowings and 175 basis points above the prime rate for base rate borrowings, the Term Loan A-1 interest rate is 375 basis points above LIBOR for LIBOR borrowings and 275 basis points above the prime rate for base rate borrowings and the Term Loan A-2 interest rate is 675 basis points above LIBOR for LIBOR borrowings and 575 basis points above the prime rate for base rate borrowings. The interest rates under the First Lien Facility may be reduced based on our senior secured indebtedness ratio. Interest on the principal amount of loans outstanding under the First Lien Facility is payable monthly, in arrears. Our borrowings under the Revolver are limited to 85% of our eligible receivables and the lower of \$20 million and 65% of eligible inventory. During the term of the First Lien Facility, we will pay the Revolver lenders a fee equal to the product of 0.375% per annum and the unused portion of the Revolver. The First Lien Facility requires that we make annual payments in the amount of 75% (or 50% if certain conditions are met) of our excess cash flow, if any, commencing after the delivery of our financial statements for our fiscal year ended February 28, 2008 and prepayments corresponding to the net proceeds of certain asset sales and insurance not reinvested in the business, certain debt and equity issuances and, in the event the amount outstanding under the First Lien Credit Facility exceeds 3.00 times trailing twelve month pro forma earnings before interest, taxes, depreciation, and amortization ( EBITDA ), the amount of such excess. Certain of these prepayments may result in a permanent reduction of the Revolver commitment.

Our domestic subsidiaries' obligations under the First Lien Facility are guaranteed by our Canadian subsidiary and secured by a lien on substantially all of our and our subsidiaries' assets, including a mortgage on the Binghamton facility owned by Ascendia Real Estate, and pledges of all of the shares of capital stock or other equity interests of our subsidiaries. The First Lien Facility contains financial covenants requiring us to meet minimum EBITDA requirements, debt coverage tests, minimum leverage and liquidity tests and restrictions on capital expenditures, the incurrence of additional debt, the creation of liens, payment of dividends, acquisitions, asset sales and other affirmative and negative covenants customarily contained in debt agreements of this type. The First Lien Facility contains customary events of default. We used and will use proceeds of the First Lien Facility to finance the Coty transaction, refinance portions of our existing indebtedness, finance working capital, capital expenditures and general corporate purposes and pay transaction fees, costs and expenses. As of May 26, 2007, we had borrowed \$129.5 million of the Term Loan A-1 and the Term Loan A-2 and \$1.3 million under the Revolver.

(2) Second Lien Facility: On February 9, 2007 Ascendia, each of our domestic subsidiaries, certain lenders, WFF, as collateral agent, and Watershed Administrative, LLC, as administrative agent, entered into a Second Lien Credit Agreement (the Second Lien Credit Agreement ) providing a \$50 million credit facility comprised of a term loan (the Term Loan B or the Second Lien Facility ). The maturity date of the Second Lien Facility is March 9, 2012. At our option, borrowings under the Second Lien Facility are based on either LIBOR or prime rate. The Term Loan B interest rate is 900 basis points above LIBOR for LIBOR borrowings and 750 basis points above the prime rate for base rate borrowings. Interest on the Term Loan B is payable quarterly, in arrears. The Second Lien Credit Agreement requires that, to the extent such payments have been waived under the First Lien Facility or funds are available therefore after payment is made under the First Lien Facility, we make mandatory prepayments corresponding to 75% (or 50% if certain conditions are met) of our excess cash flow, if any, and the net proceeds of certain asset sales and insurance not reinvested in our business, certain debt and equity issuances and, in the event the amount outstanding under the First Lien Credit Facility exceeds 3.00 times trailing twelve month pro forma EBITDA, the amount of such excess.

Our domestic subsidiaries obligations under the Second Lien Credit Agreement are guaranteed by our Canadian subsidiary and secured by a second priority lien on substantially all of our and our subsidiaries assets, including a subordinated mortgage on the Binghamton facility owned by Ascendia Real Estate LLC and pledges of all of the shares of capital stock or other equity interests of its subsidiaries. The Second Lien Credit Agreement contains financial covenants requiring that we meet minimum EBITDA requirements, debt coverage tests and minimum leverage and liquidity tests. It also contains restrictions on capital expenditures, the incurrence of additional debt, the creation of liens, our payment of dividends, acquisitions, asset sales and other affirmative and negative covenants customarily contained in debt agreements of this type. The Second Lien Credit Agreement also contains customary default provisions. We used the proceeds of the Second Lien Credit Agreement to finance a portion of the Coty transaction. As of May 26, 2007, the full amount of the Second Lien Facility was outstanding.

*Subordinated Note*

As partial consideration for the purchase of the *Calgon* and *the healing garden* brands from Coty we issued to Coty at the closing of the acquisition a \$20.0 million subordinated note. This note is subordinated to senior indebtedness, matures on September 9, 2012 and bears interest at the rate of 17.25% per annum, provided that from and during the continuance of certain defaults under our senior indebtedness, the interest rate will increase to 19.75% per annum. Unless each of our senior lenders agrees otherwise, interest on the note is required to be capitalized.

**PLAYTEX ASSET ACQUISITION**

On November 16, 2005, our Lander and Lander Intangibles subsidiaries acquired certain brands and brand-related assets from Playtex. The acquired brands included *Baby Magic*, *Binaca*, *Mr. Bubble*, *Ogilvie*, *Tek*, *Dorothy Gray*, and *Tussy*. At the closing, Lander and Lander Intangibles paid a total cash purchase price of \$59.1 million, inclusive of \$2.1 million in acquisition costs.

The \$57.0 million purchase price was subject to certain post-closing adjustments based upon the amount of product inventory delivered to Lander at closing. In December 2005, this adjustment resulted in a purchase price reduction of approximately \$1.3 million, bringing the total purchase price to \$57.8 million, inclusive of acquisition costs. In accordance with SFAS No. 142, the Company allocated the purchase price to the assets acquired based on relative fair value, as follows:

|                                  |           |               |
|----------------------------------|-----------|---------------|
| (Amounts in thousands)           |           |               |
| Inventory                        | \$        | 9,600         |
| Property, plant and equipment    |           | 900           |
| Brand names and product formulae |           | 16,924        |
| Customer relationships           |           | 30,394        |
| <b>Total Purchase Price</b>      | <b>\$</b> | <b>57,818</b> |

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On November 15, 2005 we entered into an \$80 million bridge term loan agreement (the Bridge Loan) with Prencen Lending LLC (as agent and lender, Prencen) and Highgate House Funds, Ltd., (Highgate). We used the proceeds of the Bridge Loan to finance the acquisition of brands from Playtex (\$57.8 million), fund financing fees (\$2.8 million), repay certain existing indebtedness (approximately \$13.8 million in total) and provide working capital or to Lander (approximately \$5.6 million). For the first 90 days following closing, the Bridge Loan bore interest at an annual rate of 5.5 percent above the three-month LIBOR (set two days in advance on November 14, 2005 at 4.34 percent). The interest rate margin over LIBOR increased by five percent per annum at the end of that 90-day period, to 10.5 percent. Also at the end of the 90-day period, the three-month LIBOR was reset on February 12, 2006 for the next 90 days (February 15, 2006 to May 15, 2006). The reset three-month LIBOR rate of 4.74 percent plus the increased interest rate margin of 10.5 percent generated an interest rate on the Bridge Loan of 15.24 percent for the period February 15, 2006 to May 15, 2006.

The Bridge Loan was originally due and payable on May 15, 2006. The Bridge Loan term was extended to coincide with the closing of the Second Amended and Restated Securities Purchase Agreement described below, with interest accrued and paid at closing. The Bridge Loan principal was refinanced with the long-term financing below and, accordingly, was classified as long-term as of February 28, 2006. The borrowings under the Bridge Loan were secured by a first priority lien against all assets of the borrowers and Ascendia Real Estate, and by a pledge of the shares in Ascendia owned by two shareholders.

### NOTE 4 -- INVENTORIES

Inventory consists of the following:

|                | (Amounts in thousands)  |                              |
|----------------|-------------------------|------------------------------|
|                | <b>MAY 26,<br/>2007</b> | <b>FEBRUARY 28,<br/>2007</b> |
| Raw materials  | \$ 5,601                | \$ 7,861                     |
| Finished goods | 19,048                  | 20,772                       |
|                | <b>\$ 24,649</b>        | <b>\$ 28,633</b>             |

### NOTE 5 -- PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

|  | (Amounts in thousands)  |                              |
|--|-------------------------|------------------------------|
|  | <b>MAY 26,<br/>2007</b> | <b>FEBRUARY 28,<br/>2007</b> |
| Land   | \$ 660                  | \$ 660                       |
| Computer equipment and software                | 1,386                   | 1,147                        |
| Furniture and fixtures                         | 274                     | 260                          |
| Building                                       | 2,645                   | 2,645                        |
| Machinery and equipment                        | 4,823                   | 4,590                        |
| Dies and molds                                 | 71                      | 75                           |
| Leasehold improvements                         | 325                     | 299                          |
| Construction in progress                       | 1,818                   | 333                          |
|  | <b>12,002</b>           | <b>10,009</b>                |
| Less accumulated depreciation and amortization | <b>(3,769 )</b>         | <b>(3,509 )</b>              |
|  | <b>\$ 8,233</b>         | <b>\$ 6,500</b>              |

Depreciation and amortization expense related to property, plant and equipment was \$0.2 million and \$0.2 million, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006.

As of May 26, 2007 and February 28, 2007, machinery and equipment includes assets under capital leases totaling \$0.15 million. Accumulated amortization on the capital leases was \$0.06 million and \$0.06 million as of May 26, 2007 and February 28, 2007, respectively. Amortization expense related to capital leases is included in depreciation and amortization expense for the thirteen weeks ended May 26, 2007 and May 27, 2006.

As of May 26, 2007 and February 28, 2007, \$5.8 million and \$0.1 million, respectively was required to complete construction in progress. The Company does not capitalize interest.

**NOTE 6 -- LONG-TERM DEBT**

Long-term debt consists of the following:

|   | (Amounts in thousands) |                      |
|---|------------------------|----------------------|
|   | MAY 26,<br>2007        | FEBRUARY 28,<br>2007 |
| Convertible secured notes, including accretion of redemption premium and capitalized interest | 88,561                 | 86,486               |
| Debt discount   | (28,942 )              | (29,436 )            |
| Compound derivative liability   | 65,232                 | 66,267               |
| First and second lien term loans  | 129,500                | 130,000              |
| Revolving credit facility   | 1,293                  |                      |
| Subordinated debt, including capitalized interest   | 21,088                 | 20,000               |
|   | 276,732                | 273,317              |
| Less current portion  | 2,000                  | 2,000                |
| Total   | \$ 274,732             | \$ 271,317           |

*Convertible Secured Notes Background*

On October 1, 2005, we entered into a commitment with the lenders under the Bridge Loan for the provision of long-term debt and equity financing (the Debt/Equity Financing ) to repay the Bridge Loan. The terms of this commitment were amended on November 15, 2005, concurrently with the closing of the Bridge Loan. Prior to its maturity, the parties agreed to an extension of the Bridge Loan pending the completion of discussions on further modifications to the Debt/Equity Financing. The parties also agreed to defer the payment of certain interest under the Bridge Loan pending its maturity.

On June 30, 2006, we (i) agreed with Prencen and Highgate to amend the Debt/Equity Financing commitment and (ii) in connection with such amendment, entered into a Second Amended and Restated Securities Purchase Agreement (the Securities Purchase Agreement ) with Prencen and Prencen Lending, LLC ( Prencen Lending ). Prior to the closing, which occurred on August 2, 2006, Prencen Lending acquired the interests of Highgate under the Bridge Loan.

Under the Securities Purchase Agreement, we sold Prencen Lending convertible secured notes (the Notes ) in the principal amount of \$91.0 million and issued to Prencen Lending the Series A and Series B Warrants described below. We applied the proceeds of the sale of the Notes to retire the Bridge Loan (\$80.0 million) and to pay accrued interest on the Bridge Loan (\$4.1 million), cash fees associated with the refinancing to an affiliate of Prencen Lending (\$3.7 million) and third party cash fees associated with the refinancing (\$0.5 million), producing net cash proceeds to the Company of approximately \$2.7 million. In addition, we paid related fees and expenses of approximately \$5.6 million to Stanford Group Company ( Stanford ) and issued to Stanford and certain of its employees warrants to purchase 137,615 shares of our common stock at an exercise price of \$3.76 per share, and warrants to purchase 552,632 shares of our common stock at an exercise price of \$4.37 per share (collectively, the Stanford warrants ). The estimated fair value of the Stanford warrants (\$0.7 million) was recorded as an increase to additional paid-in capital and deferred financing costs.

The Notes had a term of ten years (subject to the put and call rights described below) and bore interest at the rate of 9.0% *per annum*. During the first six months of the term, we had the option to defer payment of interest. As a result, we elected to defer \$2.6 million of interest as of November 25, 2006 on the Notes. In the event Ascendia had made an acquisition in the consumer products area that would have been in form and substance satisfactory to a majority of the holders of the Notes (an *Approved Acquisition*), we could have elected to defer and add to principal on the Notes interest payments otherwise due over the balance of the term of the Notes. Upon the consummation of such an *Approved Acquisition*, we would also have had the right to redeem up to \$40.0 million of the balance outstanding under the Notes at a premium of 15%. In addition, at any time after the fifth anniversary of the issuance of the Notes (August 2, 2011), Ascendia had the right to redeem, or any holder may have required the Company to redeem, all or any portion of the balance outstanding under the Notes at a premium of 5% (the *5 Year Put Option*).

In connection with the amendment and restatement of the Debt/Equity Financing agreements and the sale of the Notes, we also issued to Prencen Lending, on August 2, 2006, a warrant, designated as the *Series A Warrant*, entitling the holder to purchase up to 3,053,358 shares of our common stock at an exercise price of \$2.10 per share. On the same date, we issued to Prencen Lending an additional warrant, designated as the *Series B Warrant*, entitling the holder to purchase up to three million shares of our common stock. The number of shares issuable upon exercise of the *Series B Warrant*, and the applicable exercise price, depended upon the principal balance of the Notes outstanding to Prencen Lending as of the earlier of (a) the completion of an *Approved Acquisition*, as defined in the Securities Purchase Agreement; and (b) a future date certain. This determination date was subsequently deferred, by agreement of the parties, to February 27, 2007.

In connection with the Coty asset acquisition on February 9, 2007 (which constituted an *Approved Acquisition*), the number of shares issuable upon exercise of the *Series B Warrant* was fixed at two million, and the applicable exercise price at \$1.35 per share, based upon the \$76.0 million in principal amount of the New Notes as defined below) held by Prencen Lending on such date.

