Castle Brands Inc
Form 10-Q
August 14, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 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 (State or other jurisdiction of incorporation or organization)	41-2103550 (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 þ 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 þ 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)	þ 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 þ

The Company had 108,485,066 shares of $.01 par value common stock outstanding at August 13, 2012.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	June 30, 2012 (Unaudited)	March 31, 2012
ASSETS:		
Current Assets		
Cash and cash equivalents	$274,121	$484,362
Accounts receivable — net of allowance for doubtful accounts of $379,491 and $411,272, respectively	5,943,463	6,268,432
Due from shareholders and affiliates	226,378	122,640
Inventories— net of allowance for obsolete and slow moving inventory of $290,396 and $290,316, respectively	11,484,037	10,732,698
Prepaid expenses and other current assets	1,030,029	784,331
Total Current Assets	18,958,028	18,392,463
Equipment — net	576,303	620,840
Other Assets		
Investment in non-consolidated affiliate, at equity	133,298	130,850
Intangible assets — net of accumulated amortization of $5,089,752 and $4,906,061, respectively	10,143,973	10,302,288
Goodwill	1,280,138	1,243,058
Restricted cash	440,785	468,275
Other assets	185,306	197,003
Total Assets	$31,717,831	$31,354,777
LIABILITIES AND EQUITY:		
Current Liabilities		
Accounts payable	$4,422,739	$4,771,140
Accrued expenses	746,977	442,618
Due to shareholders and affiliates	2,229,427	1,584,270
Total Current Liabilities	7,399,143	6,798,028
Long-Term Liabilities		
Notes payable	4,592,965	4,061,411
Warrant liability	776,018	684,690
Deferred tax liability	1,777,570	1,814,608
Total Liabilities	14,545,696	13,358,737

Commitments and Contingencies (Note 13)		
Equity		
Preferred stock, $.01 par value, 25,000,000 shares authorized, 6,777 and 6,897 shares of series A convertible preferred stock issued and outstanding at June 30 and March 31, 2012, respectively (liquidation value of $7,387,113 and $7,327,262 at June 30 and March 31, 2012, respectively)	67,764	68,965
Common stock, $.01 par value, 225,000,000 shares authorized, 108,485,066 and 108,052,067 shares issued and outstanding at June 30 and March 31, 2012, respectively	1,084,850	1,080,520
Additional paid-in capital	142,289,027	142,052,646
Accumulated deficit	(125,086,439)	(124,076,608)
Accumulated other comprehensive loss	(1,965,698)	(1,801,656)
Total controlling shareholders’ equity	16,389,504	17,323,867
Noncontrolling interests	782,631	672,173
Total equity	17,172,135	17,996,040
Total Liabilities and Equity	$31,717,831	$31,354,777

See accompanying notes to the unaudited condensed consolidated financial statements.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

	Three months ended June 30,	
	2012	2011
Sales, net*	$9,719,427	$7,392,384
Cost of sales*	6,286,775	4,646,095
Gross profit	3,432,652	2,746,289
Selling expense	2,622,992	2,606,781
General and administrative expense	1,328,600	1,268,400
Depreciation and amortization	231,082	228,145
Loss from operations	(750,022)	(1,357,037)
Gain (loss) from equity investment in non-consolidated affiliate	348	(17,457)
Foreign exchange gain (loss)	195,941	(122,076)
Interest expense, net	(111,020)	(177,541)
Net change in fair value of warrant liability	(91,328)	(24,874)
Income tax benefit	37,038	37,038
Net loss	(719,043)	(1,661,947)
Net income attributable to noncontrolling interests	(110,458)	(105,064)
Net loss attributable to controlling interests	(829,501)	(1,767,011)
Dividend to preferred shareholders	(179,951)	(329,460)
Net loss attributable to common shareholders	$(1,009,452)	$(2,096,471)
Net loss per common share, basic and diluted, attributable to common shareholders	$(0.01)	$(0.02)
Weighted average shares used in computation, basic and diluted, attributable to common shareholders	108,392,255	107,202,145

* Sales, net and Cost of sales include excise taxes of $1,381,541 and $1,215,619 for the three months ended June 30, 2012 and 2011, respectively.

