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**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, 2018**

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)

**Florida**

(State or other jurisdiction  
of incorporation or organization)

**122 East 42nd Street, Suite 5000,  
New York, New York**  
(Address of principal executive offices)

**41-2103550**

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

**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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

- |  |   |
|--|---|
| <input type="checkbox"/> Large accelerated filer | <input checked="" type="checkbox"/> Accelerated filer |
| <input type="checkbox"/> Non-accelerated filer   | <input type="checkbox"/> Smaller reporting company    |
|  | <input type="checkbox"/> Emerging growth company      |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 169,022,496 shares of \$.01 par value common stock outstanding at February 7, 2019.

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**CASTLE BRANDS INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR THE QUARTERLY PERIOD ENDED**  
**DECEMBER 31, 2018**

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CASTLE BRANDS INC. AND SUBSIDIARIES  
Condensed Consolidated Balance Sheets

	December 31, 2018 (Unaudited)	March 31, 2018
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 647,817	\$ 376,987
Accounts receivable - net of allowance for doubtful accounts of \$460,078 and \$390,939 at December 31 and March 31, 2018, respectively	12,616,791	13,083,487
Inventories - net of allowance for obsolete and slow-moving inventory of \$401,147 and \$346,344 at December 31 and March 31, 2018, respectively	43,164,250	34,555,553
Prepaid expenses and other current assets	3,835,310	3,724,759
<b>Total Current Assets</b>	<b>60,264,168</b>	<b>51,740,786</b>
Equipment - net	741,804	839,409
Intangible assets - net of accumulated amortization of \$8,818,073 and \$8,485,253 at December 31 and March 31, 2018, respectively	5,636,125	5,968,945
Goodwill	496,226	496,226
Investment in non-consolidated affiliate, at equity	928,175	813,926
Restricted cash	356,246	382,279
Other assets	167,321	91,789
<b>Total Assets</b>	<b>\$ 68,590,065</b>	<b>\$ 60,333,360</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Current maturities of notes payable	\$ 69,645	\$ 176,148
Accounts payable	11,469,990	7,674,858
Accrued expenses	2,705,377	2,497,001
Due to shareholders and affiliates	2,315,190	2,785,910
<b>Total Current Liabilities</b>	<b>16,560,202</b>	<b>13,133,917</b>
Long-Term Liabilities		
Credit facility, net (including \$718,700 and \$576,546 of related-party participation at December 31 and March 31, 2018, respectively)	23,672,003	18,505,897
Notes payable - 11% Subordinated note	20,000,000	20,000,000
Notes payable - GCP Note	219,514	211,580
Deferred tax liability	485,664	485,484
Other	6,778	6,778
<b>Total Liabilities</b>	<b>60,944,161</b>	<b>52,343,656</b>
Commitments and Contingencies (Note 10)		
Equity		
Preferred stock, \$.01 par value, 25,000,000 shares authorized, no shares issued and outstanding at December 31 and March 31, 2018	-	-
Common stock, \$.01 par value, 300,000,000 shares authorized at December 31 and March 31, 2018, 168,917,996 and 166,330,733 shares issued and outstanding at December 31 and March 31, 2018, respectively	1,689,180	1,663,307
Additional paid-in capital	156,834,225	154,731,044
Accumulated deficit	(152,976,273)	(149,891,272)
Accumulated other comprehensive loss	(2,184,817)	(2,082,011)
<b>Total controlling shareholders' equity</b>	<b>3,362,315</b>	<b>4,421,068</b>
Noncontrolling interests	4,283,589	3,568,636
<b>Total Equity, including noncontrolling interests</b>	<b>7,645,904</b>	<b>7,989,704</b>
<b>Total Liabilities and Equity</b>	<b>\$ 68,590,065</b>	<b>\$ 60,333,360</b>

See accompanying notes to the unaudited condensed consolidated financial statements.