Any portion of the balance due under the Notes was convertible at any time, at the option of the holders(s) (the *Conversion Option*), into shares of our common stock (*Conversion Shares*) at a price of \$1.75 per share (subject to certain anti-dilution adjustments for the subsequent issuance of common stock or securities convertible or exchangeable into common stock at a price less than the conversion price then in effect), provided that the holders were prohibited from converting any amounts due under the Notes if and to the extent that, following such a conversion, the holder and any affiliate would collectively own more than 9.99% of the aggregate number of shares of our common stock outstanding following such conversion. The Notes described various events of default which included, but were not limited to (a) the failure to make effective by June 30, 2007, and keep effective thereafter, a registration statement to register the *Conversion Shares* issuable upon exercise of the *Series A and B Warrants* and other shares (the *Registration Statement*), (b) the suspension in trading of the Company's stock for a defined period, (c) the failure timely to issue *Conversion Shares* in response to a conversion notice received from a Note holder, and (d) the failure to have available sufficient authorized shares to enable the conversion of the Notes. In the event of a default, the holders of the Notes could have required the Company to redeem the Notes at the greater of a 25% premium, or the value of the shares underlying the conversion of such Notes at the time of the event of default (determined by reference to a definition of a maximum share price). In the event of a *Change in Control* of the Company (as defined), the holders of the Notes would have had the right (the *Change in Control Put*), for a period of 20 days subsequent to the receipt of notice of the *Change in Control*, to require the Company to redeem the Notes at the greater of a 20% premium, or the value of the shares underlying the conversion of such Notes at the time of the change in control (determined by reference to a definition of a maximum share price). The above described *Conversion Option* and specifically noted events of default (the *Default Derivatives*), along with a *Change in Control Put* included in the Notes (collectively the *Compound Derivative*) were bifurcated as derivatives required to be accounted for separately under SFAS No. 133, *Accounting for Derivative Financial Instruments and Hedging Activities*, and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock*, and are considered in the determination of the estimated fair market value of the *Compound Derivative* liability noted below.

On December 30, 2006 we entered into an agreement (the "Note Amendment Agreement") with Prencen Lending and Prencen, amending certain terms and conditions of the Notes described above.

As amended, the Notes (the "Amended Notes") had a term of 10 years from the date of the Note Amendment Agreement (subject to certain put and call rights described below) and bore interest at the rate of 9 percent *per annum*, subject to increase to up to 13% upon the nonoccurrence of certain specified events. However, as a consequence of the acquisition of the Coty brands, we had the option to accrue and capitalize interest until the Amended Notes mature. The interest rate on the Amended Notes would have increased to 15% upon and during the continuance of an event of default.

Any portion of the balance due under the Amended Notes was convertible at any time, at the option of the holders(s), into shares of our common stock at a price of \$0.42 per share (subject to certain anti-dilution adjustments), provided that the holders could not convert any amounts due under the Amended Notes if and to the extent that, following such a conversion, the holder and any affiliate would collectively beneficially own more than 9.99 percent of the aggregate number of shares of our common stock outstanding following such conversion. We were entitled to require the exchange of up to \$40.0 million in principal amount of the Amended Notes for shares of a newly created series of preferred stock on terms acceptable to us and Prencen Lending, at a premium of 15 percent, if necessary to maintain our stockholders' equity at the level required pursuant to the continued listing standards of the American Stock Exchange, on which our Common Stock is listed.

At any time after the eighth anniversary of the Note Amendment Agreement, we or any holder were entitled to redeem all or any portion of the balance outstanding under the Amended Notes at a premium of 7 percent. The Amended Notes were redeemable by the holder(s) at any time upon the occurrence of an event of default or a change in control of the Company (as defined in the Amended Notes), at premiums of 25 and 20 percent, respectively. In addition, upon the consummation of an Approved Acquisition (as defined), the Company was entitled to redeem up to \$10.0 million in principal amount of the Amended Notes at a premium of 15 percent, and \$10.0 million in principal amount of the Amended Notes at a premium to be mutually agreed between the parties (*see* "Note Redemption and Re-Issuance" below).

The Amended Notes ranked junior to the Permitted Senior Indebtedness (as defined in the Amended Notes) and were secured by a perfected security interest in all of the assets of the Company and the stock and assets of each of our subsidiaries, pursuant to the terms of a security agreement, the guarantees of certain domestic subsidiaries of the Company and the guarantee of our Canadian subsidiary.

In connection with the issuance of the Amended Notes, Prencen Lending agreed to waive certain defaults arising under the Notes relating to the payment of accrued interest due December 31, 2006, to waive compliance with certain financial covenants through the end of our fiscal year ended February 28, 2007, and to defer until June 30, 2007 the requirement to file a registration statement with respect to the Conversion shares.

In addition, on December 27, 2006, we entered into a Second Amended and Restated Registration Rights Agreement in favor of Prencen and Prencen Lending to provide registration rights with respect to the Conversion Shares, the Preferred Stock issued to Prencen and the Common Stock into which the Preferred Stock may be converted. Under the Registration Rights Agreement, we were required to file a registration statement with respect to the registrable securities by a date certain, initially by June 30, 2007 and subsequently extended to September 30, 2007, and to use our best efforts to have such registration statement declared effective not later than 60 days thereafter (or 90 days after the filing deadline if the registration statement is subject to a full review by the Securities and Exchange Commission).

*Convertible Secured Notes Current - Restated*

On February 9, 2007, in connection with the acquisition of *Calgon* and *the healing garden* brands from Coty and the related senior financing facility, we redeemed and permanently retired \$5.0 million in principal amount of the Amended Notes held by Prencen Lending at a premium of \$0.75 million. In addition, we paid \$4.4 million in accrued interest on the Amended Notes. The Company redeemed the remaining \$86.0 million in aggregate principal amount of the Amended Notes and in exchange issued new notes (the *New Notes* ) with terms and conditions substantially identical to the Amended Notes, \$76.0 million in aggregate principal amount to Prencen Lending and an additional \$10.0 million in aggregate principal amount to Watershed Capital Partners, L.P. and Watershed Institutional Partners, L.P. (together, *Watershed* ). The terms of this transaction were determined through negotiations between Prencen Lending and Watershed.

The *New Notes* are secured by a third lien on substantially all of our and our domestic subsidiaries' assets and guaranteed by all of our subsidiaries. The *New Notes* mature on December 30, 2016 (subject to certain put and call rights described below) and bear interest at the rate of 9% per annum (subject to increase to up to 15% upon the occurrence or non-occurrence of certain events), payable monthly, in arrears. The acquisition of the former Coty brands constituted an *Approved Acquisition* and we have elected to capitalize interest accruing on the *New Notes*.

Any portion of the balance due under the *New Notes* will be convertible at any time, at the option of the holder(s), into shares of our common stock (at a price of \$0.42 per share (subject to certain anti-dilution adjustments), provided that a holder may not, except in accordance with the terms of the *New Notes*, convert any amounts due under the *New Notes* if and to the extent that, following such a conversion, such holder and its affiliates would collectively beneficially own more than 9.99% of the aggregate number of shares of our common stock outstanding following such conversion. In addition, we may require the exchange of up to \$40.0 million in principal amount of the *New Notes* for shares of a newly created series of convertible preferred stock, on terms acceptable to us and the holders of a majority in principal amount of the *New Notes*, for a 15% exchange fee, payable in cash, if necessary to maintain our stockholder equity at the level required pursuant to the continued listing requirements of the American Stock Exchange. On November 19, 2007, we entered into an agreement with Prencen Lending for a \$2 million short-term unsecured loan, in connection with which we issued Prencen warrants to purchase our common stock at an exercise price of \$0.26. *See*, Note 2 above. The issuance of these warrants triggered the anti-dilution provisions in the *New Notes*, with the result that the *New Notes* became convertible into our common stock, subject to the restrictions described above, at a price of \$0.26 per share. The issuance of additional equity or equity-linked instruments at an effective price of less than \$0.26 (including the proposed preferred equity transaction involving Prentice described in Note 2, above, will cause a further reduction in the conversion price of the *New Notes*.

At any time after the eighth anniversary of the issuance of the *New Notes*, we or any holder may redeem all or any portion of the balance outstanding under the *New Notes* at a premium of 7%. The *New Notes* are redeemable by the holder(s) of at least a majority in principal amount of the Notes at any time upon the occurrence of an event of default, or by any holder upon a change in control of Ascendia (as defined in the *New Notes*), at premiums of 25% and 20%, respectively.

The *New Notes* rank *pari passu* with each other and junior to the First Lien Facility and the Second Lien Facility.

The full principal amount of the *New Notes* is not convertible into Conversion Shares until twenty days after we have mailed to our stockholders an Information Statement on Schedule 14C describing, among other things, an action by consent that was taken by certain of our stockholders approving the conversion of the *New Notes*, as required by the rules of the American Stock Exchange, and approving an amendment to our certificate of incorporation to increase the number of authorized shares to such amount as is necessary to enable the conversion of the *New Notes* into, and the exercise of the Series A Warrants and Series B Warrants for, shares of our common stock.

Upon issuance of the Notes, we entered into, and upon issuance of the *New Notes* subsequently amended, a Registration Rights Agreement (the *Registration Rights Agreement* ) with respect to the Conversion Shares, Warrant Shares (as defined in the *Registration Rights Agreement*), the Preferred Conversion Shares (as defined in the *Registration Rights Agreement*) and any shares of our Common Stock currently held or subsequently acquired



by Watershed, Prencen or Prencen Lending (the Registrable Securities ). Under the Registration Rights Agreement, we are required to file a registration statement with respect to the Registrable Securities by a date certain (initially by June 30, 2007 and subsequently extended to September 30, 2007) and to use our best efforts to have such registration statement declared effective not later than 60 days thereafter (or 90 days thereafter if the registration statement is subjected to a full review by the Securities and Exchange Commission). The Registration Rights Agreement contains penalties for the failure to comply with such deadlines or to maintain the effectiveness of the registration statement. In the event the Registration Statement is not timely filed or made effective or maintained effective (as described above) the holders of the Notes are also entitled to a cash penalty in the amount of 2% of the face amount of the Notes for each 30-day period until such time as the default has been cured, subject to a maximum of 10%. In addition, in the event that the Company fails to timely issue shares in response to a conversion notice received from a Note holder or an exercise notice received from the holder of a Series A or B Warrant, the holders of such Notes or warrants would be entitled to damages in the amount of 1.5% per day of the then current value of the shares not timely delivered for each day that such delivery was not provided.

In addition, Prencen, Prencen Lending and Watershed were granted demand and piggyback registration rights on terms set forth in the Registration Rights Agreement.

#### *Accounting for Issuance of Convertible Secured Notes*

Consideration received from the issuance of the Notes on August 2, 2006 (\$87.3 million, net of a \$ 3.7 million origination fee paid to Prentice Capital Management, LP, an affiliate of Prencen Lending), was allocated to the Series A and Series B Warrants and the Notes based on the relative fair value of each. The resulting \$8.4 million value attributed to the Series A and Series B Warrants has been reflected as a credit to paid-in capital with an offsetting debt issuance discount recorded on the Notes. The resulting allocation to the Notes (\$78.9 million) was then further offset, as an additional debt issuance discount, by the estimated fair value of the liability for the compound derivative discussed above (amounting to \$38.3 million as of August 2, 2006) and \$3.7 million of fees paid to Prencen. The debt issuance discount (totaling \$50.4 million) and the cash and other deferred finance costs associated with the issuance of the New Notes (totaling \$6.8 million), were initially being amortized to interest expense under the interest method over the five year period to the date that the five Year Put Option becomes exercisable (August 2, 2011). The 5% premium associated with the five year Put Option (\$4.6 million) was initially being accreted over the same five-year period, also under the interest method, as an increase to interest expense and the recorded value of the Notes.

The issuance of the Amended Notes on December 30, 2006, created a deemed extinguishment of debt in accordance with the guidance of EITF Issue 96-19. As a result, all previously deferred financing costs (having an unamortized costs of \$6.6 million on December 30, 2006) were included in the loss on extinguishment. In addition, the value of the Compound Derivative associated with the December 30, 2006 issuance of the Amended Notes has also been included in the loss on deemed extinguishment of debt. Further, as discussed in EITF 96-19, *Debtors Accounting for a Modification or Exchange of Debt Instruments*, the recorded value of the Amended Notes outstanding on December 30, 2006 was adjusted to the estimated fair market value of the Amended Notes following the deemed extinguishment. The difference of \$48.0 million between the old derivative of \$21.6 million and the new derivative value of \$69.6 million has also been included in the loss recorded on deemed extinguishment. Finally, the difference of \$17.2 million between the debt discount on the old derivative of \$48.8 million and the debt discount on the new derivative of \$31.6 has been included in the loss on extinguishment. The net loss on the deemed extinguishment of debt was \$71.8 million. Subsequent to the December 30 restructuring, amortization of the debt issuance discount and the accretion of the 5% put premium remains under the effective interest method; however the period has been modified from 5 to 8 years, consistent with the extension of the date of the put option. Such amortization and accretion amounted to \$0.8 million in the current quarter and \$2.1 million since inception. Amortization of finance fees amounted to \$0.1 million in the current quarter and \$0.3 million for the year ended February 28, 2007.

As a result of redeeming \$5.0 million of the Amended Notes on February 9, 2007, the Company recorded a \$1.8 million gain on extinguishment of debt, as a result of a \$4.3 million change in value of the Compound Derivative offset by the payment of a redemption fee of \$0.8 million and the write-off the applicable debt discount of \$1.7 million.

The liability recorded for the Compound Derivative is adjusted to fair market value at each future reporting date with the difference in the fair value of such liability between such reporting dates being recorded as an increase or decrease in interest and other expense for that period. The value of the compound derivative at May 26, 2007 and February 28, 2007 is \$64.8 million and \$66.3 million, respectively. The difference of \$1.5 million was recorded as income for the thirteen weeks ended May 26, 2007.

*First and Second Lien Term Loans*

In connection with the financing of the Coty transaction, Ascendia and its subsidiaries entered into first and second lien term loans maturing in the year 2012. The terms and conditions are described in Note 3. At February 28, 2007, the amount outstanding under the term loans is \$129.5 million.

*Subordinated Note*

In connection with the financing of the Coty transaction, the seller took back a \$20.0 million subordinated note as described in Note 3. At May 26, 2007 interest of \$1.1 million was capitalized and added to the note balance.

*Revolver(s)*

On August 3, 2006, we entered into a three-year \$13.0 million revolving credit facility with CIT Group/Commercial Services, Inc. ( CIT ) We used this facility to fund approximately \$5.6 million of the cash costs associated with the Convertible Secured Notes described above and approximately \$0.1 million in expenses associated with this facility. In addition, another \$0.9 million was drawn from the facility. This along with the \$2.7 million in net proceeds from the issuance of the Notes was used to redeem certain shares of the Company's Series A Junior Participating Preferred Stock from MarNan, LLC and Dana Holdings, LLC. The remainder of availability under the facility was used for working capital and general corporate purposes. The facility was secured by our United States accounts receivable and inventory.

On February 9, 2007, we terminated this facility and paid CIT a prepayment premium of \$130.0 thousand and wrote-off the associated deferred financing costs of \$0.3 million.