See accompanying notes to the unaudited condensed consolidated financial statements.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Loss

(Unaudited)

	Three Months Ended June 30,	
	2012	2011
Net loss	$ (719,043)	$ (1,661,947)
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(164,042)	58,249
Total other comprehensive (loss) income:	(164,042)	58,249
Comprehensive loss	$ (883,085)	$ (1,603,698)

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	Tot Equ
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
Comprehensive loss									
Net (loss) income						(829,501)		110,458	(7
Foreign currency translation adjustment							(164,042)		(1
Total comprehensive loss									(8
Conversion of series A preferred stock and accrued dividends	(120)	(1,201)	432,999	4,330	(2,750)	(379)			—
Accrued dividends - series A convertible preferred stock					179,951	(179,951)			—
Stock-based compensation					59,180				59
BALANCE, JUNE 30, 2012	6,777	$67,764	108,485,066	$1,084,850	$142,289,027	$(125,086,439)	$(1,965,698)	$782,631	$17

See accompanying notes to the unaudited condensed consolidated financial statements.

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CASTLE BRANDS INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended June 30, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (719,043)	$ (1,661,947)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	231,082	228,145
Provision for doubtful accounts	6,000	6,911
Amortization of deferred financing costs	17,820	4,860
Change in fair value of warrant liability	91,328	24,874
Deferred tax benefit	(37,038)	(37,038)
(Gain) loss from equity investment in non-consolidated affiliate	(348)	17,457
Effect of changes in foreign exchange	(195,941)	122,076
Stock-based compensation expense	59,180	31,777
Changes in operations, assets and liabilities:		
Accounts receivable	298,647	711,833
Due from affiliates	(103,738)	103,861
Inventory	(688,671)	(144,810)
Prepaid expenses and supplies	(247,016)	97,324
Other assets	(6,125)	(15,000)
Accounts payable and accrued expenses	(5,444)	(816,322)
Accrued interest	544	95,850
Due to related parties	645,156	(185,089)
Total adjustments	65,436	246,709
NET CASH USED IN OPERATING ACTIVITIES	(653,607)	(1,415,238)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(19,094)	(51,372)
Acquisition of intangible assets	(25,376)	—
Change in restricted cash	3,460	(394)
Payments under contingent consideration agreements	(37,080)	(11,280)
NET CASH USED IN INVESTING ACTIVITIES	(78,090)	(63,046)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Keltic facility	528,909	—
Note payable — Betts & Scholl	—	(106,918)
Interim notes – affiliate investors	—	1,005,000
Issuance of series A convertible preferred stock	—	2,155,000

Costs of issuance of series A convertible preferred stock	—	(181,100)
NET CASH PROVIDED BY FINANCING ACTIVITIES	528,909	2,871,982
EFFECTS OF FOREIGN CURRENCY TRANSLATION	(7,453)	4,206
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(210,241)	1,397,904
CASH AND CASH EQUIVALENTS — BEGINNING	484,362	1,047,372
CASH AND CASH EQUIVALENTS — ENDING	$ 274,121	$ 2,445,276
SUPPLEMENTAL DISCLOSURES:		
Schedule of non-cash investing and financing activities:		
Issuance of warrant liability in connection with series A convertible preferred stock	$ —	$ 347,059
Interest paid	$ 92,630	$ 69,389

See accompanying notes to the unaudited condensed consolidated financial statements.

CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

NOTE 1 — ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements do not include all of the information and footnote disclosures normally included in financial statements prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and U.S. generally accepted accounting principles ("GAAP") and, in the opinion of management, contain all adjustments (which consist of only normal recurring adjustments) necessary for a fair presentation of such financial information. Results of operations for interim periods are not necessarily indicative of those to be achieved for full fiscal years. The condensed consolidated balance sheet as of March 31, 2012 is derived from the March 31, 2012 audited financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with Castle Brands Inc.'s (the "Company") audited consolidated financial statements for the fiscal year ended March 31, 2012 included in the Company's annual report on Form 10-K for the year ended March 31, 2012, as amended ("2012 Form 10-K"). Please refer to the notes to the audited consolidated financial statements included in the 2012 Form 10-K for additional disclosures and a description of accounting policies.