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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Sales, net*	\$ 22,535,242	\$ 24,079,623	\$ 68,949,793	\$ 65,826,060
Cost of sales*	14,397,207	14,401,686	42,412,711	39,026,255
Gross profit	8,138,035	9,677,937	26,537,082	26,799,805
Selling expense	5,800,828	5,438,815	16,945,148	16,394,222
General and administrative expense	3,095,470	2,458,528	8,176,982	7,020,407
Depreciation and amortization	197,134	208,388	637,306	599,623
(Loss) income from operations	(955,397)	1,572,206	777,646	2,785,553
Other (expense) income, net	(1,455)	931	(10,366)	872
Income (loss) from equity investment in non-consolidated affiliate	25,108	(20,806)	114,249	50,789
Foreign exchange gain (loss)	86,381	25,204	133,763	(7,104)
Interest expense, net	(1,210,707)	(976,017)	(3,362,154)	(2,769,440)
(Loss) income before provision for income taxes	(2,056,070)	601,518	(2,346,862)	60,670
Income tax (expense) benefit, net	(5,288)	63,085	(23,186)	19,337
Net (loss) income	(2,061,358)	664,603	(2,370,048)	80,007
Net income attributable to noncontrolling interests	(116,800)	(199,023)	(714,953)	(562,505)
Net (loss) income attributable to common shareholders	\$ (2,178,158)	\$ 465,580	\$ (3,085,001)	\$ (482,498)
Net (loss) income per common share, basic, attributable to common shareholders	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.00)
Weighted average shares used in computation, basic, attributable to common shareholders	166,766,352	163,470,150	166,264,144	163,249,687
Net income (loss) per common share, diluted, attributable to common shareholders	\$ (0.01)	\$ 0.00	\$ (0.02)	\$ (0.00)
Weighted average shares used in computation, diluted, attributable to common shareholders	166,766,352	171,121,927	166,264,144	163,249,687

\* Sales, net and Cost of sales include excise taxes of \$1,818,697 and \$1,938,739 for the three months ended December 31, 2018 and 2017, respectively, and \$5,405,867 and \$5,338,124 for the nine months ended December 31, 2018 and 2017, respectively.

See accompanying notes to the unaudited condensed consolidated financial statements.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Comprehensive Income (Loss)**  
**(Unaudited)**