On the same date, we entered into a new \$30.0 million revolving credit facility, as described in Note 3, which forms part of the First Lien Facility described above. At May 26, 2007 and February 28, 2007, respectively, there was \$1.3 million and zero outstanding under the Revolver. Availability under the revolving facility was \$18.0 million and \$16.3 million, respectively as of May 26, 2007 and February 28, 2007. On December 12, 2007 we informed our lenders that certain representations and warranties deemed given when advances are made under the Revolver, including the representations and warranties that the Company and its subsidiaries, taken as a whole, are solvent, and that no material adverse change has occurred since August 26, 2006, may not be correct. As a result, the lenders may decline to make further advances under the Revolver.

The aggregate maturities of long-term debt are as follows:

|            |                        |
|------------|------------------------|
|            | (Amounts in thousands) |
|            | <b>MAY 26, 2007</b>    |
| 2008       | \$ 1,500               |
| 2009       | 2,000                  |
| 2010       | 2,000                  |
| 2011       | 2,000                  |
| 2012       | 72,000                 |
| 2013       | 71,088                 |
| Thereafter | 126,144                |
|            | \$ 276,732             |

**NOTE 7 -- INCOME TAXES**

In each period presented the effective income tax rate differs from the statutory rate of 34% primarily due to the inability to recognize tax benefits on current losses.

**NOTE 8 -- COMMITMENTS AND CONTINGENCIES - Restated**

We have various non-cancelable operating leases for manufacturing and office facilities. Rent expense was \$0.2 million and \$0.1 million, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006. Future minimum payments under capital lease arrangements are not material. Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) are as follows:

|                              | (Amounts in thousands)      |
|------------------------------|-----------------------------|
|                              | <b>OPERATING<br/>LEASES</b> |
| 2008                         | \$ 1,046                    |
| 2009                         | 1,242                       |
| 2010                         | 1,136                       |
| 2011                         | 871                         |
| 2012                         | 102                         |
| Thereafter                   | 0                           |
| Total minimum lease payments | \$ 4,397                    |

In addition to the above lease obligations, we have purchase obligations of \$ \$1.4 million that are due on or before February 28, 2008.

*TMV Corporation v. Lander*

On May 21, 2007, TMV Corporation, a Florida corporation ( TMV ), filed a Demand for Arbitration against our subsidiaries Lander Co., Inc. and Lander Co. Canada Limited (collectively, Lander ) in connection with a distribution agreement between Lander and USA Labs, Inc. entered into in May 2004. TMV was the parent company of USA Labs. USA Labs filed a petition under Chapter 11 of the Bankruptcy Code on December 17, 2004. TMV seeks indemnification in the amount of \$10 million (allegedly representing the loss of its investment in USA Labs), an accounting of sums allegedly owing by Lander to USA Labs and other unspecified relief.

Under the distribution agreement, Lander agreed to distribute products manufactured by USA Labs and to provide invoicing, collection and other services in relation to those products. TMV, as the parent of USA Labs, executed a Joinder agreement solely for purposes of confirming its consent to the terms of the distribution agreement. TMV seeks to rely upon the Joinder agreement as the basis for asserting a contractual claim for indemnification against Lander. In its Demand for Arbitration, TMV alleged that Lander breached the distribution agreement and wrongfully retained revenues in excess of \$1 million belonging to USA Labs. TMV alleged that these and other alleged breaches by Lander caused USA Labs to file bankruptcy and resulted in TMV losing its investment in USA Labs.

We believe that Lander fully complied with the terms of the distribution agreement and that it made a full accounting to the bankruptcy court of all amounts owing under the distribution agreement. It is further our position that TMV lacks standing to assert claims for indemnification under the distribution agreement or otherwise. On December 10, 2007 the court ruled in Lander s favor, enjoining TMV from continuing with its claims as pled. However, the court allowed TMV to re-plead if it is able to assert direct claims consistent with the court's order. There can therefore be no assurance that TMV will not seek to reconstruct its claims as direct claims against Lander. In addition, the court s order permits the bankruptcy trustee to pursue any claims that may exist against Lander.

We will continue to defend this claim vigorously, and believe that the likelihood of TMV prevailing is remote. However, there can be no assurance as to the outcome of the case.

*Ferguson v. Lander Co., Inc.*

On March 14, 2006, Thomas Ferguson, a former employee, sued Lander Co. Inc. in Federal court in Binghamton, NY, alleging that his termination by Lander on September 17, 2004 violated the New York State Human Rights Law, the Federal Age Discrimination in Employment Act and the Federal Family Medical Leave Act (*Ferguson v. Lander Co, Inc.*, No. 06 328 (N.D.N.Y.)) We answered Ferguson's complaint on May 19, 2006, asserting that Ferguson's dismissal was part of a company-wide reduction in force undertaken to reduce costs. Ferguson seeks \$500,000 in damages. On October 5, 2007 the U.S. District Court for the Northern District of New York rejected Lander's motion for summary judgment and the case is scheduled for trial in February, 2008. We intend to contest the action vigorously, and believe it is more likely than not that we will prevail. However, there can be no assurance as to the outcome of the case.

*Frank Kuchler, Sr.*

By letter dated June 14, 2007, attorneys for Frank Kuchler, a former probationary employee, notified us of their intention to file an action for wrongful dismissal against us on behalf of Mr. Kuchler. To date, no action has been commenced, and Mr. Kuchler's attorneys have not specified the amount of damages to which they claim he is entitled. We will defend any such action vigorously, and will assert one or more counterclaims against Mr. Kuchler. We believe that the likelihood of Mr. Kuchler prevailing, should he in fact commence legal proceedings, is remote. On July 27, 2007 Mr. Kuchler filed a complaint against us with the Equal Employment Opportunity Commission ( EEOC ) alleging that his termination by the Company violated the Americans with Disabilities Act. Following mediation held before the EEOC on October 9, 2007, Mr. Kuchler withdrew his complaint with prejudice.

*Wachovia Capital Markets*

By letter dated March 16, 2007 Wachovia Capital Markets L.L.C. demanded a transaction fee of \$1.75 million relating to our acquisition of the *Calgon* and *the healing garden* brands from Coty. Wachovia's claim is based upon an agreement dated May 10, 2006 between the Company and Wachovia pursuant to which Wachovia agreed to render certain advisory services to the Company in connection with the acquisition. On June 29, 2007 Wachovia and the Company entered into a settlement agreement, in connection with which the Company has paid Wachovia a \$1 million settlement amount. The obligation for this settlement was accrued for as of February 28, 2007 and capitalized as part of the purchase price in connection with the Coty asset acquisition.

*Joao v. Cenuco, Inc.*

On February 1, 2005, Raymond Anthony Joao filed a patent infringement action against our Cenuco Wireless subsidiary in Federal District Court for the Southern District of New York (*Joao v. Cenuco, Inc.*, 05 Civ. 1037 (CM) (MDF)). The complaint asserts that Cenuco Wireless is infringing upon certain patents held by Joao, specifically United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130. These patents cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. Cenuco Wireless has vigorously defended this case on the merits. We believe that the patents held by Joao are invalid and that the chances of Joao prevailing are remote. However, there is no assurance as to the outcome of the case. As of February 28, 2007 we had discontinued our wireless applications development business.

*Sensibility Soaps, Inc.*

By letter dated December 20, 2007, Sensibility Soaps, Inc., a contract manufacturer of health and beauty care products, asserted that we are in breach of a contractual commitment to purchase certain guaranteed minimum quantities of products. The letter seeks payment of \$606,000, which Sensibility asserts is the gross invoice value of the products in question. We are discussing this claim with Sensibility. We have not yet formed an opinion as to the probable outcome of this matter and the amount of loss from an unfavorable outcome cannot reasonably be estimated at this time.

The Company is subject to certain claims and litigation in the normal course of business. Management believes, after consulting with legal counsel, that the ultimate liability resulting from these matters will not materially affect the consolidated results of operations or financial position of the Company.

**NOTE 9 STOCK AWARDS, STOCK OPTIONS AND WARRANTS****Share-Based Awards**

The adoption of SFAS No. 123(R), effective March 1, 2006 requires us to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees and directors, including stock options and restricted stock. SFAS No. 123(R) supersedes APB No. 25, which we previously applied for all periods prior to 2007.

We adopted SFAS No. 123(R) using the modified prospective transition method, which requires application of the accounting standard as of March 1, 2006, and the consolidated financial statements for 2007 reflect such impact. In accordance with the modified prospective transition method, the consolidated financial statements for prior periods have not been restated to reflect the impact of SFAS No. 123(R).

On February 23, 2007, we granted stock options for 2,857,500 shares of common stock. One-third of the options vested immediately with one-third vesting on the first anniversary date of grant and the remaining one-third vesting on the second anniversary date of grant. Using the Black-Scholes option pricing model, the estimated fair value of the options was \$0.80 per share for total compensation expense of \$2.3 million to be recognized over the options vesting periods. In accordance with SFAS No. 123(R), we recorded expense of \$0.4 million for the options that vested during the thirteen weeks ended May 26, 2007. The recorded expense included a charge of \$0.3 million related to the accelerated vesting of options as part of a separation agreement.

On February 22, 2007, we granted 1,000,000 shares of our common stock to directors and employees in the form of restricted stock. The fair value of the stock awards was \$2.0 million on the date of grant. We recorded a stock-based compensation expense of \$0.1 million for the portion of the awards that vested during the thirteen weeks ended May 26, 2007.

As a result of the Merger on May 20, 2005, all previously issued options of 556,668 that were unvested on that date became automatically vested. On December 26, 2006, 40,000 options expired unexercised. On February 14, 2007, options on 200 shares of common stock were exercised in a cashless transaction that resulted in the issuance of 122,840 shares of common stock.

The following information applies to options outstanding at May 26, 2007:

|   | Shares     | Exercisable | Non-vested | Weighted Average Exercise Price |
|---|------------|-------------|------------|---------------------------------|
| Outstanding at May 20, 2005                   | 556,668    | 556,668     | 0          | \$ 1.52                         |
| Granted, exercised or forfeited               | 0          | 0           | 0          | \$ 0.00                         |
| Outstanding at February 28, 2006              | 556,668    | 556,668     | 0          | \$ 1.52                         |
| Granted February 23, 2007                     | 2,857,500  | 952,500     | 1,905,000  | \$ 2.00                         |
| Exercised pre merger                          | (200,000 ) | (200,000 )  | 0          | \$ 0.91                         |
| Forfeited pre merger                          | (40,000 )  | (40,000 )   | 0          | \$ 0.55                         |
| Outstanding at February 28, 2007 May 26, 2007 | 3,174,168  | 1,269,168   | 1,905,000  | \$ 2.00                         |

At May 26, 2007, the aggregate intrinsic value of options outstanding and exercisable was \$0.1 million. The weighted average remaining contractual term of options outstanding and exercisable at May 26, 2007 was 8.65 years. The aggregate intrinsic value represents the total pre-tax value, based on the Company's closing stock price as of May 26, 2007, which would have been received by the option holders had they exercised their in-the-money options as of that date. No options were granted, exercised or forfeited during the thirteen weeks ended May 26, 2007 and May 27, 2006.

**Warrants**

From the date of the Merger to May 26, 2007, 163,500 warrants have been exercised at an exercise price of \$1 per share. No warrants were granted, exercised or forfeited during the thirteen weeks ended May 26, 2007.

The following information applies to warrants outstanding at May 26, 2007:

|   | Shares     | Weighted Average<br>Exercise Price |
|---|------------|------------------------------------|
| Outstanding and exercisable at May 20, 2005                       | 2,230,044  | \$ 3.96                            |
| Granted   | 500,000    | \$ 6.00                            |
| Exercised   | (131,500 ) | \$ 1.00                            |
| Forfeited   | (105,000 ) | \$ 1.00                            |
| Outstanding and exercisable at February 28, 2006                  | 2,493,544  | \$ 4.67                            |
| Granted   | 5,743,605  | \$ 2.10                            |
| Exercised   | (32,000 )  | \$ 1.00                            |
| Forfeited   | (0 )       | \$ 0.00                            |
| Outstanding and exercisable at February 28, 2007 and May 26, 2007 | 8,205,149  | \$ 2.88                            |

**NOTE 10 -- CAPITAL STRUCTURE AND NET LOSS PER COMMON SHARE**

**Capital Structure:**

At May 26, 2007, our outstanding share capital was comprised of: (i) 41,779,840 shares of common stock (ii) 300 shares of Series B Junior Participating Preferred Stock and (iii) 30 shares of Series B-1 Junior Participating Preferred Stock. At February 28, 2007, our outstanding share capital was comprised of: (i) 36,758,541 shares of common stock (ii) 300 shares of Series B Junior Participating Preferred Stock and (iii) 30 shares of Series B-1 Junior Participating Preferred Stock. At February 28, 2006 there were 2,553.7 shares of Series A Junior Participating Preferred Stock. On August 2, 2006, we redeemed 205.9 shares of Series A Preferred Stock. On February 22, 2007, 2,347.8 shares of Series A Preferred Stock were converted to 23,966,645 shares of Common Stock.

The Series A Preferred Stock was issued in connection with the completion of the merger as described in Note 1 to the consolidated financial statements. Holders of the Series A Preferred Stock were entitled to receive when, as and if declared by the Board of Directors, quarterly cumulative dividends commencing on March 31, 2006 in an amount per share equal to \$0.001. In addition to the dividends payable to holders of Series A Preferred Stock, the Company could have declared a dividend or distribution on the Series A Preferred Stock equal to any amount declared on the Common Stock. Holders of the Series A Preferred Stock (using the number of common shares into which each share of Series A Preferred Stock was convertible) and holders of Common Stock voted together as one class on all matters submitted to a vote of stockholders of the Company, provided however that the holders of the Series A Preferred Stock were not entitled to any voting rights on any matter relating to the Merger. Upon liquidation, dissolution or winding up of the Company, the holders of the Series A Preferred Stock were entitled to liquidation preferences over all other classes of capital stock. Holders of Series A Preferred Stock would have received an

amount equal to \$1,000 per share of the Series A Preferred Stock, plus an amount equal to accrued and unpaid dividends and distributions prior to any distribution to the holders of any other class of capital stock. If the assets available for distribution were sufficient to permit a full payment of the above amounts then, after such amounts have been fully distributed, holders of the Series A Preferred Stock would have shared equally with holder of the Common Stock on a per share basis (using the number of common shares into which each share of Series A Preferred Stock is convertible). Each share of Series A Preferred Stock carried the voting rights on a basis such that the rights of the Series A Preferred Stock as a whole corresponded to 65 percent of the aggregate rights of the Series A Preferred Stock and Common Stock outstanding as of the completion of the Merger. Upon the approval of the holders of the Common Stock and an increase in the Company's authorized share capital, each share of Series A Preferred Stock automatically converted into shares of Common Stock on such a basis that, following conversion, the holders of the Series A Preferred Stock held the same proportional rights to general distributions and voting rights that they held immediately prior to such conversion.