A. Description of business and business combination — The consolidated financial statements include the accounts of Castle Brands Inc. (the "Company"), its wholly-owned domestic subsidiaries, Castle Brands (USA) Corp. ("CB-USA") and McLain & Kyne, Ltd. ("McLain & Kyne"), the Company's wholly-owned foreign subsidiaries, Castle Brands Spirits Group Limited ("CB-IRL") and Castle Brands Spirits Marketing and Sales Company Limited, and the Company's 60% ownership interest in Gosling-Castle Partners, Inc. ("GCP"), with adjustments for income or loss allocated based upon percentage of ownership. The accounts of the subsidiaries have been included as of the date of acquisition. All significant intercompany transactions and balances have been eliminated.

B. Organization and operations — The Company is principally engaged in the importation, marketing and sale of premium and super premium brands of rums, whiskey, liqueurs, vodka, tequila and wine in the United States, Canada, Europe, and Asia. Prior to March 31, 2012, the vodka, Irish whiskeys and certain liqueurs were procured by CB-IRL and billed in Euros to CB-USA, with the risk of foreign exchange gain or loss resting with CB-USA. Beginning April 1, 2012, CB-USA began purchasing these goods directly from the suppliers.

C. Equity investments - Equity investments are carried at original cost adjusted for the Company's proportionate share of the investees' income, losses and distributions. The Company assesses the carrying value of its equity investments when an indicator of a loss in value is present and records a loss in value of the investment when the assessment indicates that an other-than-temporary decline in the investment exists. The Company classifies its equity earnings of non-consolidated affiliate equity investment as a component of net income or loss.

D. Goodwill and other intangible assets — Goodwill represents the excess of purchase price including related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill and other identifiable intangible assets with indefinite lives are not amortized, but instead are tested for impairment annually, or more frequently if circumstances indicate a possible impairment may exist. Intangible assets with estimable useful lives are amortized over their respective estimated useful lives, generally on a straight-line basis, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

E. Impairment of long-lived assets — Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 310, "Accounting for the Impairment or Disposal of Long-lived Assets", the Company periodically reviews whether changes have occurred that would require revisions to the carrying amounts of its definite lived, long-lived assets. When the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized based on the fair value of the asset.

F. Excise taxes and duty — Excise taxes and duty are computed at standard rates based on alcohol proof per gallon/liter and are paid after finished goods are imported into the United States and then transferred out of "bond." Excise taxes and duty are recorded to inventory as a component of the cost of the underlying finished goods. When the underlying products are sold "ex warehouse", the sales price reflects the taxes paid and the inventoried excise taxes and duties are charged to cost of sales.

G. Foreign currency — The functional currency for the Company's foreign operations is the Euro in Ireland and the British Pound in the United Kingdom. Under ASC 830, "Foreign Currency Matters", the translation from the applicable foreign currencies to U.S. Dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The resulting translation adjustments are recorded as a component of other comprehensive income. Gains or losses resulting from foreign currency transactions are shown as a separate line item in the consolidated statements of operations. Prior to March 31, 2012, the Company's vodka, Irish whiskeys and certain liqueurs were procured by CB-IRL and billed in Euros to CB-USA, with the risk of foreign exchange gain or loss resting with CB-USA. Beginning April 1, 2012, CB-USA began purchasing these goods directly from the suppliers, with the risk of foreign exchange gain or loss remaining with CB-USA.

H. Fair value of financial instruments — ASC 825, “Financial Instruments”, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties and requires disclosure of the fair value of certain financial instruments. The Company believes that there is no material difference between the fair-value and the reported amounts of financial instruments in the Company’s balance sheets due to the short term maturity of these instruments, or with respect to the Company’s debt, as compared to the current borrowing rates available to the Company.