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Net (loss) income	\$ (2,061,358)	\$ 664,603	\$ (2,370,048)	\$ 80,007
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(17,545)	22,221	(102,806)	182,033
Total other comprehensive (loss) income:	(17,545)	22,221	(102,806)	182,033
Comprehensive (loss) income	<u>\$ (2,078,903)</u>	<u>\$ 686,824</u>	<u>\$ (2,472,854)</u>	<u>\$ 262,040</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statement of Changes in Equity**  
**(Unaudited)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount					
BALANCE, MARCH 31, 2018	<u>166,330,733</u>	<u>\$ 1,663,307</u>	<u>\$ 154,731,044</u>	<u>\$ (149,891,272)</u>	<u>\$ (2,082,011)</u>	<u>\$ 3,568,636</u>	<u>\$ 7,989,704</u>
Net loss				(690,707)		383,341	(307,366)
Foreign currency translation adjustment					(76,329)		(76,329)
Exercise of common stock options	503,166	5,032	210,984				216,016
Restricted common stock grants	1,100,000	11,000	(11,000)				-
Common stock purchased under employee stock purchase plan	41,902	419	40,540				40,959
Stock-based compensation			490,485				490,485
BALANCE, JUNE 30, 2018	<u>167,975,801</u>	<u>\$ 1,679,758</u>	<u>\$ 155,462,053</u>	<u>\$ (150,581,979)</u>	<u>\$ (2,158,340)</u>	<u>\$ 3,951,977</u>	<u>\$ 8,353,469</u>
Net loss				(216,136)		214,812	(1,324)
Foreign currency translation adjustment					(8,932)		(8,932)
Exercise of common stock options	626,000	6,260	227,141				233,401
Restricted common stock forfeited	(47,809)	(478)	478				-
Stock-based compensation			497,219				497,219
BALANCE, SEPTEMBER 30, 2018	<u>168,553,992</u>	<u>\$ 1,685,540</u>	<u>\$ 156,186,891</u>	<u>\$ (150,798,115)</u>	<u>\$ (2,167,272)</u>	<u>\$ 4,166,789</u>	<u>\$ 9,073,833</u>
Net loss				(2,178,158)		116,800	(2,061,358)
Foreign currency translation adjustment					(17,545)		(17,545)
Exercise of common stock options	330,367	3,304	113,297				116,601
Restricted shares forfeited	(13,500)	(135)	135				-
Common stock purchased under employee stock purchase plan	47,137	471	37,547				38,018
Stock-based compensation			496,355				496,355
BALANCE, DECEMBER 31, 2018	<u>168,917,996</u>	<u>\$ 1,689,180</u>	<u>\$ 156,834,225</u>	<u>\$ (152,976,273)</u>	<u>\$ (2,184,817)</u>	<u>\$ 4,283,589</u>	<u>\$ 7,645,904</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine months ended December 31,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (2,370,048)	\$ 80,007
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	637,306	599,623
Provision for doubtful accounts	43,677	44,912
Amortization of deferred financing costs	133,907	65,492
Deferred income tax benefit (expense), net	180	(81,899)
Net income from equity investment in non-consolidated affiliate	(114,249)	(50,789)
Effect of foreign currency transactions (gain) loss	(133,763)	7,104
Stock-based compensation expense	1,484,059	1,484,306
Addition to provision for obsolete inventories	475,000	100,000
Changes in operations, assets and liabilities:		
Accounts receivable	410,060	(2,168,286)
Due from affiliates	—	(2,173)
Inventory	(9,042,583)	(4,983,428)
Prepaid expenses and supplies	(115,216)	(172,666)
Other assets	(177,582)	(44,259)
Accounts payable and accrued expenses	4,031,011	614,171
Accrued interest	7,934	7,934
Due to related parties	(470,720)	(331,136)
Total adjustments	(2,830,979)	(4,911,094)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(5,201,027)</b>	<b>(4,831,087)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	(207,346)	(224,792)
Acquisition of intangible assets	-	(24,603)
Investment in non-consolidated affiliate, at equity	-	(156,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(207,346)</b>	<b>(405,395)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on credit facility	5,134,249	5,357,334
Net payments on foreign revolving credit facility	(48,405)	-
Repayment of 5% convertible note	(50,000)	-
Proceeds from issuance of common stock under employee stock purchase plan	78,977	-
Proceeds from exercise of common stock options	566,018	204,768
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>5,680,839</b>	<b>5,562,102</b>
EFFECTS OF FOREIGN CURRENCY TRANSLATION	(27,669)	49,963
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>244,797</b>	<b>375,583</b>
<b>CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH - BEGINNING</b>	<b>759,266</b>	<b>942,503</b>
<b>CASH AND CASH EQUIVALENTS</b>	<b>647,817</b>	<b>946,367</b>
<b>RESTRICTED CASH</b>	<b>356,246</b>	<b>371,719</b>
<b>CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH - ENDING</b>	<b>\$ 1,004,063</b>	<b>\$ 1,318,086</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Schedule of non-cash financing activities		
Conversion of 5% convertible notes to common stock	\$ -	\$ 928,167
Interest paid	\$ 3,158,194	\$ 2,601,139
Income taxes paid	\$ 108,885	\$ 669,500

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, 2018 is derived from the March 31, 2018 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, 2018 included in the Company’s annual report on Form 10-K for the year ended March 31, 2018, as amended (“2018 Form 10-K”). Please refer to the notes to the audited consolidated financial statements included in the 2018 Form 10-K for additional disclosures and a description of accounting policies.

- A. Description of business - The consolidated financial statements include the accounts of the Company, its wholly-owned domestic subsidiaries, Castle Brands (USA) Corp. (“CB-USA”) and McLain & Kyne, Ltd., the Company’s wholly-owned foreign subsidiaries, Castle Brands Spirits Group Limited and Castle Brands Spirits Marketing and Sales Company Limited, and the Company’s 80.1% 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. Liquidity - In November 2018, the Company extended the term of the loan and security agreement (as amended and restated) to July 31, 2020 (as described in Note 7C). The Company believes that its current cash and working capital and the availability under the Credit Facility (as defined in Note 7C) will enable it to fund its obligations, meet its working capital needs, maturing debt obligations and whiskey purchase commitments until it achieves profitability, ensure continuity of supply of its brands and support new brand initiatives and marketing programs through at least February 2020. The Company believes it can continue to meet its operating needs through additional mechanisms, if necessary, including additional or expanded debt financings, potential equity offerings and limiting or adjusting the timing of additional inventory purchases based on available resources.
- C. Organization and operations - The Company is principally engaged in the importation, marketing and sale of premium and super premium rums, whiskeys, liqueurs, vodka and related non-alcoholic beverage products, including ginger beer, in the United States, Canada, Europe and Asia.
- D. Revenues - The Company operates in one reportable segment and derives substantially all of its revenue from the sale and delivery of premium beverage alcohol and related non-beverage alcohol products. In the U.S., the Company is required by law to use state-licensed distributors or, in the control states, state-owned agencies performing this function, to sell its brands to retail outlets. In its international markets, the Company relies primarily on established spirits distributors in much the same way as in the U.S. Revenue from product sales is recognized when the product is shipped to a customer (generally a distributor) and title and risk of loss has passed to the customer in accordance with the terms of sale and collection is reasonably assured. Revenue is not recognized on shipments to control states in the United States until such time as product is sold through to the retail channel.

