

Castle Brands Inc
Form 10-Q
February 14, 2008

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended December 31, 2007

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission File Number 001-32849

CASTLE BRANDS INC.
(Exact name of registrant as specified in its charter)

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

570 Lexington Avenue, 29th Floor,

New York, New York 10022 (Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (646) 356-0200

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 a large accelerated filer, accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Act). See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The Company had 15,629,776 shares of \$0.01 par value common stock outstanding at February 13, 2008.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

December 31,

2007 March 31,

2007 (Unaudited)	ASSETS	CURRENT ASSETS	Cash and cash equivalents	\$ 791,063
\$ 1,004,957	Short-term investments	7,171,374	5,912,464	Accounts receivable – net of allowance for doubtful accounts of \$221,934 and \$352,458
8,159,861	8,159,861	6,503,449	11,407	10,328
10,156,765	10,716,983	Prepaid expenses and other current assets	1,531,829	1,585,901
CURRENT ASSETS	27,822,299	25,734,082	EQUIPMENT – net	734,543
			643,753	OTHER ASSETS
			Intangible assets – net of accumulated amortization of \$2,464,676 and \$2,233,808	13,769,977
Goodwill	12,495,287	13,036,650	Restricted cash	745,620
			502,643	Other assets
TOTAL ASSETS	\$ 56,128,423	\$ 54,525,961	LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES			Current maturities of notes payable and capital leases	\$ 3,824
Accounts payable	3,644,858	5,150,535	Accrued expenses, put warrant payable and derivative instrument	1,809,495
1,809,495	1,987,669	Due to stockholders and affiliates	934,170	1,092,755
LIABILITIES	6,392,347	8,650,267	LONG TERM LIABILITIES	Senior notes payable
			9,354,861	Notes payable and capital leases, less current maturities
liability	2,444,254	2,555,368	TOTAL LIABILITIES	27,414,469
CONTINGENCIES (Note 15)			MINORITY INTERESTS	302,378
EQUITY			1,407,645	STOCKHOLDERS' EQUITY
			Preferred stock, \$.01 par value, 5,000,000 shares authorized, none outstanding	—
			Common stock, \$.01 par value, 45,000,000 shares authorized; 15,629,776 and 12,109,741 shares issued and outstanding at December 31, and March 31, 2007, respectively	156,298
84,086,710	Accumulated deficiency	(74,505,799)	(59,962,237)	Accumulated other comprehensive loss
(1,719,445)	(692,958)	TOTAL STOCKHOLDERS' EQUITY	28,411,576	23,552,613
LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 56,128,423	\$ 54,525,961		

See accompanying notes to the condensed consolidated financial statements.

CASTLE BRANDS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)

	Three-months Ended			Nine-months Ended					
December 31,	2007	2006	2007	2006	2007	2006			
December 31,	2007	2006	2007	2006	Sales, net	\$ 6,401,749	\$ 7,380,605	\$ 20,946,786	\$
19,093,072	Cost of sales	4,616,017	4,938,243	14,557,276	12,733,747	Allowance for obsolete and slow-moving inventory	1,707,035	—	1,707,035
6,359,325	Selling expense (Note 1L)	5,011,180	4,599,783	13,685,410	12,836,429	Gross profit	78,697	2,442,362	4,682,475
	administrative expense (Note 1L)	2,072,462	2,101,331	6,224,491	6,235,824	General and amortization	236,150	262,926	791,851
(16,019,277)	Net operating loss	(7,241,095)	(4,521,678)	(16,019,277)	(13,456,142)	Other income	—	1,096	—
(40,719)	Other expense	(19,255)	(21,132)	(40,719)	(36,998)	Foreign exchange gain	144,454	483,799	1,304,389
	Write-off of deferred financing costs in connection with conversion of 6% subordinated convertible notes	—	(295,368)			Current credit on derivative financial instrument	—	132,255	189,397
111,109	Income tax benefit	37,038	37,033	111,109	Minority interests	613,877	366,208	1,105,267	1,101,422
(3,730,512)	Net loss	\$ (6,857,900)	\$ (12,012,652)	(3,730,512)	\$ (14,543,562)	Preferred stock dividends	—	—	—
	Net loss attributable to common stockholders	\$ (6,857,900)	\$ (3,730,512)	\$ (14,543,562)	\$ (12,060,890)	Net loss attributable to common stockholders per common share, basic and diluted	\$ (0.44)	\$ (0.31)	\$ (0.96)
\$ (1.02)	Weighted average shares used in computation, basic and diluted	15,629,776	12,051,045	15,141,981	11,827,837				

See accompanying notes to the condensed consolidated financial statements.

CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

	Common Stock	Additional					
Paid in							
Capital Accumulated							
Deficiency Accumulated							
Other							
Comprehensive							
Loss Total							
Stockholders'							
Equity	Shares	Amount	BALANCE, MARCH 31, 2007	12,109,741	\$ 121,098	\$ 84,086,710	\$
(59,962,237)	\$ (692,958)	\$ 23,552,613	Comprehensive loss			Net loss	
(14,543,562)	(14,543,562)	(14,543,562)	Foreign currency translation adjustment				
(1,026,487)	(1,026,487)	Total comprehensive loss			(15,570,049)	Issuance of	
common stock in private placement, net of issuance costs	3,520,035	35,200	19,583,286				
19,618,486	Vesting of stock options as compensation	3,258	3,258	Stock-based			
compensation	807,268	807,268	BALANCE, DECEMBER 31, 2007	15,629,776	\$		
156,298	\$ 104,480,522	\$ (74,505,799)	\$ (1,719,445)	\$ 28,411,576			

See accompanying notes to the condensed consolidated financial statements.

CASTLE BRANDS INC. and SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

Nine-months Ended December 31, 2007 2006 CASH FLOWS FROM OPERATING ACTIVITIES