The Company’s investments are reported at fair value in accordance with authoritative guidance, which accomplishes the following key objectives:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date;
- Establishes a three-level hierarchy (“valuation hierarchy”) for fair value measurements;
- Requires consideration of the Company’s creditworthiness when valuing liabilities; and
- Expands disclosures about instruments measured at fair value.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of the valuation hierarchy are as follows:

- Level 1 — inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 — inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are directly or indirectly observable for the asset or liability for substantially the full term of the financial instrument.
- Level 3 — inputs to the valuation methodology are unobservable and significant to the fair value measurement.

I. Income taxes — Under ASC 740, “Income Taxes”, 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 basis. A valuation allowance is provided to the extent a deferred tax asset is not considered recoverable.

The Company has not recognized any adjustments for uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense; however, no such provisions for accrued interest and penalties related to uncertain tax positions have been recorded as of June 30, 2012 or 2011.

The Company’s income tax benefit for the three months ended June 30, 2012 and 2011 consists of federal, state and local taxes attributable to GCP, which does not file a consolidated income tax return with the Company. In connection with the investment in GCP, the Company recorded a deferred tax liability on the ascribed value of the acquired intangible assets of $2,222,222, increasing the value of the asset. The difference between the book basis and tax basis created a deferred tax liability that is being amortized over a period of 15 years (the life of the licensing agreement) on a straight-line basis. For each of the three-month periods ended June 30, 2012 and 2011, the Company recognized $37,038 of deferred tax benefits.

J. Accounting standards adopted — In June 2011, the FASB issued Accounting Standards Update 2011-05, *Presentation of Comprehensive Income* ("ASU 2011-05"), which revises the manner in which entities present comprehensive income in their financial statements. The new guidance amends ASC No. 220, *Comprehensive Income,* and gives reporting entities the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. ASU 2011-05 does not change the items that must be reported in other comprehensive income. This new guidance was effective for the Company April 1, 2012 and is applied retrospectively. The adoption of this standard did not have a material impact on the Company's results of operations, cash flows or financial condition.

K. Recent accounting pronouncements — In July 2012, the FASB issued amended guidance that simplifies how entities test indefinite-lived intangible assets other than goodwill for impairment. After an assessment of certain qualitative factors, if it is determined to be more likely than not that an indefinite-lived asset is impaired, entities must perform the quantitative impairment test. Otherwise, the quantitative test is optional. The amended guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, cash flows or financial condition.

L. Reclassification — Certain prior year balances have been reclassified to conform to the current year presentation.

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NOTE 2 — BASIC AND DILUTED NET LOSS PER COMMON SHARE

Basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed giving effect to all potentially dilutive common shares that were outstanding during the period that are not anti-dilutive. Potentially dilutive common shares consist of incremental shares issuable upon exercise of stock options and warrants or conversion of convertible preferred stock outstanding and related accrued dividends. In computing diluted net loss per share for the three months ended June 30, 2012 and 2011, no adjustment has been made to the weighted average outstanding common shares as the assumed exercise of outstanding options and warrants and the assumed conversion of convertible preferred stock and related accrued dividends is anti-dilutive.

Potential common shares not included in calculating diluted net loss per share are as follows:

	Three months ended June 30,	
	2012	2011
Stock options	7,945,765	6,095,500
Warrants to purchase common stock	11,974,087	5,471,227
Convertible preferred stock and accrued dividends	24,269,660	7,088,820
Total	44,189,512	18,655,547

NOTE 3 — INVENTORIES

	June 30, 2012	March 31, 2012
Raw materials	$3,675,639	$3,107,615
Finished goods – net	7,808,398	7,625,083
Total	$11,484,037	$10,732,698

As of June 30 and March 31, 2012, 23% and 22%, respectively, of raw materials and 4% and 3%, respectively, of finished goods were located outside of the United States.

The Company estimates the allowance for obsolete and slow moving inventory based on analyses and assumptions including, but not limited to, historical usage, expected future demand and market requirements.

Inventories are stated at the lower of weighted average cost or market.