The Company does not ship product unless it has received an order or other documentation authorizing delivery to its customers. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring goods. The Company generally does not provide post-delivery services and does not offer a right-of-return except in the case of an error. Uncollectable accounts receivable are estimated by using a combination of historical customer experience and a customer-by-customer analysis. The Company’s payment terms vary by customer and, in certain cases, the products offered. The term between invoicing and when payment is due is not significant. As permitted under U.S. GAAP, the Company has elected not to assess whether a contract has a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods to the customer will be one year or less. As permitted under U.S. GAAP, the Company has elected to recognize the incremental costs of obtaining a contract as an expense when incurred as the amortization period of the asset that the Company otherwise would have recognized will be one year or less. As permitted under U.S. GAAP, the Company has elected to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the Company from a customer, i.e excise taxes (see note 1H). As permitted under U.S. GAAP, the Company has elected to account for any shipping and handling activities that occur after a customer obtains control of any goods as activities to fulfill the promise to transfer the goods, and the Company is not required to evaluate whether such shipping and handling activities are promised services to its customers.

See Note 12 for disaggregation of revenue by segment and product as the Company believes this best depicts how the nature, amount, timing and uncertainty of its revenues and cash flows are affected by economic factors.

The Company does not have any customer contracts that meet the definition of unsatisfied performance obligations in accordance with U.S. GAAP.

- E. 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 equity investments as a component of net income or loss.
- F. 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.
- G. Impairment of long-lived assets - Under 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.
- H. 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 or other relevant jurisdiction 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.
- I. 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.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

J. 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.

K. Income taxes - In December 2017, the Tax Cuts and Jobs Act (the "2017 Tax Act") was enacted. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, most notably a reduction of the U.S. corporate income tax rate from 35% to 21% for tax years beginning after December 31, 2017. The Company recognized the income tax effects of the 2017 Tax Act in its current financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, "Income Taxes", ("ASC 740") in the reporting period in which the 2017 Tax Act was signed into law. In addition, the Company completed its assessment of income tax effects of the 2017 Tax Act on its financials as of December 31, 2018.

The 2017 Tax Act reduced the U.S. federal corporate tax rate from 35.0% to 21.0% for all corporations effective January 1, 2018. For fiscal year companies, the change in law requires the application of a blended rate for each quarter of the fiscal year, which in the Company's case is 30.79% for the fiscal year ended March 31, 2018. Thereafter, the applicable statutory rate is 21.0%.

Under ASC 740, 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 adopted the provisions of ASC 740 and at each of December 31 and March 31, 2018, the Company had reserves for uncertain tax positions (including related interest and penalties) for various state and local taxes of \$6,778. The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense.

L. Recent accounting pronouncements – In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-15, Intangibles - Goodwill and Other Internal Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Company’s results of operations, cash flows and financial condition.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU adds, modifies and removes several disclosure requirements relative to the three levels of inputs used to measure fair value in accordance with Topic 820, “Fair Value Measurement.” This guidance is effective for the Company as of April 1, 2020, with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Company’s results of operations, cash flows and financial condition.

In July 2018, the FASB issued ASU 2018-09, “Codification Improvements.” This ASU makes amendments to a wide variety of codification topics in the FASB’s Accounting Standards Codification. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in this ASU do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Company’s results of operations, cash flows and financial condition.