On May 3, 2006, at the shareholders meeting, approval was obtained to increase the number of authorized shares of common stock to 225,000,000.

Net loss per share:

The following table shows how the net loss was allocated using the two-class method (*see* Note 2):

|   | (Amounts in 000's)      |                         |
|---|-------------------------|-------------------------|
| <b>Thirteen weeks ended</b>   | <b>May 26,<br/>2007</b> | <b>May 27,<br/>2006</b> |
|   | Restated                |                         |
| Allocation of net loss  |                         |                         |
| Basic and Diluted:  |                         |                         |
| - Common Stock  | \$ (8,833 )             | \$ (3,748 )             |
| - Series A Preferred  | (8,833 )                | (3,748 )                |
| Series A preferred stock beneficial conversion feature accreted as a dividend |                         | 204                     |
| Net loss  | \$ (8,833 )             | \$ (3,544 )             |

The Series A Preferred shares contained an anti-dilution provision that adjusted the conversion ratio upon the exercise of certain options or warrants outstanding as of the date of the merger. This required that we record a deemed dividend each time warrants or options in question were exercised. The amount of the deemed dividend represents the value of the additional common shares into which the Series A Preferred shares became convertible as a result of the anti-dilution provisions. The deemed dividend was \$0 thousand and \$204 thousand respectively, for the thirteen weeks ended May 26, 2007 and May 27, 2006.

The following table illustrates the weighted average number of shares of Common Stock and Series A Preferred Stock outstanding during the period utilized in the calculation of loss per share:

| <b>Thirteen weeks ended</b>  | <b>May 26,<br/>2007</b> | <b>May 27,<br/>2006</b> |
|--|-------------------------|-------------------------|
|  | Restated                |                         |
| Weighted average number of Common Stock shares basic and diluted         | 41,779,840              | 13,907,351              |
| Weighted average number of Series A Preferred shares basic and diluted - | 0                       | 2,554                   |
| Basic and diluted net loss per share common                              | \$ (0.21 )              | \$ (0.27 )              |
| Basic and diluted net income (loss) per share -                          |                         |                         |
| Series A Preferred   | \$                      | \$                      |

**NOTE 11 -- SEGMENT AND GEOGRAPHIC INFORMATION**

As a result of reporting the wireless applications development division as a discontinued operation, we operated in only one operating segment. Accordingly, only geographic information is presented for the thirteen weeks ended May 26, 2007 and May 27, 2006.

|  | (Amounts in 000 s) |                          |
|--|--------------------|--------------------------|
| <b>GEOGRAPHIC REGION</b>                             | <b>NET SALES</b>   | <b>LONG-LIVED ASSETS</b> |
| As of and for the thirteen weeks ended May 26, 2007: |                    |                          |
| United States  | \$ 32,849          | \$ 155,027               |
| Canada   | 5,335              | 1,608                    |
| Other foreign countries                              | 3,767              |                          |
| Total  | \$ 41,951          | \$ 156,635               |
|  |                    |                          |
| <b>GEOGRAPHIC REGION</b>                             | <b>NET SALES</b>   | <b>LONG-LIVED ASSETS</b> |
| As of and for the thirteen weeks ended May 27, 2006: |                    |                          |
| United States  | \$ 18,834          | \$ 72,455                |
| Canada   | 3,328              | 615                      |
| Other foreign countries                              | 2,685              |                          |
| Total  | \$ 24,847          | \$ 73,070                |

**NOTE 12 -- TRANSACTIONS WITH RELATED PARTIES**

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided professional services. THGLLP invoiced us for professional fees and reimbursable expenses for a total of \$20.6 thousand and \$29.8 thousand, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006. At May 26, 2007 and February 28, 2007, we owed THGLLP \$0.0 thousand and \$6.9 thousand, respectively. Mark I. Massad is a founding Partner and is currently a non-active partner in THGLLP. Mr. Massad and/or members of his immediate family own beneficially 100.0 percent of the ownership interests in MarNan, LLC ( MarNan ), a New Jersey limited liability company. At May 27, 2007, MarNan owned 19.0 percent of the Company s Common Stock.

The Hermes Group LLC (THGLLC), a limited liability company, provided investment banking, acquisition and corporate advisory services to us. THGLLC ceased providing services effective February 28, 2007 and thus did not provide services for the thirteen weeks ended May 26, 2007. For the thirteen weeks ended May 27, 2006, THGLLC invoiced us \$133.0 thousand for business advisory services. Mark I. Massad is a member of THGLLC and a member of MarNan LLC, which owns 19.0 percent of our common stock. There was a final balance due to THGLLC of \$10.0 thousand as of February 28, 2007.

The Company s management believes the charges for the related party services listed above are consistent with the amounts that would be paid to independent third parties.



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

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. Management's discussion and analysis contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934 that involve risks and uncertainties, including but not limited to: quarterly fluctuations in results; customer demand for the Company's products; the development of new technology; domestic and international economic conditions; the achievement of lower costs and expenses; the continued availability of financing in the amounts and on the terms required to support the Company's future business; credit concerns in the health and beauty care product industry; and other risks detailed from time to time in the Company's other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations. The risks included here are not exhaustive. Other sections of this Quarterly Report on Form 10-Q may include additional factors that could adversely affect the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Investors should also be aware that while the Company does communicate with securities analysts from time to time, it is against our policy to disclose to them any material non-public information or other confidential information. Accordingly, investors should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, the Company has a policy against confirming financial forecast or projections issued by others. Therefore, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

### Executive Summary

On May 9, 2006, Cenuco, Inc. changed its name to Ascendia Brands, Inc.

On May 20, 2005, Hermes Holding Company, Inc., a newly formed wholly owned subsidiary of Cenuco, Inc., merged with Hermes Acquisition Co I LLC. As a consequence of the merger, Hermes Acquisition Co I LLC, together with its wholly owned subsidiaries, Lander Co. Inc., Ascendia Real Estate LLC (then known as Hermes Real Estate I LLC) and Ascendia Brands (Canada) Ltd (then known as Lander Co. Canada Ltd) became wholly owned subsidiaries of Cenuco, Inc.

For accounting purposes, Hermes Acquisition Co I LLC was considered the acquirer in a reverse acquisition transaction and consequently the merger was treated as a recapitalization of Hermes Acquisition Co I LLC followed by the reverse acquisition of Cenuco, Inc. by Hermes Acquisition Co. I LLC. Thus, Hermes Acquisition Co I LLC's financial statements are the historical financial statements of the post-merger entity and the results of operations of Cenuco, Inc. have been included commencing on the date of the merger.

From the date of the merger to February 2007, the Company has been organized around two operating divisions, namely health and beauty care, conducted through Hermes Acquisition Co I and its subsidiaries, and wireless applications development, conducted through Cenuco, Inc., a Florida corporation and a wholly owned subsidiary of the Delaware public company. In February 2007, we committed to a plan to sell the wireless applications development division and as a result this operation has been presented as a discontinued operation in the accompanying financial statements. Subsequent to fiscal year-end we determined that a sale was no longer likely and decided to discontinue and liquidate the wireless applications development division.

On November 16, 2005, we acquired certain brands and brand-related assets from Playtex. The brands included *Baby Magic*, *Binaca*, *Mr. Bubble*, *Ogilvie*, *Tek*, *Dentax*, *Dorothy Gray*, *Better Off* and *Tussy*. On February 9, 2007, we acquired certain brands from Coty, Inc. The brands include *Calgon* and *the healing garden*.

### Health and Beauty Care Business

Our health and beauty care group is headquartered in Hamilton, New Jersey, and operates two facilities that contain both manufacturing and distribution centers. These facilities are located in Binghamton, New York (owned) and Toronto, Ontario, Canada (leased).

Through our subsidiary Ascendia Brands Co., Inc., we market, distribute and sell: (i) bath products under the *Calgon*, *the healing garden*, *Lander*, *Lander essentials*, and *Mr. Bubble* brand names, (ii) baby toiletries under the *Baby Magic* and *Lander* brand names, (iii) deodorant and antiperspirant products under the *Tussy* and *Lander* brand names, (iv) home permanent treatments under the *Ogilvie* brand name, (v) mouthwash products under the *Lander* brand name, (vi) portable breath sprays and drops under the *Binaca* brand name and (vii) manual toothbrushes under the *Tek* brand name, as well as other health and beauty care products within the personal care category in the United States. In addition, we export approximately \$10.0 million of products annually to consumers in 90 other countries throughout the world.

Through our Ascendia Brands (Canada) Ltd subsidiary, we produce private label brands for a limited number of large Canadian retail chains.

Prior to the acquisition of the former Coty brands on February 9, 2007, we distributed more than 84 million units of health and beauty products annually (primarily liquid fill bath care, baby care, and skin care products) in North America and another 15 million internationally. We estimate that, subsequent to the acquisition, we will distribute an additional 31 million units annually. This would increase our total annual global unit sales to an estimated 130 million.

### Wireless Applications Development Business

In February 2007, the Company committed to the sale of Cenuco, Inc., its wireless application development subsidiary and as a result this operation has been presented as a discontinued operation in the accompanying financial statements. Subsequent to year-end the Company made a determination that a sale was no longer likely and decided to liquidate the wireless application development business. Cenuco, Inc. ceased operations as of June 30, 2007.

Loss from discontinued operations contains the revenue and expense for the wireless application development division activity from the date of the Merger (May 20, 2005) to May 26, 2007. The wireless application development division's financial and other pertinent information is disclosed in Cenuco, Inc.'s public filings.

Financial information for the discontinued operation for the thirteen weeks ended May 26, 2007 and May 27, 2006 is summarized as follows:

| <b>Thirteen weeks ended</b> | <b>May 26<br/>2007</b> | <b>May 27<br/>2006</b> |
|-----------------------------|------------------------|------------------------|
| Net sales                   | \$                     | \$75                   |
| Loss from operations        | (286 )                 | (656 )                 |
| Other income (expense)      |                        |                        |
| Net loss                    | \$(286 )               | \$(656 )               |
| Loss per share:             |                        |                        |
| Basic and diluted common    | \$(0.01 )              | \$(0.05 )              |

## CRITICAL ACCOUNTING POLICIES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies include:

- § revenue recognition;
- § cooperative advertising;
- § trade accounts receivable;
- § sales returns reserve;
- § accounting for inventory and of costs of goods sold;
- § accounting for goodwill and intangible assets;
- § accounting for plant, property and equipment;
- § income taxes; and
- § accounting for derivative instruments

### Revenue Recognition

Revenue from product sales is recognized when the related goods are shipped, all significant obligations of the Company have been satisfied, persuasive evidence of an arrangement exists, the price to the buyer is fixed or determinable and collection is reasonably assured or probable.

Amounts billed to customers related to shipping and handling are included in net sales. The cost of shipping products to the customer is recognized at the time the products are shipped and included in cost of sales.

### Cooperative Advertising

Cooperative advertising programs and other volume-based incentives are accounted for on an accrual basis as a reduction in net revenue according to the requirements of Emerging Issues Task Force 01-09, *Accounting for Consideration Given By a Vendor to a Customer or a Reseller of the Vendor's Products*, in the period in which the related sales are recognized. If additional cooperative advertising programs, promotions and other volume-based incentives are required to promote the Company's products, then additional reserves may be required. Conversely reserves are decreased to reflect the lesser need for cooperative advertising programs.

### Trade Accounts Receivable

We extend credit based upon evaluations of a customer's financial condition and provides for any anticipated credit losses in our financial statements based upon management's estimates and ongoing reviews of recording allowances. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional reserves may be required. Conversely, reserves are reduced to reflect credit and collection improvements.

### **Sales Returns Reserve**

Our management must make estimates of potential future product returns related to current period product revenue. Management analyzes historical returns, current economic trends and changes in customer demand for our products when evaluating the adequacy of the reserve for sales returns. Management judgments and estimates must be made and used in connection with establishing the sales returns reserves in any accounting period. If actual sales returns increase above the historical return rate, then additional reserves may be required. Conversely, the sales return reserve could be decreased if the actual return rates are less than the historical return rates, which were used to establish such sales returns reserve.

### **Inventory**

Inventories are stated at the lower of cost or market, with cost determined using the first-in, first-out (FIFO) method. Inventories consist of raw materials used to manufacture the Company's health, beauty and oral care products, as well as finished goods that consist of the Company's product lines sold to its customers. The Company writes down inventory for estimated excess and discontinued products equal to the difference between cost and estimated market value based upon assumptions about future demand and market conditions. Excess and discontinued product inventory could arise due to numerous factors, including but not limited to, the competitive nature of the market and product demand by consumers. If market conditions are less favorable than those anticipated by management, additional write-downs may be required, including provisions to reduce inventory to net realizable value.

### **Goodwill and Indefinite Lived Intangibles**

As a result of the merger on May 20, 2005 (*see* Note 1), the Company recorded goodwill of \$49.7 million associated with the subsequently discontinued wireless applications development division. Goodwill represents the excess of cost over the fair value of identifiable net assets acquired. As a result of the purchase of assets from Playtex on November 16, 2005 (*see* Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in \$16.9 million being allocated to intangible assets (brand names and product formulae), initially estimated to have indefinite lives. As a result of the purchase of assets from Coty on February 9, 2007 (*see* Note 3), the Company made an allocation of the purchase price to the estimated fair value of the assets acquired, which resulted in \$10.3 million being allocated to intangible assets (product formulae), initially estimated to have indefinite lives. SFAS No. 142 requires that goodwill and other intangibles that have indefinite lives not be amortized but be reviewed for impairment annually or more frequently if impairment indicators arise. During the quarters ended February 28, 2007 and 2006, in accordance with SFAS No. 142, we tested the carrying value of goodwill for impairment, which led to goodwill impairment charges of \$14.6 million and \$35.1 million, respectively being recorded in the statement of operations, which are now presented as discontinued operations. During the quarter ended February 28, 2007, we tested the carrying value of the \$16.9 million of indefinite lived intangible assets related to the acquisition of the former Playtex brands. This led to an impairment of \$1.8 million being recorded in the statement of operations for some of the brands acquired from Playtex. In the quarter ended May 26, 2007, the Company assigned a finite life to all brands and formulae and began to amortize over the expected useful life (*see* Amortizable Intangible Assets below). As a result there are no remaining indefinite lived intangible assets as of May 26, 2007.

As a result of the acquisition of the former Coty brands on February 9, 2007, an allocation of the purchase price resulted in \$45.8 million being allocated to customer relationships, \$47.6 being allocated to brand names, \$9.6 million being allocated to formulations and \$0.3 million being allocated to the order backlog. The estimated useful lives are 10 years for customer relationships and formulations and 10 to 20 years for the brand names, to be amortized on a straight-line basis. The amortization expense recorded for the thirteen weeks ended May 26, 2007 was \$2.5 million.