NOTE 4 — EQUITY INVESTMENT

Investment in DP Castle Partners, LLC

In August 2010, CB-USA formed DP Castle Partners, LLC ("DPCP") with Drink Pie, LLC to manage the manufacturing and marketing of Travis Hasse's Original Apple Pie Liqueur, Cherry Pie Liqueur and any future line extensions of the brand. DPCP has the exclusive global rights to produce and market Travis Hasse's Original Pie Liqueurs and CB-USA has the global distribution rights for this brand. DPCP pays a per case royalty fee to Drink Pie, LLC under a licensing agreement. CB-USA purchases the finished product from DPCP at a pre-determined margin and then uses its existing infrastructure, sales force and distributor network to sell the product and promote the brands. Finished goods are sold to CB-USA FOB – Production and CB-USA bears the risk of loss on both inventory and third-party receivables. Revenues and cost of sales are recorded at their respective gross amounts on the books and records of CB-USA. For the three months ended June 30, 2012 and 2011, CB-USA purchased $168,320 and $67,937, respectively, in finished goods from DPCP under the distribution agreement. As of June 30, 2012, DPCP was indebted to CB-USA in the amount of $108,147, which is included in due from shareholders and affiliates on the accompanying condensed consolidated balance sheet. As of March 31, 2012, CB-USA was indebted to DPCP in the amount of $28,469, which is included in due to shareholders and affiliates on the accompanying condensed consolidated balance sheet. At June 30, 2012, CB-USA owned 20% of DPCP and, under the terms of the agreement, will increase its stake in DPCP based on achieving case sale targets. CB-USA also earns a defined rate of interest on its capital contribution to DPCP, based on its ownership in DPCP. For each of the three months ended June 30, 2012 and 2011, CB-USA earned $2,100 in interest income on its capital contribution to DPCP. The Company has accounted for this investment under the equity method of accounting. This investment balance was $133,298 and $130,850 at June 30 and March 31, 2012, respectively.

NOTE 5 — ACQUISITIONS

Acquisition of McLain & Kyne

On October 12, 2006, the Company acquired all of the outstanding capital stock of McLain & Kyne. As consideration for the acquisition, the Company paid $2,000,000, consisting of $1,294,800 in cash and 100,000 shares of its common stock, valued at $705,200, at closing. Under the McLain & Kyne purchase agreement, as amended, the Company was required to pay contingent consideration, not to exceed $4,000,000, to the sellers based on the financial performance of certain assets of the acquired business through March 31, 2011. The Company is also required to pay contingent consideration, based on the case sales of Jefferson's Presidential Select for a specified amount of cases, rather than a fixed period of time. For the three months ended June 30, 2012 and 2011, the sellers earned $37,080 and $11,280, respectively, under this agreement. The contingent consideration payments have been recorded as an increase to goodwill.

NOTE 6 — GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the three months ended June 30, 2012 were as follows:

	Amount
Balance as of March 31, 2012	$1,243,058
Payments under McLain and Kyne agreement	37,080
Balance as of June 30, 2012	$1,280,138

Intangible assets consist of the following:

	June 30, 2012	March 31, 2012
Definite life brands	$170,000	$170,000
Trademarks	557,947	557,947
Rights	8,271,555	8,271,555
Distributor relationships	664,000	664,000
Product development	68,771	43,395
Patents	994,000	994,000

Other	28,480	28,480
	10,754,753	10,729,377
Less: accumulated amortization	5,089,752	4,906,061
Net	5,665,001	5,823,316
Other identifiable intangible assets — indefinite lived*	4,478,972	4,478,972
	$10,143,973	$10,302,288

* Other identifiable intangible assets — indefinite lived consists of product formulations.

Accumulated amortization consists of the following:

	June 30, 2012	March 31, 2012
Definite life brands	$163,386	$160,552
Trademarks	205,515	197,197
Rights	3,995,259	3,857,271
Distributor relationships	183,944	166,978
Product development	13,228	12,210
Patents	528,420	511,853
Other	-	-
Accumulated amortization	$5,089,752	$4,906,061

NOTE 7 — RESTRICTED CASH

At June 30 and March 31, 2012, the Company had €351,346 or $440,785 (translated at the June 30, 2012 exchange rate) and €351,089 or $468,275 (translated at the March 31, 2012 exchange rate), respectively, of cash restricted from withdrawal and held by a bank in Ireland as collateral for overdraft coverage, creditors’ insurance, customs and excise guaranty and a revolving credit facility.