In June 2018, the FASB issued ASU 2018-07, “Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” This ASU expands the scope of Topic 718 to include share-based payments to non-employees for goods or services. This ASU also clarifies that Topic 718 does not apply to share-based payments used to effectively provide (1) financing to the issuer or (2) awards granted in conjunction with selling goods or services to customers as part of a contract accounted for under Revenue from Contracts with Customers (Topic 606). This guidance is effective for the Company as of April 1, 2019, with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Company’s results of operations, cash flows and financial condition.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU amends the requirement on the measurement and recognition of expected credit losses for financial assets held. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted, but not earlier than annual and interim periods beginning after December 15, 2018. This amendment should be applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is currently evaluating the new guidance to determine the impact the adoption of this guidance will have on the Company’s results of operations, cash flows and financial condition.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”), which provides guidance for accounting for leases. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of the lease classification. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or on a straight-line basis over the term of the lease. For leases with a term of 12 months or less for which there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities and should recognize lease expense for such leases generally on a straight-line basis over the lease term. Certain qualitative disclosures along with specific quantitative disclosures will be required so that users are able to understand more about the nature of an entity’s leasing activities. Accounting for lessors remains largely unchanged from current U.S. GAAP. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases and ASU 2018-11 “Leases (Topic 842): Targeted Improvements” (ASU 2018-11). ASU 2018-10 clarifies certain areas within ASU 2016-02. Prior to ASU 2018-11, a modified retrospective transition was required for financing or operating leases existing at or entered into after the beginning of the earliest comparative period presented in the financial statements. ASU 2018-11 allows entities an additional transition method to the existing requirements whereby an entity could adopt the provisions of ASU 2016-02 by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption without adjustment to the financial statements for periods prior to adoption. ASU 2018-11 also allows a practical expedient that permits lessors to not separate non-lease components from the associated lease component if certain conditions are present. An entity that elects to use the practical expedients will, in effect, continue to account for leases that commenced before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. ASU 2016-02, ASU 2018-10 and ASU 2018-11 will be effective for the Company’s fiscal year beginning April 1, 2019 and subsequent interim periods. The Company’s current lease arrangements have terms that expire through 2021 and the Company is currently evaluating the impact the adoption of these ASUs will have on the Company’s condensed consolidated financial statements.

The Company does not believe that any other recently issued, but not yet effective, accounting standards, if currently adopted, would have a material effect on the accompanying condensed consolidated financial statements.

M. Accounting standards adopted - In February 2018, FASB issued ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (“ASU 2018-02”), which allows for stranded tax effects in accumulated other comprehensive income resulting from the 2017 Tax Act to be reclassified to retained earnings. This guidance became effective for the Company as of April 1, 2018. The Company determined that the adoption of this guidance did not have a material effect on the Company’s results of operations, cash flows and financial condition.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." ASU 2017-09 provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. This guidance became effective for the Company as of April 1, 2018. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." This ASU, which must be applied prospectively, provides a narrower framework to be used to determine if a set of assets and activities constitutes a business than under current guidance and is generally expected to result in greater consistency in the application of ASC Topic 805, Business Combinations. This guidance became effective for the Company as of April 1, 2018. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB's Emerging Issues Task Force (the "Task Force")." The new standard requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Entities will also be required to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The Company adopted the new standard on April 1, 2018 using a retrospective adoption method, which resulted in an adjustment to "Cash and cash equivalents including restricted cash" on the accompanying condensed consolidated statement of cashflows. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

In October 2016, the FASB issued ASU 2016-16, "Income Taxes: Intra-Entity Transfers of Assets Other than Inventory." This ASU removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This guidance became effective for the Company as of April 1, 2018. Entities must apply a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments", which provides guidance on eight cash flow classification issues with the objective of reducing differences in practice. The new standard became effective for the Company as of April 1, 2018. Adoption is required to be on a retrospective basis, unless impracticable for any of the amendments, in which case a prospective application is permitted. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) ("ASU 2016-08"). ASU 2016-08 does not change the core principle of the guidance stated in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), ("ASU 2014-9"), instead, the amendments in this ASU are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations and whether an entity reports revenue on a gross or net basis. ASU 2016-08 will have the same effective date and transition requirements as the new standard issued in ASU 2014-09. In May 2014, the FASB issued ASU 2014-09. The new standard outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new standard contains principles to determine the measurement of revenue and timing of when it is recognized. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Under the new model, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted the new standard on April 1, 2018 by applying the modified retrospective method, which did not result in a transition adjustment nor an adjustment to opening retained earnings. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities", which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. Also, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The Company adopted the new standard on April 1, 2018, which did not result in a cumulative-effect adjustment to the balance sheet. The Company determined that the adoption of this guidance did not have a material effect on the Company's results of operations, cash flows and financial condition.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

**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, vesting of restricted shares or conversion of convertible notes outstanding. In computing diluted net income per share for the three months ended December 31, 2018 and 2017, no adjustment has been made to the weighted average outstanding common shares for the assumed exercise of stock options, vesting of restricted shares or conversion of convertible notes as the assumed exercise, vesting or conversion of these securities is anti-dilutive.