**Intangible Assets - Restated**

Balances of acquired intangible assets for the thirteen weeks ended May 26, 2007 are as follows

|   | (Amounts in thousands)                 |                                   |              |
|---|--|-----------------------------------|--------------|
|   | <b>Formulae<br/>And<br/>Trademarks</b> | <b>Customer<br/>Relationships</b> | <b>Total</b> |
| Carrying value at February 28, 2007       | \$ 76,251                              | \$ 75,383                         | \$ 151,634   |
| Adjustment - product purchase credit      | (4,154 )                               | (3,346 )                          | (7,500 )     |
| Amortization                              | (1,247 )                               | (1,800 )                          | (3,047 )     |
| Carrying value, May 26, 2007              | \$ 70,850                              | \$ 70,237                         | \$ 141,087   |
| Weighted average original life (in years) | 10 to 20                               | 10                                |              |

Customer relationships are estimated to have a useful life of 10 years and have a carrying value of \$70.2 million at May 26, 2007. Amortization expense for the thirteen weeks ended May 26, 2007 and May 27, 2006 respectively, was \$1.8 million and \$0.8 million.

Trademark rights purchased from Coty are estimated to have a useful life of 20 years for *Calgon* (based on the term of the agreement through which we acquired the rights to sell products under the *Calgon* name) and 10 years for *the healing garden* and have a carrying value of \$47.6 million at May 26, 2007. Amortization expense for the thirteen weeks ended May 26, 2007 was \$0.8 million.

Trademarks purchased from Playtex are estimated to have a useful life of 5 or 20 years and have a carrying value of \$12.3 million at May 26, 2007. This carrying value reflects the impact of an impairment charge of \$1.8 million recorded in the year ended February 28, 2007 and amortization expense of \$0.2 million for the thirteen weeks ended May 26, 2007.

Product formulae purchased from Playtex and Coty are estimated to have a useful life of 10 years and have a carrying value of \$11.8 million at May 26, 2007. Amortization expense for the thirteen weeks ended May 26, 2007 is \$0.3 million. The Company did not assign a useful life to the Playtex formulae until the thirteen weeks ended May 26, 2007, thus there is no amortization expense for the thirteen weeks ended May 27, 2006.

Amortization expense for intangible assets for the thirteen weeks ended May 26, 2007 and May 27, 2006 respectively, is \$3.0 million and \$0.8 million.

Estimated future aggregate amortization expense based on the current carrying value of intangible assets is as follows:

| Fiscal Year | Amount     |
|-------------|------------|
| 2008        | \$ 9,555   |
| 2009        | 12,624     |
| 2010        | 12,624     |
| 2011        | 12,624     |
| 2012        | 12,624     |
| thereafter  | 81,036     |
|             | \$ 141,087 |

**Property, Plant and Equipment:** Property, plant and equipment are stated at cost less accumulated depreciation and amortization. The costs of major additions and improvements are capitalized and maintenance and repairs that do not improve or extend the life of the respective assets are charged to operations as incurred. Leasehold improvements are amortized over the shorter of the term of the lease or their estimated useful lives. Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

|                                 |               |
|---------------------------------|---------------|
| Computer equipment and software | 1 to 3 years  |
| Furniture and fixtures          | 3 to 10 years |
| Building                        | 25 years      |
| Machinery and equipment         | 5 to 10 years |
| Dies and molds                  | 1 to 3 years  |

If we determine that a change is required in the useful life of an asset, future depreciation/amortization is adjusted accordingly.

#### Income Taxes

We record a valuation allowance to reduce the amount of our deferred tax assets to the amount that management estimates is more likely than not to be realized. While we have considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance, in the event we determine that we would be able to realize our deferred tax assets in the future in excess of the net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, if we determine that we would not be able to realize all or part of the net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

#### Derivative Accounting

We determine the fair value of derivatives in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* and EITF 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock* at each reporting date and record the change in fair value in the consolidated statement of operations as a component of other income (expense) section. The primary derivative that we have to adjust to fair value at each reporting date is the compound derivative liability which includes the beneficial conversion feature associated with the issuance and modification of the convertible secured notes the proceeds of which we used to fund acquisitions, pay related costs and for general corporate purposes. We have adopted a lattice model to value the beneficial conversion feature combined with the other bifurcated derivatives associated with penalties for an event of default or change in control. The model also contains a simulation that determines the probability of the note holders electing to convert or not convert their debt into common stock.

#### RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, FASB issued Staff Position Aug Air-1, *Accounting for Planned Major Maintenance Activities ( AIR-1 )*. AIR-1 amends APB Opinion No. 28, *Interim Financial Reporting ( APB 28 )*, and prohibits the accrue-in-advance method of accounting for planned major maintenance activities in annual and interim financial reporting periods. We do have planned major maintenance activities associated with our annual or semi-annual plant shutdowns. We adopted the provisions of AIR-1 beginning March 1, 2007. The guidance in the AIR-1 was applied retrospectively for all financial statements presented, unless it is impracticable to do so. The impact was not material to our historical annual financial results or financial position from the adoption of AIR-1.

In February 2007, FASB issued SFAS No. 159. This statement gives entities the option to carry most financial assets and liabilities at fair value, with changes in fair value recorded in earnings. This statement, which will be effective in the first quarter of fiscal 2009, is not expected to have a material impact on our consolidated financial position or results of operations.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements* ( SAB 108 ), which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The provisions of SAB 108 are effective for the Company after November 15, 2006. The Company followed the guidance of SAB 108 starting in the fourth quarter of the current year and noted there was no impact on the current or prior consolidated financial statements. .

In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS No. 157 applies under a number of other accounting pronouncements that require or permit fair value measurements. The provisions of SFAS No. 157 are effective for the Company beginning March 1, 2009. We are currently evaluating the impact of adopting SFAS No. 157 on our financial position and results of operations, but it is not expected to have a significant effect.

In July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109* ( FIN 48 ), which clarifies the accounting for uncertainty in tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principal, if any, recorded as an adjustment to opening retained earnings. We adopted FIN 48 on March 1, 2007 and no such adjustment was necessary.

### **THIRTEEN WEEKS ENDED MAY 26, 2007 COMPARED TO THE THIRTEEN WEEKS ENDED MAY 27, 2006 - Restated**

#### GENERAL

Our health and beauty care brand portfolio grew through acquisitions from Playtex and Coty of certain nationally and internationally recognized brands. After acquiring a brand, we seek to increase its sales, market share and distribution in both existing and new channels. We anticipate that this growth will be driven by new marketing and sales strategies, improved packaging and formulations, innovative new products and line extensions consistent with management's strategic plan. The wireless applications development division results are reported in discontinued operations and thus this comparative discussion only includes the Health & Beauty Care division results.

#### NET SALES

Consolidated net sales for the thirteen weeks ended May 26, 2007 were \$42.0 million, an increase of \$17.1 million (68.8%) when compared to net sales of \$24.9 million for the thirteen weeks ended May 27, 2006. The thirteen weeks ended May 26, 2007 was favorably impacted by the Company's acquisition on February 9, 2007 of the former Coty Brands, which contributed \$16.5 million in net sales during the current quarter. Excluding this impact of the Coty brands acquisition, net sales increased by \$0.7 million (+3%) compared to prior year.

#### GROSS PROFIT

Consolidated gross profit increased to \$9.9 million for the thirteen weeks ended May 26, 2007 compared to \$4.7 million for the thirteen weeks ended May 27, 2006. As percentage of net sales, consolidated gross profit was 23.6% and 18.7%, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006. The current quarter gross margin percentage and gross margin were favorably impacted by the Company's acquisition of the former Coty brands which contributed an incremental \$5.3 million to gross profit in the current quarter. The current quarter gross profit includes \$2.2 million expense for the step-up in the value of the acquired Coty inventory as part of the purchase price allocation in accordance with SFAS 141. Excluding this step-up, the Coty brands contributed \$7.5 million to current quarter gross profit.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were \$12.0 million for the thirteen weeks ended May 26, 2007 compared to \$4.0 million for the thirteen weeks ended May 27, 2006. The increase of \$8.0 million is partially attributable to factors associated with company's acquisition of the *Calgon* and *the healing garden* brands in February 2007. The Coty asset acquisition accounts for \$2.3 million relating to the amortization of intangibles assets, \$1.8 million in expense related to the Transition Services Agreement with Coty and \$1.0 million in advertising and consumer promotion. Other expenses incurred in the quarter contributing to the increase compared to prior period were executive salaries and bonuses of \$1.6 million, stock compensation of \$0.6 million and severance payments of \$0.2 million.

## OTHER INCOME (EXPENSE)

Total other expense increased from \$3.5 million for the period ended May 27, 2006 to \$6.4 million for the period ended May 26, 2007. Interest expense on funded debt was \$7.1 million for the thirteen weeks ended May 26, 2007 compared to \$2.5 million for the thirteen weeks ended May 27, 2006. This increase was due primarily to the additional debt incurred to finance the Coty acquisition. Partially offsetting this increase was \$1.0 million in the current quarter as a result of the change in fair value of the company's compound derivative liability, less \$0.1 million attributable to the accretion of the redemption premium. Also offsetting the increase in interest expense on funded debt is a decrease in amortization of finance fees of \$0.4 million and an increase in other income of \$0.4 million.

### *Liquidity and Capital Resources - Restated*

The Company's principal sources of liquidity are cash and cash equivalents and availability under its revolving credit facility. Based on our current projections and estimates, we can not be assured that current cash and cash equivalents, anticipated cash flow from operations and future borrowings will be sufficient to fund our operating needs and capital requirements for at least the next 12 months.

### *Loan Covenants and Registration Rights Agreement*

In the accompanying balance sheet, the first and second lien term loans, including the revolver plus the convertible secured notes and the subordinated debt have been classified within the current portion of long-term debt due to the probability that (absent further amendments to such agreements) the Company will not meet the financial covenants as of the measurement dates falling due within the next 12 months.

The Company anticipates that its current cash and cash equivalents, cash flow expected to be generated from operations and available credit facilities, if any, will not be sufficient to meet the Company's operating requirements, except for the near term and for a period substantially less than 12 months. Therefore, unless the Company is able to reduce its cash operating requirements, increase income from operations, modify the terms of its loan agreements and/or raise additional capital, it will become unable to continue to meet its obligations as they fall due.

On October 9, 2007, the Company entered into an agreement with its senior lenders amending certain financial covenants in its first and second lien credit facilities applicable as of the end of the fiscal quarter ended August 25, 2007. Absent such amendment, an event of default would have occurred under the senior credit facilities. There can be no assurance that the Company will be able to negotiate amendments to the financial covenants applicable to future fiscal quarters, and absent such amendments it is probable that an event of default will occur under the senior credit facilities at the end of future reporting periods and there can be no assurance that the senior lenders will waive any such future default.

Further, unless a waiver is provided by its lenders, the Company is required to make a prepayment of its senior debt if and to the extent that, at the end of any month, the amount of first lien debt then outstanding (including the balance outstanding under the Company's revolving credit facility) exceeds three times the Company's adjusted pro forma trailing twelve month (TTM) earnings before interest, taxes, depreciation and amortization (EBITDA).



Any such prepayment must be made not later than one business day following the submission of the monthly financial statements that the Company is required to furnish to its lenders under the terms of the senior credit facilities. On December 10, 2007 the Company notified its senior lenders that, based upon its estimated adjusted pro forma TTM EBITDA as of October 27, 2007, a prepayment in the amount of approximately \$26 million is currently required to be paid. The Company's failure to make such payment constitutes an event of default under its first and second lien credit facilities and entitles its senior lenders to accelerate the Company's first and second lien indebtedness. In addition, as a result of the Company's inability to make the required prepayments, and as a consequence of the Company's financial condition generally, certain representations and warranties that are deemed to be made whenever the Company makes drawings under its revolving credit facility may no longer be true and correct. These include representations and warranties that the Company and its subsidiaries, taken as a whole, are solvent and that there has been no material adverse change in the condition of the Company since August 26, 2006. The Company has notified its lenders that it cannot make such representations and warranties.

As a result of the Company's failure to make the prepayment and its inability to make the representations and warranties described above, the Company's revolving lender is entitled to cease making advances under the Company's revolving credit facility. On December 12, 2007 the Company received notice from the agent for the first lien lenders reserving such lenders' rights under the first lien credit facility generally, including the right to cease making advances under the revolving credit facility. The Company's lenders have not yet exercised, or notified the Company that they intend to exercise, any remedies. However, if the lenders were to declare the loans to be due and payable, or if the Company becomes unable to draw on its revolving credit facility, it would become unable to fund continuing operations unless alternative sources of capital were found.

The Company is in negotiations with its lenders to amend its first and second lien loan facilities and is actively seeking additional capital in order to provide the liquidity necessary to fund future operations. On November 19, 2007, the Company obtained a 180-day unsecured \$2.0 million loan from Prencen Lending LLC, an affiliate of Prentice Capital Management (Prentice) and an additional \$1.5 million advance under its first lien credit facility to fund short-term working capital requirements. See, Note 2 to Financial Statements, above. On December 14, Prentice signed a non-binding letter of intent for a \$25 million equity investment in the Company by an affiliate of Prentice. The amount of the proposed investment, which includes conversion of the \$2.0 million unsecured loan described above, was subsequently increased to \$26.5 million. Such investment is subject to the negotiation of definitive transaction documents, the successful completion of negotiations currently being conducted between the Company and its senior lenders regarding a re-structuring of its first and second lien loan facilities, and the fulfillment of certain other closing conditions. There can be no assurance that the transactions contemplated in this letter of intent will be completed, or that the Company otherwise will be successful in obtaining waivers from its lenders regarding current or future defaults, or that alternative sources of funding will be located.

On December 31, 2007 we announced that we had reached agreement in principle to amend our senior debt facility. The proposed amendment would include the waiver of certain existing events of default, including those described above, and the restatement of certain financial covenants through the period ending February 28, 2009.

The accompanying financial statements do not include any adjustments that may in the future be required based upon the circumstances described above.

As a result of the Company's inability to file a Registration Statement for the Registrable Securities by September 30, 2007 and to obtain an extension of that required filing date, management has assessed the likelihood of incurring the related penalty as being probable and accordingly has accrued \$8.6 million for the maximum amount of such penalty as of August 25, 2007. As of October 29, 2007 we had not filed the Registration Statement, because we have been unable to provide audited financial data required by the applicable reporting guidelines of the Securities and Exchange Commission (Item 9.01(a)(1) and Rule 3.05(b) of Regulation S-X) with respect to the *Calgon* and *the healing garden* brands. These provisions require that, upon the acquisition of a business, the acquiring entity file audited historical pro forma financial statements, incorporating the results of the acquired business, for a period of up to three years. Absent a formal waiver from the lenders we are subject to the financial penalties described in the Registration Rights Agreement. In addition, in the event that the Company fails to issue shares in a timely manner in response to a conversion notice received from a Note holder or an exercise notice received from the holder of a Series A or B Warrant, the holders of such Notes or warrants would be entitled to damages in the amount of 1.5% per day of the then current value of the shares not timely delivered for each day that such delivery was not provided.