NOTE 8 — NOTES PAYABLE

	June 30, 2012	March 31, 2012
Notes payable consist of the following:		
Note payable (A)	$214,225	$211,580
Credit agreement (B)	4,378,740	3,849,831
Total	$4,592,965	$4,061,411

A. In December 2009, GCP issued a promissory note (the "GCP Note") in the aggregate principal amount of $211,580 to Gosling's Export (Bermuda) Limited in exchange for credits issued on certain inventory purchases. The GCP Note matures on April 1, 2020, is payable at maturity, subject to certain acceleration events, and calls for annual interest of 5%, to be accrued and paid at maturity. At March 31, 2012, $10,579 of accrued interest was converted to amounts due to affiliates. At June 30, 2012, $214,225, consisting of $211,580 of principal and $2,645 of accrued interest, due on the GCP Note is included in long-term liabilities. At March 31, 2012, $211,580 of principal due on the GCP Note is included in long-term liabilities.

B. In August 2011, the Company and CB-USA entered into the Keltic Facility, a revolving loan agreement with Keltic Financial Partners II, LP ("Keltic"), providing for availability (subject to certain terms and conditions) of a facility of up to $5,000,000 for the purpose of providing the Company and CB-USA with working capital. In July 2012, as described in Note 16, the Keltic Facility was amended to increase availability to $7,000,000, among other changes. The Company and CB-USA are referred to individually and collectively as the Borrower. The Keltic Facility expires on August 19, 2014. The Borrower may borrow up to the maximum amount of the Keltic Facility, provided that the Borrower has a sufficient borrowing base (as defined under the loan agreement). The Keltic Facility interest rate is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 3.25%, (b) the LIBOR Rate plus 5.75%, and (c) 6.50%. For the three months ended June 30, 2012, the Company paid interest at 6.5%. Interest is payable monthly in arrears, on the first day of every month on the average daily unpaid principal amount of the Keltic Facility. After the occurrence and during the continuance of any "Default" or "Event of Default" (as defined under the loan agreement), the Borrower is required to pay interest at a rate that is 3.25% per annum above the then applicable Keltic Facility interest rate. There have been no Events of Default under the Keltic Facility. In addition to a $100,000 commitment fee paid on the original revolving loan agreement and a $40,000 commitment fee paid on the amended agreement, Keltic also receives an annual facility fee and a collateral management fee. The loan agreement contains standard borrower representations and warranties for asset based borrowing and a number of reporting obligations and affirmative and negative covenants. The loan agreement includes negative covenants that, among other things, restrict the Borrower's ability to create additional indebtedness, dispose of properties, incur liens, and make distributions or cash dividends. At June 30, 2012, the Company was in compliance, in all material respects, with the covenants under the Keltic Facility. At June 30 and March 31, 2012, $4,378,740 and $3,849,831, respectively, due on the Keltic Facility is included in long-term liabilities. See Note 16.

NOTE 9 — EQUITY

Preferred stock dividends – Holders of the Company's 10% Series A Convertible Preferred Stock, par value $0.01 per share ("Series A Preferred Stock"), are entitled to receive cumulative dividends at the rate per share (as a percentage of the stated value of $1,000 per share) of 10% per annum, whether or not declared by the Company's Board of Directors, which are only payable in shares of the Company's common stock upon conversion of the Series A Preferred Stock or upon a liquidation. For the three months ended June 30, 2012 and 2011, the Company recorded accrued dividends of $179,951 and $10,755, respectively, included as an increase in the accumulated deficit and in additional paid-in capital on the accompanying condensed consolidated balance sheets. For the three months ended June 30, 2011, the Company also recognized a related beneficial conversion feature of $318,705 as a fully accreted deemed dividend.