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

	Three months ended December 31,	
	2018	2017
Stock options	13,815,575	15,523,008
Unvested restricted stock	1,984,250	1,092,000
5% Convertible notes	—	1,833,333
<b>Total</b>	<b>15,799,825</b>	<b>18,448,341</b>

**NOTE 3 - INVENTORIES**

	December 31, 2018	March 31, 2018
Raw materials	\$ 29,000,790	\$ 21,015,172
Finished goods - net	14,163,460	13,540,381
<b>Total</b>	<b>\$ 43,164,250</b>	<b>\$ 34,555,553</b>

As of December 31 and March 31, 2018, 8% and 9%, respectively, of raw materials and 7% and 3%, respectively, of finished goods were located outside of the United States.

In the nine months ended December 31, 2018, the Company acquired \$11,575,139 of bulk bourbon whiskey in support of its anticipated near and mid-term needs.

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 net realizable value.

**NOTE 4 - EQUITY INVESTMENT**

Investment in Gosling-Castle Partners Inc., consolidated

In March 2017, the Company acquired an additional 201,000 shares (the "GCP Share Acquisition") of the common stock of GCP, representing a 20.1% equity interest in GCP. GCP is a strategic global export venture between the Company and the Gosling family. As a result of the completion of the GCP Share Acquisition, the Company's total equity interest in GCP increased to 80.1%. The consideration for the GCP Share Acquisition was (i) \$20,000,000 in cash and (ii) 1,800,000 shares of common stock of the Company. The Company accounted for this transaction in accordance with ASC 810 "Consolidation," and in particular section 810-10-45.

For the three months ended December 31, 2018 and 2017, GCP had pretax net income on a stand-alone basis of \$1,352,426 and \$994,600, respectively. The Company allocated a portion of this net income, or \$269,133 and \$199,915, to non-controlling interest for the three months ended December 31, 2018 and 2017, respectively. For the nine months ended December 31, 2018 and 2017, GCP had pretax net income on a stand-alone basis of \$4,694,362 and \$2,846,141, respectively. The Company allocated a portion of this net income, or \$934,178 and \$572,074, to non-controlling interest for the nine months ended December 31, 2018 and 2017, respectively. The cumulative balance allocated to noncontrolling interests in GCP was \$4,283,589 and \$3,568,636 at December 31 and March 31, 2018, respectively, as shown on the accompanying condensed consolidated balance sheets.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

Investment in Copperhead Distillery Company, equity method

In June 2015, CB-USA purchased 20% of Copperhead Distillery Company (“Copperhead”) for \$500,000. Copperhead owns and operates the Kentucky Artisan Distillery. The investment was part of an agreement to build a new warehouse in Crestwood, Kentucky to store Jefferson’s bourbons, provide distilling capabilities using special mash-bills made from locally grown grains and create a visitor center and store to enhance the consumer experience for the Jefferson’s brand. In September 2017, CB-USA purchased an additional 5% of Copperhead for \$156,000 from an existing shareholder. The Company has accounted for this investment under the equity method of accounting. For the three months ended December 31, 2018, the Company recognized income of \$25,108 from this investment. For the three months ended December 31, 2017, the Company recognized a loss of (\$20,806) from this investment. For the nine months ended December 31, 2018 and 2017, the Company recognized \$114,249 and \$50,789 of income from this investment, respectively. The investment balance was \$928,175 and \$813,926 at December 31 and March 31, 2018, respectively.

**NOTE 5 - GOODWILL AND INTANGIBLE ASSETS**

The carrying amount of goodwill was \$496,226 at each of December 31 and March 31, 2018.

Intangible assets consist of the following:

	December 31, 2018	March 31, 2018
Definite life brands	\$ 170,000	\$ 170,000
Trademarks	641,693	641,693
Rights	8,271,555	8,271,555
Product development	208,518	208,518
Patents	994,000	994,000
Other	55,460	55,460
	<u>10,341,226</u>	<u>10,341,226</u>
Less: accumulated amortization	<u>8,818,073</u>	<u>8,485,253</u>
Net	1,523,153	1,855,973
Other identifiable intangible assets - indefinite lived*	<u>4,112,972</u>	<u>4,112,972</u>
	<u>\$ 5,636,125</u>	<u>\$ 5,968,945</u>

\* Other identifiable intangible assets - indefinite lived consists of product formulations and the Company’s relationships with its distillers.