**Cash Flow Thirteen Weeks Ended May 26, 2007 and May 27, 2006 - Restated**

Net cash used in operating activities was (\$1.4) million and (\$1.4) million, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006. For the thirteen weeks ended May 26, 2007, the factors contributing to negative operating cash flow were the net loss of (\$8.5) million from continuing operations, plus the effect of non-cash net gains reflected in the statement of operations of \$10.4 million (depreciation and amortization of \$4.7 million, product purchase credits of \$2.5 million from Coty and non-cash interest of \$3.2 million, less gain on change in estimated fair value of compound derivative of (\$1.0 million)), less (\$2.0) million related to changes in operating assets and liabilities, primarily due to increases in accounts receivable on higher sales, and less cash used in discontinued operations of (\$0.3) million. For the thirteen weeks ended May 27, 2006, the primary factor contributing to negative operating cash flow was the net loss of (\$2.9) million from continuing operations, adjusted for the net effect of non-cash charges or gains reflected in the statement of operations of \$2.2 million, resulting in a net amount of (\$0.7) million. Additional changes in operating assets and liabilities provided a negative contribution of (\$0.4) million. Cash used in discontinued operations was (\$0.3) million.

Net cash used in investing activities was (\$2.0) million for the thirteen weeks ended May 26, 2007 compared to (\$0.2) million for the thirteen weeks ended May 27, 2006. For the thirteen weeks ended May 26, 2007, the activities consisted primarily of (\$2.0) million for capital equipment purchases. For the thirteen weeks ended May 27, 2006, the activities consisted primarily of (\$0.2) million for capital equipment purchases.

Net cash provided by financing activities for the thirteen weeks ended May 26, 2007 was \$0.8 million compared to \$0.0 million for the thirteen weeks ended May 27, 2006. The majority of the activity for the thirteen weeks ended May 26, 2007 related to net proceeds of \$1.3 million received from the revolving credit facility and (\$0.5) million in principal repayment.

**Revolving credit facility**

On February 9, 2007, the Company entered into a \$30.0 million revolving credit facility, which forms part of the First Lien Facility described in Note 3 to the consolidated financial statements. At May 26, 2007 and February 28, 2007, respectively, there was \$1.3 million and zero outstanding under the revolving credit facility. Availability under the revolving credit facility was \$18.0 million and \$16.3 million, respectively as of May 26, 2007 and February 28, 2007.

The revolver expires in February 2012 and is secured by accounts receivable and inventory. The interest rate is 275 basis points above LIBOR for LIBOR borrowings and 175 basis points above the prime rate for base rate borrowings. The revolver includes certain financial and operational covenants with which the Company was in compliance as of May 26, 2007. On December 12, 2007 we informed our lenders that certain representations and warranties deemed given when advances are made under the Revolver, including the representations and warranties that the Company and its subsidiaries, taken as a whole, are solvent, and that no material adverse change has occurred since August 26, 2006, may not be correct. As a result, the lenders may decline to make further advances under the Revolver.

**Off-Balance Sheet Arrangements**

The Company has no off-balance sheet financing arrangements as that term is used in Item 303(a)(4) of Regulation S-K.

**Transactions with Related and Certain Other Parties**

The Hermes Group LLP (THGLLP), a certified public accounting firm, provided professional services. THGLLP invoiced us for professional fees and reimbursable expenses for a total of \$20.6 thousand and \$29.8 thousand, respectively for the thirteen weeks ended May 26, 2007 and May 27, 2006. At May 26, 2007 and February 28, 2007, we owed THGLLP \$0.0 thousand and \$6.9 thousand, respectively. Mark I. Massad is a founding Partner and is currently a non-active partner in THGLLP. Mr. Massad and/or members of his immediate family own beneficially 100.0 percent of the ownership interests in MarNan, LLC ( MarNan ), a New Jersey limited liability company. At May 27, 2007, MarNan owned 19.0 percent of the Company's Common Stock.

The Hermes Group LLC (THGLLC), a limited liability company, provided investment banking, acquisition and corporate advisory services to us. THGLLC ceased providing services effective February 28, 2007 and thus did not provide services for the thirteen weeks ended May 26, 2007. For the thirteen weeks ended May 27, 2006, THGLLC invoiced us \$133.0 thousand for business advisory services. Mark I. Massad is a member of THGLLC and a member of MarNan LLC, which owns 19.0 percent of our common stock. There was a final balance due to THGLLC of \$10.0 thousand as of February 28, 2007.

The Company's management believes the charges for the related party services listed above are consistent with the amounts that would be paid to independent third parties.

### Hedging and Trading Activities

The Company does not engage in any hedging activities, including currency-hedging activities, in connection with its foreign operations and sales. To date, except for Canada, all of the Company's international sales have been denominated in U.S. dollars.

### Off Balance Sheet Arrangements and Contractual Obligations

The Company's off balance sheet arrangements consist principally of leasing various assets under operating leases. The future estimated payments under these arrangements are summarized below along with the Company's other contractual obligations:

#### Contractual Obligations as of May 26, 2007

| CONTRACTUAL OBLIGATIONS<br>(\$) | PAYMENTS DUE BY PERIOD<br>(Dollars in thousands) |                     |           |           |                      |
|---------------------------------|--|---------------------|-----------|-----------|----------------------|
|                                 | TOTAL  | LESS THAN<br>1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN<br>5 YEARS |
| Long-term debt obligations (1)  | \$211,500  | \$ 1,500            | \$ 4,000  | \$ 75,293 | \$ 130,707           |
| Accrued interest on debt        | 2,803  | 2,803               |           |           |                      |
| Compound derivative liability   | 65,232   |                     |           |           | 65,232               |
| Operating lease obligations     | 4,418  | 1,046               | 2,399     | 973       |                      |
| Purchase obligations            | 1,437  | 1,437               |           |           |                      |
| Total                           | \$285,390  | \$ 6,786            | \$ 6,399  | \$ 76,266 | \$ 195,939           |

(1) Interest expense has not been included on funded debt at May 26, 2007 of \$236.8 million (*see* Note 6 to the consolidated financial statements) with an expected annual interest charge estimated to be \$27.0 million, assuming a weighted average interest rate of 11.4%.

### Inflation

The Company believes that the relatively moderate rates of inflation in recent years have not had a significant impact on its net revenues or profitability. The Company did experience higher than normal prices on certain raw materials during the period coupled with higher freight costs as freight companies passed on a portion of higher gas and oil costs.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company markets its products throughout the United States and the world. As a result, the Company could be adversely affected by such factors as rising commodity costs and weak global economic conditions. Forecasted purchases during the next thirteen weeks are approximately \$25.0 million. An average 2% unfavorable price increase related to the price of oil and other related inflationary raw materials could cost the Company approximately \$500.0 thousand.

The Company has also evaluated its exposure to fluctuations in interest rates. Approximately \$106.0 million of funded debt bears interest at a fixed rate. However, the Company has funded debt of \$129.5 million with variable interest rates. In addition, the Company has a \$30.0 million Revolver, also at variable interest rates. An increase of two percent in interest rates on this variable interest rate funded debt would increase interest expense by approximately \$0.8 million per quarter. The interest rate risks related to the Company's other interest-related accounts such as its post-retirement obligations are deemed to be insignificant.

The Company has not historically and is not currently using derivative instruments to manage the above risks.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures - Restated

During the thirteen weeks ended May 26, 2007, our management, including the Chief Executive Officer and Chief Financial Officer, evaluated our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) related to the recording, processing, summarization and reporting of information in our reports that we file with the SEC. These disclosure controls and procedures have been designed to ensure that material information relating to us, including our subsidiaries, is made known to our management, including these officers, by other of our employees, and that this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the SEC's rules and forms. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Our controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

Based upon their evaluations, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective at a reasonable level as of May 26, 2007. As reported in Item 9A of our Annual Report on Form 10-K/A for the year ended February 28, 2006, we determined that material weaknesses existed in our internal controls over financial reporting. We attributed the weaknesses to a lack of sufficient and appropriate internal expertise to resolve complex technical accounting issues. For the fiscal year ending on February 29, 2008, we have augmented our senior financial management and on October 17, 2007 we replaced our Chief Financial Officer, John D. Wille, and appointed Jack P. Wissman, as Interim Chief Financial Officer, pursuant to an advisory agreement with Carl Marks Advisory Group LLC. We continue to seek to strengthen our internal resources in order to remediate fully these internal control weaknesses. We will continue to monitor the effectiveness of these control enhancements during fiscal 2008 prior to reaching a conclusion on full remediation.

#### **Changes in Internal Controls**

Except as discussed above, there were no changes made in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15(d)-15(f) under the Exchange Act, during the period covered by this report that have materially affected, or are reasonably likely to materially affect, these controls subsequent to the date of their last evaluation.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS - Restated

#### *TMV Corporation v. Lander*

On May 21, 2007, TMV Corporation, a Florida corporation ( *TMV* ), filed a Demand for Arbitration against our subsidiaries Lander Co., Inc. and Lander Co. Canada Limited (collectively, *Lander* ) in connection with a distribution agreement between Lander and USA Labs, Inc. entered into in May 2004. TMV was the parent company of USA Labs. USA Labs filed a petition under Chapter 11 of the Bankruptcy Code on December 17, 2004. TMV seeks indemnification in the amount of \$10 million (allegedly representing the loss of its investment in USA Labs), an accounting of sums allegedly owing by Lander to USA Labs and other unspecified relief.

Under the distribution agreement, Lander agreed to distribute products manufactured by USA Labs and to provide invoicing, collection and other services in relation to those products. TMV, as the parent of USA Labs, executed a Joinder agreement solely for purposes of confirming its consent to the terms of the distribution agreement. TMV seeks to rely upon the Joinder agreement as the basis for asserting a contractual claim for indemnification against Lander. In its Demand for Arbitration, TMV alleged that Lander breached the distribution agreement and wrongfully retained revenues in excess of \$1 million belonging to USA Labs. TMV alleged that these and other alleged breaches by Lander caused USA Labs to file bankruptcy and resulted in TMV losing its investment in USA Labs.

We believe that Lander fully complied with the terms of the distribution agreement and that it made a full accounting to the bankruptcy court of all amounts owing under the distribution agreement. It is further our position that TMV lacks standing to assert claims for indemnification under the distribution agreement or otherwise. On December 10, 2007 the court ruled in Lander's favor, enjoining TMV from continuing with its claims as pled. However, the court allowed TMV to re-plead if it is able to assert direct claims consistent with the court's order. There can therefore be no assurance that TMV will not seek to reconstruct its claims as direct claims against Lander. In addition, the court's order permits the bankruptcy trustee to pursue any claims that may exist against Lander.

#### *Ferguson v. Lander Co., Inc.*

On March 14, 2006, Thomas Ferguson, a former employee, sued Lander Co. Inc. in Federal court in Binghamton, NY, alleging that his termination by Lander on September 17, 2004 violated the New York State Human Rights Law, the Federal Age Discrimination in Employment Act and the Federal Family Medical Leave Act (*Ferguson v. Lander Co, Inc.*, No. 06-328 (N.D.N.Y.)) We answered Ferguson's complaint on May 19, 2006, asserting that Ferguson's dismissal was part of a company-wide reduction in force undertaken to reduce costs. Ferguson seeks \$500,000 in damages. On October 5, 2007 the U.S. District Court for the Northern District of New York rejected Lander's motion for summary judgment and the case is scheduled for trial in February, 2008. We intend to contest the action vigorously, and believe it is more likely than not that we will prevail. However, there can be no assurance as to the outcome of the case.

#### *Frank Kuchler, Sr.*

By letter dated June 14, 2007, attorneys for Frank Kuchler, a former probationary employee, notified us of their intention to file an action for wrongful dismissal against us on behalf of Mr. Kuchler. To date, no action has been commenced, and Mr. Kuchler's attorneys have not specified the amount of damages to which they claim he is entitled. We will defend any such action vigorously, and will assert one or more counterclaims against Mr. Kuchler. We believe that the likelihood of Mr. Kuchler prevailing, should he in fact commence legal proceedings, is remote. On July 27, 2007 Mr. Kuchler filed a complaint against us with the Equal Employment Opportunity Commission ( *EEOC* ) alleging that his termination by the Company violated the Americans with Disabilities Act. Following mediation held before the EEOC on October 9, 2007, Mr. Kuchler withdrew his complaint with prejudice.

#### *Wachovia Capital Markets*

By letter dated March 16, 2007 Wachovia Capital Markets L.L.C. demanded a transaction fee of \$1.75 million relating to our acquisition of the *Calgon* and *the healing garden* brands from Coty. Wachovia's claim is based upon an agreement dated May 10, 2006 between the Company and Wachovia pursuant to which Wachovia agreed to render certain advisory services to the Company in connection with the acquisition. On June 29, 2007 Wachovia and the Company entered into a settlement agreement, in connection with which the Company has paid Wachovia a \$1 million settlement amount. The obligation for this settlement was accrued for as of February 28, 2007 and capitalized as part of the purchase price in connection with the Coty asset acquisition.



*Joao v. Cenuco, Inc.*

On February 1, 2005, Raymond Anthony Joao filed a patent infringement action against our Cenuco Wireless subsidiary in Federal District Court for the Southern District of New York (Joao v. Cenuco, Inc., 05 Civ. 1037 (CM) (MDF)). The complaint asserts that Cenuco Wireless is infringing upon certain patents held by Joao, specifically United States Patents Nos. 6,587,046, 6,542,076 and 6,549,130. These patents cover apparatuses and methods for transmitting video information to remote devices and/or over the Internet. Cenuco Wireless has vigorously defended this case on the merits. We believe that the patents held by Joao are invalid and that the chances of Joao prevailing are remote. However, there is no assurance as to the outcome of the case. As of February 28, 2007 we had discontinued our wireless applications development business.

*Sensibility Soaps, Inc.*

By letter dated December 20, 2007, Sensibility Soaps, Inc., a contract manufacturer of health and beauty care products, asserted that we are in breach of a contractual commitment to purchase certain guaranteed minimum quantities of products. The letter seeks payment of \$606,000, which Sensibility asserts is the gross invoice value of the products in question. We are discussing this claim with Sensibility. We have not yet formed an opinion as to the probable outcome of this matter and the amount of loss from an unfavorable outcome cannot reasonably be estimated at this time.

We are also involved, from time to time, in routine legal proceedings and claims incidental to our business. Should it appear probable in management's judgment that we will incur monetary damages or costs in relation to any such proceedings or claims, and such costs can be reasonably estimated, liabilities are recorded in the financial statements and charges recorded against earnings. We believe that the resolution of such claims, taking into account reserves and insurance, will not individually or in the aggregate have a material adverse effect on our financial condition or results of operations.

**ITEM 1A. RISK FACTORS - Restated**

**RISK FACTORS**

*We are subject to risks relating to our dependence on the retail economy.*

Our business depends to a significant degree on the strength of the retail economy in North America. Changes in economic conditions can affect consumer demand, which is one of the principal drivers of the retail economy. If the state of the economy worsens, or if consumer demand declines for any other reason, we may suffer declines in sales volumes, which may have a material adverse effect on our operating results. In order to maintain sales, we may have to reduce prices, and this could result in lower profitability.

