

Castle Brands Inc
Form 10-Q
November 19, 2012

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 September 30, 2012

or

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

Commission File Number 001-32849

CASTLE BRANDS INC.

(Exact name of registrant as specified in its charter)

Florida

41-2103550

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(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

122 East 42nd Street, Suite 4700,
New York, New York
(Address of principal executive offices)

10168
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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 108,522,301 shares of \$.01 par value common stock outstanding at November 13, 2012.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements:	3
Condensed Consolidated Balance Sheets as of September 30, 2012 (unaudited) and March 31, 2012	3
Condensed Consolidated Statements of Operations for the three months and six months ended September 30, 2012 and 2011 (unaudited)	4
Condensed Consolidated Statements of Comprehensive Income for the three months and six months ended September 30, 2012 and 2011 (unaudited)	5
Condensed Consolidated Statement of Changes in Equity for the six months ended September 30, 2012 (unaudited)	6
Condensed Consolidated Statements of Cash Flows for the six months ended September 30, 2012 and 2011 (unaudited)	7
Notes to Unaudited Condensed Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 4. Controls and Procedures	26

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	26
Item 6. Exhibits	26

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****CASTLE BRANDS INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

	September 30, 2012 (Unaudited)	March 31, 2012
ASSETS:		
Current Assets		
Cash and cash equivalents	\$469,833	\$484,362
Accounts receivable — net of allowance for doubtful accounts of \$377,580 and \$411,272, respectively	6,749,339	6,268,432
Due from shareholders and affiliates	268,803	122,640
Inventories— net of allowance for obsolete and slow moving inventory of \$136,496 and \$290,316, respectively	11,435,426	10,732,698
Prepaid expenses and other current assets	882,284	784,331
Total Current Assets	19,805,685	18,392,463
Equipment — net		
Other Assets	559,258	620,840
Investment in non-consolidated affiliate, at equity	124,323	130,850
Intangible assets — net of accumulated amortization of \$5,273,443 and \$4,906,061, respectively	9,974,282	10,302,288
Goodwill	1,314,338	1,243,058
Restricted cash	448,083	468,275
Other assets	206,377	197,003
Total Assets	\$32,432,346	\$31,354,777
LIABILITIES AND EQUITY:		
Current Liabilities		
Foreign revolving credit facility	\$152,233	\$—
Accounts payable	4,221,691	4,771,140
Accrued expenses	608,590	442,618
Due to shareholders and affiliates	2,544,130	1,584,270
Total Current Liabilities	7,526,644	6,798,028
Long-Term Liabilities		

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Keltic facility	5,729,289	3,849,831
Notes payable – GCP Note	216,869	211,580
Warrant liability	613,411	684,690
Deferred tax liability	1,740,532	1,814,608
Total Liabilities	15,826,745	13,358,737
Commitments and Contingencies (Note 13)		
Equity		
Preferred stock, \$.01 par value, 25,000,000 shares authorized, 6,766 and 6,897 shares of series A convertible preferred stock issued and outstanding at September 30 and March 31, 2012, respectively (liquidation value of \$7,561,212 and \$7,327,262 at September 30 and March 31, 2012, respectively)	67,663	68,965
Common stock, \$.01 par value, 225,000,000 shares authorized, 108,522,301 and 108,052,067 shares issued and outstanding at September 30 and March 31, 2012, respectively	1,085,223	1,080,520
Additional paid-in capital	142,552,744	142,052,646
Accumulated deficit	(126,171,976)	(124,076,608)
Accumulated other comprehensive loss	(1,908,123)	(1,801,656)
Total controlling shareholders' equity	15,625,531	17,323,867
Noncontrolling interests	980,070	672,173
Total equity	16,605,601	17,996,040
Total Liabilities and Equity	\$32,432,346	\$31,354,777

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Sales, net*	\$ 10,317,737	\$ 9,399,954	\$ 20,037,164	\$ 16,792,338
Cost of sales*	6,594,889	6,107,115	12,881,664	10,753,210
Provision for obsolete inventory	100,000	—	100,000	—
Gross profit	3,622,848	3,292,839	7,055,500	6,039,128
Selling expense	2,770,866	2,656,399	5,393,858	5,263,180
General and administrative expense	1,159,606	1,185,713	2,488,206	2,454,113
Depreciation and amortization	229,857	225,811	460,939	453,956
Loss from operations	(537,481)	(775,084)	(1,287,503)	(2,132,121)
Other expense	(16)	—	(16)	—
Gain (loss) from equity investment in non-consolidated affiliate	(11,075)	108	(10,727)	(17,349)
Foreign exchange loss	(218,113)	(116,387)	(22,172)	(238,462)
Interest expense, net	(136,816)	(176,731)	(247,837)	(354,272)
Net change in fair value of warrant liability	162,607	209,899	71,279	185,025
Income tax benefit	37,038	37,038	74,076	74,076
Net loss	(703,856)	(821,157)	(1,422,900)	(2,483,103)
Net income attributable to noncontrolling interests	(197,440)	(99,514)	(307,897)	(204,578)
Net loss attributable to controlling interests	(901,296)	(920,671)	(1,730,797)	(2,687,681)
Dividend to preferred shareholders	(184,199)	(49,927)	(364,150)	(379,387)
Net loss attributable to common shareholders	\$ (1,085,495)	\$ (970,598)	\$ (2,094,947)	\$ (3,067,068)
Net loss per common share, basic and diluted, attributable to common shareholders	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.03)
Weighted average shares used in computation, basic and diluted, attributable to common shareholders	108,491,137	107,452,007	108,441,966	107,327,758

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* Sales, net and Cost of sales include excise taxes of \$1,532,880 and \$1,497,879 for the three months ended September 30, 2012 and 2011, respectively, and \$2,914,421 and \$2,713,498 for the six months ended September 30, 2012 and 2011, respectively.

See accompanying notes to the unaudited condensed consolidated financial statements.

CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

	Three months ended September 30,		Six months ended September 30,	
	2012	2011	2012	2011
Net loss	\$ (703,856)	\$ (821,157)	\$ (1,422,900)	\$ (2,483,103)
Other comprehensive income (loss):				
Foreign currency translation adjustment	57,575	(169,907)	(106,467)	(111,658)
Total other comprehensive loss:	(646,281)	(991,064)	(1,529,367)	(2,594,761)
Comprehensive loss	\$ (646,281)	\$ (991,064)	\$ (1,529,367)	\$ (2,594,761)

See accompanying notes to the unaudited condensed consolidated financial statements.

CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Equity

(Unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2012	6,897	\$68,965	108,052,067	\$1,080,520	\$142,052,646	\$(124,076,608)	\$(1,801,656)	\$672,173	\$17,400,000
Net (loss) income						(1,730,797)		307,897	(1,422,897)
Foreign currency translation adjustment							(106,467)		(106,467)
Conversion of series A preferred stock and accrued dividends	(131)	(1,302)	470,234	4,703	(2,980)	(421)			—
Accrued dividends - series A convertible preferred stock					364,150	(364,150)			—
Stock-based compensation					138,928				138,928