*Competitive forces could adversely affect our sales, operating results and profitability.*

The business of manufacturing and selling health and beauty care products is highly competitive. Numerous manufacturers, distributors, marketers and retailers actively compete for consumers' business, both in the United States and abroad.

Our principal competitors include Health Tech, Johnson & Johnson, Kimberly Clark, Procter & Gamble, The Village Company and Unilever. Nearly all of these competitors are larger and have substantially greater resources than Ascendia. They may therefore be able to spend more on advertising and marketing and respond more effectively to changing business and economic conditions than we can. This could adversely affect our competitive position in the industry. In addition, competitors may attempt to gain market share by offering products at or below the prices typically offered by us. Competitive pricing may require us to reduce prices and may result in lost sales and/or reductions in our margins.

We compete on the basis of numerous factors, including brand recognition, product quality, performance, price and product availability at retail stores. Merchandising, packaging and the timing of new product introductions also have a significant impact on customers' buying decisions and, as a result, on our sales. These factors in turn depend on the structure and quality of our marketing team, sales force and broker network. Customers' response to our products affect the in-store position, shelf display space and inventory levels in retail outlets. If we are not able to maintain or improve the inventory levels and/or shelf placement of our products in retail stores, our sales and operating results will be adversely affected.

Our markets also are highly sensitive to the introduction of new products, which may rapidly capture a significant share of the market. An increase in product introductions by our competitors could have a material adverse effect on our sales, operating results and profitability.

***We depend on a limited number of large customers for a large portion of our sales. The loss of one or more of these key customers could materially reduce our sales and therefore could have a material adverse effect on our operating results and profitability.***

Our principal customers are large dominant mass and chain drug retailers. These customers have strong negotiating power with their suppliers, among whom they may seek to foster competition. They may also choose to import products from foreign suppliers, or to sell private label or store brand products instead of or in addition to branded products.

For the thirteen weeks ended May 26, 2007, our top five customers accounted for approximately 64 percent of net sales. Our largest customer, Wal-Mart, accounted for 45 percent of net sales, and our second largest customer, Walgreens, accounted for 9 percent. We expect that for the year ending February 28, 2008, and in future periods, our top five customers, including Wal-Mart and Walgreen, will, in the aggregate, continue to account for a significant portion of our sales. The loss of one or more of these key customers, any significant decrease in sales to them or any significant decrease in retail display space in any of these customers' stores, could reduce our sales and therefore could have a material adverse effect on our operating results and profitability.

In addition, our business is based primarily upon individual sales orders and our customers typically do not commit to long-term purchase contracts. Our customers could therefore cease buying our products at any time and for any reason. The fact that we typically do not have long-term contracts means that we generally have no recourse in the event a customer ceases purchasing our products or reduces the level of purchases. If a number of our customers representing significant revenues cease purchasing our products, or materially reduce the volume or value of those purchases, this could have a material adverse effect on our sales, operating results and profitability.

***To compete successfully, we must continually develop new products that appeal to consumers.***

Our long-term success depends upon our ability to continually develop and launch new brands and products that appeal to consumers. We face intense competition from larger and more established manufacturers and distributors that have more resources to dedicate to innovation and advertising. With national brands assuming a more prominent place in our product portfolio, we are increasing our focus on innovation and marketing. However, there is no assurance that this investment will be successful in maintaining our competitive position.

***We manufacture a significant quantity of the products we sell. Any disruption in production could result in lost sales, and could have a material adverse effect on our customer relationships, operating results and profitability.***

We manufacture most of our branded and private label beauty care products at our 163,000 square foot manufacturing facility in Binghamton, New York and our 98,000 square foot manufacturing facility in Scarborough, Ontario, Canada. Beginning in late 2007, we also intend to begin manufacturing the brands recently acquired from Coty in these facilities. We have the capability to manufacture most products (including shampoos, bubble bath, powders and topical analgesics) at either facility. However, we can currently manufacture alcohol-based products (such as mouthwash) and acetone-based products (such as nail polish remover) only at our Ontario location. A permanent or temporary unplanned shutdown of either of our plants, resulting from equipment malfunction, accident, fire, sabotage, strike or lockout, act of God or other factors, could substantially reduce our output of finished products. If output from one facility were to be curtailed, there is no assurance that we could absorb any lost production in our other manufacturing facility or that we could arrange to outsource production of the affected products in sufficient time to maintain scheduled deliveries.

In the event of a protracted disruption in our own manufacturing operations, we would become more dependent on contract manufacturers and there is no assurance that we could obtain finished products from these manufacturers in sufficient quantities of appropriate quality or at prices comparable to our own manufacturing costs. Our inability to do so could result in decreased sales and loss of market share, and could have a material adverse effect on our customer relationships, operating results and profitability.



***We depend on third parties to provide raw materials for the products we manufacture. Disruption in the supply of raw materials, or increases in raw material costs, could adversely affect sales and/or our profitability.***

Our ability to manufacture products at our own facilities depends upon access to raw materials, all of which we purchase from unrelated vendors. These raw materials include oil-based derivatives (such as mineral oil, petrolatum, surfactants and other specialty chemicals), plastic resin products (such as bottles and caps) and paper products (such as boxes, labels and packaging). If our current vendors become unable or unwilling to supply us with raw materials in a timely manner or at acceptable prices, there is no assurance that we could identify and qualify substitute vendors in sufficient time to prevent a disruption in production of some or all of the products we manufacture, or that substitute vendors would be able or willing to supply raw materials in the quantities and at the prices required to maintain normal operations. In addition, many of the raw materials we use, such as petroleum derivatives and paper products, are commodities that may be subject to significant price fluctuation, both in the short- and long-term. There is no assurance that we could pass through to our customers, in the form of higher prices, any resulting increase in our manufacturing costs arising from increased raw material costs or otherwise.

As a volume producer of value and extreme value products, we may be more susceptible than other producers to margin erosion resulting from increases in manufacturing costs. Our inability to secure sufficient quantities of raw materials at prices consistent with our current cost structure could therefore negatively impact inventory levels, customer relationships, sales and market share, and thus could have a material adverse effect on our operating results and profitability.

In addition, if our raw material suppliers fail to maintain adequate controls over specifications and quality, we may be unable to maintain the quality of our finished products. Reliance on raw materials of inferior quality could diminish the value of our brand names and the level of customer satisfaction. This could similarly lead to reduced sales and loss of market share and could thereby negatively affect our operating results and profitability.

***We rely on unrelated carriers for the shipment of raw materials and finished products. Any disruption in, or unavailability of, transportation could adversely affect production and distribution of our products.***

We receive raw materials at our manufacturing facilities by truck, and distribute finished products to warehouses and customer distribution facilities by truck and/or rail. We rely on unrelated transportation companies for these services, which we typically contract on a short-term or ad hoc basis. The availability and cost of transportation services may be affected by many factors outside our control, including, without limitation, (i) market conditions of supply and demand, (ii) inclement weather, floods, hurricanes and other natural disasters, (iii) fuel shortages and/or increases in fuel costs, and (iv) strikes, lockouts or other industrial action. Although we seek to manage our raw materials and finished goods inventories prudently, any disruption in transportation services may interfere with normal plant operations, and/or impede or prevent the delivery of finished products to our warehouses and to our customers' facilities. Any sustained increase in transportation rates would increase our manufacturing and/or distribution costs, and there is no assurance that we would be able to pass these cost increases through to our customers in the form of higher prices. These factors could result in lost sales and market share and could adversely affect our operating results and profitability.

***Disruption in our distribution centers may prevent us distributing products to customers in a timely manner.***

We manage our product distribution in North America through distribution centers in California, New York, North Carolina, Pennsylvania, Toronto and Puerto Rico. We seek to maintain sufficient inventory throughout our distribution system so that we can respond to customer orders in a timely manner. However, a serious disruption in the operation of any of these distribution centers caused by a flood, fire or other factors, could damage or destroy inventory and could materially impair our ability to distribute products to our customers in a timely manner or at a reasonable cost. We could incur significantly higher costs and experience longer delivery lead times during the time it would take to reopen or replace a distribution center. This in turn could have a material adverse effect on our sales, operating results and profitability.

***We make use of contract manufacturers to manufacture certain of the finished products we sell.***

We rely on contract manufacturers to manufacture certain of our finished products and the use of contract manufacturers has increased significantly as a result of our acquisition of the former Playtex brands in November 2005. In addition, for an interim period, we will continue to rely on Coty to manufacture certain of the products acquired in our February 2007 acquisition. Any delay in delivery by one or more of these contract manufacturers, or the breach or termination of a manufacturing contract, could adversely affect our inventory levels and our ability to meet scheduled deliveries and accept new orders. Any or all of these factors could also negatively affect our market share, customer relationships, operating results and profitability.

***Efforts to acquire other companies, brands or product lines may divert our managerial resources from our day-to-day operations, and if we complete an acquisition we may incur or assume additional liabilities or experience integration problems.***

Our growth strategy is bifurcated. We seek to increase our business both through organic growth of our existing brands, and also by acquiring other companies, brands or product lines that management believes complement our existing health and beauty care business. At any given time, we may be engaged in discussions with respect to possible acquisitions or other business combinations that are intended to enhance our product portfolio, enable us to realize cost savings and further diversify our category, customer and channel focus. We may also be involved in discussion with our lenders regarding the financing of such acquisitions.

Our ability to grow successfully through acquisition depends on our ability to identify, acquire and integrate suitable acquisition targets and to obtain any necessary financing. These efforts could divert the attention of our management and key personnel from our day-to-day business operations. If we complete acquisitions, we may also experience:

- § difficulties or delays in integrating any acquired companies, personnel, brands and/or products into our existing business;
- § delays in realizing the financial or other benefits of the acquisition;
- § temporary cost increases in connection with transition services, while we integrate ordering, distribution, logistics, invoicing and other functions;
- § diversion of our management's time and attention from day-to-day business operations;
- § higher than anticipated integration costs;
- § difficulty, delays or inability to discover, assess and resolve inconsistencies in processes, customer agreements and the like;
- § difficulties in maintaining uniform standards, controls, procedures and policies; and/or
- § adverse customer reaction to the acquisition.

In addition, an acquisition could materially impair our operating results by causing us to incur debt, amortize acquisition expenses and/or depreciate acquired assets.

***Regulatory matters governing our industry could have a significant negative effect on our sales and operating costs.***

In both our U.S. and foreign markets, we are subject to extensive laws, governmental regulations, administrative determinations, court decisions and similar constraints affecting our health and beauty care business. Such laws, regulations and other constraints may exist at the federal, state or local levels in the United States and at analogous levels of government in foreign jurisdictions. The adoption of new regulations or changes in the interpretations of existing regulations may result in significant compliance costs or require discontinuation of the sale or export of one or more of our products.

In the United States, the formulation, manufacturing, packaging, labeling, distribution, importation, sale and storage of our products are subject to regulation by various federal agencies, including the Food and Drug Administration, the Federal Trade Commission ( *FTC* ), the Consumer Product Safety Commission, the Environmental Protection Agency, and by various state agencies.

If we fail to comply with federal, state or foreign regulations, we could be required to:

- § pay fines and/or penalties;
- § suspend manufacturing operations;
- § change product formulations;
- § suspend the sale of products with non-complying specifications;
- § initiate product recalls; or
- § change product labeling, packaging, or take other corrective action.

Any of these actions could materially and adversely affect our financial results.

In addition, any failure to comply with FTC or state regulations, or with regulations in foreign markets that cover our product claims and advertising, including direct claims and advertising by us, may result in enforcement actions and imposition of penalties or otherwise materially and adversely affect the distribution and sale of our products.

***We depend upon our key personnel and the loss of their services could harm our business.***

Our success depends to a significant degree upon the continued contributions of our senior management team and other key employees. These employees may voluntarily terminate their employment with us at any time. We carry key man insurance for our senior management team; however, if we lose the services of any of these key employees, we may not be able to identify, hire and integrate replacements, or may not be able to do so within a sufficiently short period of time to prevent harm to our business.

***We depend upon the protection of our intellectual property rights.***

The market for our health and beauty care products depends to a significant extent upon the goodwill associated with our trademarks and trade names. Ascendia Brands and its affiliates own (or, in the case of the *Calgon* brand, license) the material trademarks and trade name rights used to market, package and sell our products. We believe our customers ascribe value to our trade names, trademarks and trade dress in general. It is the basis upon which consumers can readily differentiate our products from those of our competitors. The legal protection afforded our trade names, trademarks and trade dress is what prevents competitors or new market entrants exploiting for their benefit the goodwill associated with our products and from marketing and selling products that compete deceptively with ours. Trademark and trade name protection is therefore critical to our business.

Although most of our material trademarks are registered in the United States and in the foreign countries in which we sell our products, these registrations may be subject to challenge and there is no assurance that we will be able to defend our trademarks or trade names successfully. If we were to lose the exclusive right to use any of our brand names in the United States or any other market in which we sell our products, our sales and operating results could be materially and adversely affected. We could also incur substantial costs to defend legal actions relating to the use of our intellectual property, which could have a material adverse effect on our business, results of operations or financial condition.

Other parties may infringe on our intellectual property rights and may thereby dilute the value of brands in the marketplace. If the value of our brands becomes diluted, or if our competitors are able to introduce brands that cause confusion with our brands in the marketplace, it could adversely affect the value that our customers associate with our brands, and thereby negatively impact our sales. Any such infringement of our intellectual property rights would also likely result in a commitment of our time and resources to protect these rights through litigation or otherwise. In addition, third parties may assert claims against our intellectual property rights and we may not be able successfully to resolve these claims.

***Impairment charges could have a material adverse effect on the Company's financial results.***

Future events may occur that would adversely affect the value of the Company's assets and require impairment charges to be reflected in the statement of operations. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions, the impact of the economic environment on the Company's customer base, or a material adverse change in relationships with significant customers.

***The conversion of our convertible notes would have a significantly dilutive effect on our common stock.***

In December 2006, we refinanced our existing \$91.0 million senior convertible secured notes held by Prencen Lending LLC. The notes are convertible in whole or in part into the Company's common stock at the election of the holder, subject to certain conditions described in the notes. These conditions include the requirement that, immediately following such conversion, the holder and its affiliates collectively may not own more than 9.99% of the Company's common stock. As part of the December 2006 refinancing, the conversion price for the notes was reduced from \$1.75 to \$0.42. Subsequently, in connection with the acquisition of the *Calgon* and *the healing garden* brands from Coty, the Company permanently retired \$5.0 million in principal amount of the notes. The Company may not redeem the notes for a period of eight years.

The notes contain anti-dilution provisions pursuant to which the conversion price is adjusted downwards in the event we issue additional equity or equity-linked instruments at a price lower than \$0.42. On November 19, 2007 we entered into a short-term loan agreement with Prencen Lending, in connection with which we issued to Prencen certain warrants at an exercise price of \$0.26 per share. The consequence of issuing such warrants was that the conversion price under the notes was reduced to \$0.26. Conversion of the notes in full would result in the issuance of an additional 358,590,484 shares of common stock (based upon the aggregate of principal and accrued interest of \$93,233,526 outstanding as of December 31, 2007), representing roughly 90 percent of the aggregate number of shares outstanding on a post-conversion basis. Conversion of all or a material amount of the notes would significantly dilute our common stock and could result in a substantial reduction in trading price.

***The terms of the conversion option to our convertible notes could impair our ability to raise equity capital.***

The existence of the convertible notes, as described in the previous risk factor, and/or the increase in the number of shares outstanding following a complete or partial conversion could materially impair our ability to raise additional equity capital or refinance the notes. This, in turn, could adversely affect our ability to finance additional acquisitions, reduce our leverage ratio, implement our business plan and comply or regain compliance with the shareholders equity levels required under the American Stock Exchange continued listing standards, as described below.

***We must comply with the continued listing requirements of the American Stock Exchange.***

Our common stock is listed on the American Stock Exchange (the Exchange). A failure to maintain this listing could result in a default under our subordinated notes with the consequences described below. This, in turn, could have a material adverse effect on our ability to implement our business plan and thereby adversely affect our operating results and profitability. The Exchange's regulations contain provisions specifying the minimum amount of shareholders' equity that a company generally must have in order to maintain its listing. We have suffered significant losses in recent years. As of May 26, 2007, our shareholders' equity was substantially below the \$6.0 million level required by the Exchange. However, the Exchange generally does not initiate de-listing procedures for a company that fails to maintain the specified shareholders' equity, if the company has (1) a total market capitalization of at least \$50,000,000 or total assets and revenue of \$50,000,000 each in its last fiscal year, or in two of its last three fiscal years; and (2) at least 1,100,000 shares publicly held, a market value of publicly held shares of at least \$15,000,000 and 400 round lot shareholders. As of May 26, 2007, we believed that we satisfied these requirements. On October 18, 2007 we were notified by the Exchange that the foregoing criteria were no longer satisfied and that the Exchange would commence de-listing proceedings unless that Company submitted, by November 19, 2007, a plan setting forth the measures the Company intends to take to regain compliance with the listing standards. On November 26, 2007, the Exchange notified us that the plan submitted by the Company did not adequately demonstrate the Company's ability to regain compliance with the listing standards by the specified date of January 18, 2008. The Company is appealing this decision. Although the holders of the New Notes are required, subject to the payment of certain fees by the Company, to convert up to \$40 million in principal amount of the New Notes into a newly-created class of preferred stock if necessary to maintain our listing, this measure alone would not be sufficient to restore our shareholders' equity to the level required by the Exchange. Although we continue to explore alternative means to restore our shareholders' equity, there is no assurance that we will be able to present a plan to regain compliance with the listing standards, or to implement such plan, within the time periods prescribed by the Exchange.

***The failure to comply with financial and other covenants could cause a default under our financing agreements.***

In connection with the acquisition of the *Calgon* and *the healing garden* brands, we entered into a \$160 million senior secured loan facility and re-structured our \$86 million convertible term loan. These financing agreements contain various financial and other covenants, including, in the case of our convertible debt facility, an obligation to file and maintain in effect a registration statement. Our ability to continue to comply with these covenants, and in particular the financial covenants, depends, among other things, upon our ability to execute our business model, meet targets for sales and profitability, realize the cost savings and synergies anticipated as a result of the acquisition, make certain filings with the Securities & Exchange Commission by specified dates and generally operate our business according to budget. The failure to comply with our covenants may, subject to applicable notice and cure provisions contained in our financing agreements, give rise to an event of default. Upon the occurrence of an event of default, the lenders may accelerate the loans, declare the commitments thereunder to be terminated, seize collateral, raise interest rates and exercise any other remedies available to secured creditors. If the loans are accelerated, default interest rates become effective or the commitments terminated, we would face substantial liquidity problems and, unless we were able to reach agreement with our lenders or refinance the outstanding obligations, we may be required to cease operations.

On October 9, 2007, the Company entered into an agreement with its senior lenders amending certain financial covenants in its first and second lien credit facilities applicable as of the end of the fiscal quarter ended August 25, 2007. Absent such amendment, an event of default would have occurred under the senior credit facilities. There can be no assurance that the Company will be able to negotiate amendments to the financial covenants applicable to future fiscal quarters, and absent such amendments it is probable that an event of default will occur under the senior credit facilities at the end of future reporting periods and there can be no assurance that the senior lenders will waive any such future default.

Further, unless a waiver is provided by its lenders, the Company is required to make a prepayment of its senior debt if and to the extent that, at the end of any month, the amount of first lien debt then outstanding (including the balance outstanding under the Company's revolving credit facility) exceeds three times the Company's adjusted *pro forma* trailing twelve month (TTM) earnings before interest, taxes, depreciation and amortization (EBITDA). Any such prepayment must be made not later than one business day following the submission of the monthly financial statements that the Company is required to furnish to its lenders under the terms of the senior credit facilities. On December 10, 2007 the Company notified its senior lenders that, based upon its estimated adjusted *pro forma* TTM EBITDA as of October 27, 2007, a prepayment in the amount of approximately \$26 million is currently required to be paid. The Company's failure to make such payment constitutes an event of default under its first and second lien credit facilities and entitles its senior lenders to accelerate the Company's first and second lien indebtedness. In addition, as a result of the Company's inability to make the required prepayments, and as a consequence of the Company's financial condition generally, certain representations and warranties that are deemed to be made whenever the Company makes drawings under its revolving credit facility may no longer be true and correct. These include representations and warranties that the Company and its subsidiaries, taken as a whole, are solvent and that there has been no material adverse change in the condition of the Company since August 26, 2006. The Company has notified its lenders that it cannot make such representations and warranties.

As a result of the Company's failure to make the prepayment and its inability to make the representations and warranties described above, the Company's revolving lender is entitled to cease making advances under the Company's revolving credit facility. On December 12, 2007 the Company received notice from the agent for the first lien lenders reserving such lenders' rights under the first lien credit facility generally, including the right to cease making advances under the revolving credit facility. The Company's lenders have not yet exercised, or notified the Company that they intend to exercise, any remedies. However, if the lenders were to declare the loans to be due and payable, or if the Company becomes unable to draw on its revolving credit facility, it would become unable to fund continuing operations unless alternative sources of capital were found.

On December 31, 2007 we announced that we had reached agreement in principle to amend our senior debt facility. The proposed amendment would include the waiver of certain existing events of default, including those described above, and the restatement of certain financial covenants through the period ending February 28, 2009.

Even if we are able to restructure or refinance our indebtedness, the economic terms may not be favorable to us. All of the foregoing could have serious consequences for our financial condition and results of operations and could cause us to become bankrupt or insolvent.

***We depend upon continued access to our revolving credit facility to provide working capital and to operate our business.***

Our senior secured loan facility includes a \$30 million revolving credit facility secured by a first lien on inventories and accounts receivable. We draw upon this facility in the ordinary course to fund our normal operating costs. The amount available for drawing depends upon the value of our eligible inventories and accounts receivable and the lenders have certain discretion in determining whether certain accounts receivable may be included in our borrowing base. In addition, concentration limitations may result in the exclusion of receivables that would otherwise qualify as eligible. There can be no assurance that the value of inventories and eligible accounts receivable will be adequate to meet our drawing requirements. In addition, if an event of default exists under the senior loan facility, we would not be permitted (absent a waiver from the lenders) to borrow under the revolving credit facility. On December 12, 2007 we notified our lenders that we were not in compliance with certain financial covenants under our senior credit facility and that certain representations and warranties deemed made upon the making of an advance under the revolving credit facility are no longer true and correct. The lenders are therefore entitled to cease making advances under the revolving credit facility. The inability to continue to make drawings under the revolving credit facility would cause us to cease operations, unless additional sources of working capital could be arranged.

***The failure to comply with registration rights obligations under the New Notes could give rise to financial penalties.***

Pursuant to the terms of a Registrations Rights Agreement entered into in connection with the issuance of the New Notes in February 2007, we were required to file a Registration Statement on Form S-1 with the Securities and Exchange Commission not later than June 30, 2007 and to have such Registration Statement declared effective within 60 days thereafter or 90 days of the registration statement has received a full review by the SEC. On June 29, 2007 we entered into an agreement with the holders of a majority of our registrable securities extending the deadline for filing the Registration Statement until September 30, 2007 and extending the deadline for having the Registration Statement declared effective until within 60 days thereafter or 90 days if the registration statement has received a full review by the SEC. We have been unable to file such Registration Statement because we are not able to provide the historical audited *pro forma* financial information relating to the *Calgon* and *the healing garden* brands required by Item 9.01(a)(1) of Form 8-K and Rule 3.05(a) of Regulation S-X. These require that, in the case of a business acquisition, the acquiring entity file audited *pro forma* financial results for the combined business covering a period of up to three years prior to the acquisition. We do not anticipate being able to provide such information with respect to the *Calgon* and *the healing garden* brands in the future. As a result of our failure to file in a timely manner the requisite Registration Statement, we have become subject, absent a waiver from the holders of a majority of our registrable securities, to pay penalties of 2% per month, up to a maximum of 10%, of the principal outstanding balance of the New Notes. Under the terms of inter-creditor arrangements between the holders of the New Notes and the lenders under our First and Second Lien facilities, these amounts are not payable in cash without the lenders' consent unless certain conditions are satisfied. Nonetheless, the accrual of financial penalties could have serious adverse consequences for our financial condition and materially impair our ability to raise additional equity capital, re-finance existing debt and regain compliance with the continued listing standards of the American Stock Exchange.

***We may not be able to generate sufficient cash to service our debt and operations, and may be forced to take other actions to satisfy our obligations under our indebtedness that may not be successful.***

Our ability to pay principal and interest on our senior indebtedness and to satisfy our other obligations will depend upon, among other things, the future availability of borrowings under our revolving facility. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to use under our revolving facility in an amount sufficient to service our indebtedness or fund our liquidity needs. If our cash flows and capital resources are insufficient to service our debt, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our debt. These alternative measures may not be successful and may not permit us to meet our scheduled debt service and other obligations.

***Our current inability to comply with the financial disclosure requirements with respect to the acquisition of the Calgon and the healing garden brands could adversely affect our ability to raise additional equity capital and effect other corporate transactions.***

For the reasons described in the preceding paragraph, we are currently not able to comply with the requirements of Section 9.01(a) of Form 8-K and Rule 3.05(a) of Regulation S-X because we are not able to furnish historical *pro forma* financial information that includes the results of the *Calgon* and *the healing garden* brands that we acquired from Coty in February 2007. Until we are able to furnish such data for a period of three years, we will not be eligible to file a Registration Statement on Form S-1, or to complete other corporate transactions for which the provision of audited historical information is required. This may adversely affect our ability to raise equity capital, engage in certain acquisitions, mergers or other transactions or effect other transactions for which stockholder consent is required (including transactions for which stockholder consent is required pursuant to the rules of the American Stock Exchange).

*If we fail to maintain adequate internal controls, we may be required to restate financial statements and incur legal liability.*

In our Annual Report on Form 10-K for the period ended February 28, 2006, we noted the existence of a material weakness relating to our failure to maintain adequate internal controls in the application of purchase accounting for acquisitions completed during the 2006 fiscal year, and in the subsequent evaluation of goodwill for impairment, which occurred in the fourth quarter of the fiscal year. These control deficiencies resulted in the restatement of our second and third quarter financial statements, to reflect a reallocation of purchase price accounting, and a resulting increase in intangible amortization expense.

In June and July, 2007, we have filed restated financial statements for the first through fourth fiscal quarters of our fiscal year ended February 28, 2006 and the first through the third fiscal quarters of the fiscal year ended February 28, 2007. These restatements: adjust the valuation methodology used in the May 2005 Merger and make related corresponding revisions to the impairment charge recorded in the fourth quarter of fiscal 2006; reclassify the amortization of certain software costs of our wireless applications development subsidiary from Sales, General and Administrative expense to Cost of Goods Sold; adjust earnings per share computations to reflect a deemed dividend to the holders of the Company's Series A Junior Participating Preferred Stock (convertible into shares of common stock) resulting from the application of certain anti-dilution provisions; and provide expanded disclosure regarding the goodwill impairment analysis performed in the fourth quarter of our 2006 fiscal year and critical accounting policies. In addition to the above restatements, net loss per Series A Preferred share for periods prior to the reverse acquisition of Cenuco, Inc. on May 20, 2005 is presented to retrospectively reflect the number of equivalent shares received by Hermes Acquisition Co I LLC unit holders in connection with the reverse acquisition. The restated financial statements for the second and third quarters for the fiscal year ended February 28, 2007 also include corrections to the value computed for the compound derivative liability as of August 26, 2006 and November 25, 2006.

On November 26, 2007 we disclosed our intention to re-state our financial statement for the period ended May 26, 2007, filed with our Quarterly Report on Form 10-Q on July 24, 2007. This re-statement (which we are hereby making): reclassifies a \$7.5 million credit provided against finished goods purchased from Coty Inc. pursuant to a Manufacturing Agreement dated as of February 9 as an adjustment to the purchase price of certain brands and brand assets acquired from Coty under an Asset Purchase Agreement dated as for the same date; and reduces amortization allowances for certain classes of assets that were acquired from Coty.

Management has concluded that our disclosure controls and procedures were not effective at a reasonable level as of May 26, 2007. As reported in Item 9A of our Annual Report on Form 10-K/A for the year ended February 28, 2006, we determined that material weaknesses existed in our internal controls over financial reporting. We attributed the weaknesses to a lack of sufficient and appropriate internal expertise to resolve complex technical accounting issues. For the fiscal year ending on February 28, 2008, we have augmented our senior financial management and on October 17, 2007 we replaced our Chief Financial Officer, John D. Wille, and appointed Jack P. Wissman, as Interim Chief Financial Officer, pursuant to an advisory agreement with Carl Marks Advisory Group LLC. We continue to seek to strengthen our internal resources in order to remediate fully these internal control weaknesses. We will continue to monitor the effectiveness of these control enhancements during fiscal 2008 prior to reaching a conclusion on full remediation. The continued effectiveness of these remedial measures depends upon our ability to maintain internal resources appropriate to the scope and nature of our business operations, capital structure and acquisition activities. Should we be unable to retain, develop or replace such resources, there can be no assurance that we will be able to maintain effective internal controls. A failure to do so could give rise to a risk of future restatement and potential legal liability

## **ITEM 6. EXHIBITS**

[Exhibit 31.1](#) - Certification of Steven R. Scheyer filed herein

[Exhibit 31.2](#) - Certification of Jack P. Wissman filed herein

[Exhibit 32](#) - Certifications Pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934 filed herein



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

ASCENDIA BRANDS, INC.

By: /s/ Steven R. Scheyer  
Steven R. Scheyer, President & CEO

By: /s/ Jack P. Wissman  
Jack P. Wissman, Executive Vice President &  
Chief Financial Officer

Date: January 4, 2008