Accumulated amortization consists of the following:

	December 31, 2018	March 31, 2018
Definite life brands	\$ 170,000	\$ 170,000
Trademarks	430,946	403,617
Rights	7,207,235	6,954,303
Product development	55,321	47,880
Patents	954,571	909,453
Accumulated amortization	<u>\$ 8,818,073</u>	<u>\$ 8,485,253</u>

**NOTE 6 - RESTRICTED CASH**

At December 31 and March 31, 2018, the Company had €311,299 or \$356,246 (translated at the December 31, 2018 exchange rate) and €310,324 or \$382,279 (translated at the March 31, 2018 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 as described in Note 7A below.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

**NOTE 7 - NOTES PAYABLE**

	December 31, 2018	March 31, 2018
Notes payable consist of the following:		
Foreign revolving credit facilities (A)	\$ 69,645	\$ 126,148
Note payable - GCP note (B)	219,514	211,580
Credit facility (C)	23,672,003	18,505,897
5% Convertible notes (D)	—	50,000
11% Subordinated note (E)	20,000,000	20,000,000
<b>Total</b>	<b>\$ 43,961,162</b>	<b>\$ 38,893,625</b>

- A. The Company has arranged various credit facilities aggregating €311,299 or \$356,246 (translated at the December 31, 2018 exchange rate) and €310,324 or \$382,279 (translated at the March 31, 2018 exchange rate) at December 31 and March 31, 2018, respectively, with an Irish bank, including overdraft coverage, creditors' insurance, customs and excise guaranty, a revolving credit facility and Company credit cards. These credit facilities are payable on demand, continue until terminated by either party, are subject to annual review, and call for interest at the lender's AA1 Rate minus 1.70%. At December 31 and March 31, 2018, there was €60,858 or \$69,645 (translated at the December 31, 2018 exchange rate) and €102,404 or \$126,148 (translated at the March 31, 2018 exchange rate) of principal due on the foreign revolving credit facilities included in current maturities of notes payable, respectively.
- B. 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, 2018, \$10,579 of accrued interest was converted to amounts due to affiliates. At December 31, 2018, \$219,514, consisting of \$211,580 of principal and \$7,934 of accrued interest, due on the GCP Note is included in long-term liabilities. At March 31, 2018, \$211,580 of principal due on the GCP Note is included in long-term liabilities.
- C. In August 2011, the Company and CB-USA entered into a loan and security agreement (as amended and restated, and further amended, the "Amended Agreement") with a third-party lender ACF FinCo ILP ("ACF") as successor in interest, which, as amended, provided for availability (subject to certain terms and conditions) of a facility of up to \$21.0 million (the "Credit Facility") for the purpose of providing the Company with working capital, including a sublimit in the maximum principal amount of \$7,000,000 to permit the Company to acquire aged whiskey inventory (the "Purchased Inventory Sublimit") subject to certain conditions set forth in the Amended Agreement. The Company and CB-USA are referred to individually and collectively as the Borrower. Pursuant to the Loan Agreement Amendment, the Company and CB-USA may borrow up to the lesser of (x) \$21,000,000 and (y) the sum of the borrowing base calculated in accordance with the Amended Agreement and the Purchased Inventory Sublimit.

In May 2018, the Company and CB-USA entered into a Fourth Amendment (the "Fourth Amendment") to the Amended Agreement to amend certain terms of the Credit Facility. Among other changes, the Fourth Amendment increased the maximum amount of the Credit Facility from \$21,000,000 to \$23,000,000 and amended the definition of borrowing base to increase the amount of borrowing that can be collateralized by inventory.

The Credit Facility interest rate is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 3.00%, (b) the LIBOR Rate plus 5.50% and (c) 6.00%. As of December 31, 2018, the Credit Facility interest rate was 7.75%.

The Purchased Inventory Sublimit interest rate is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 4.25%, (b) the LIBOR Rate plus 6.75% and (c) 7.50%. As of December 31, 2018, the interest rate applicable to the Purchased Inventory Sublimit was 9.5%. The monthly facility fee is 0.75% per annum of the maximum Credit Facility. Also, the Company must pay a monthly facility fee of \$2,000 with respect to the Purchased Inventory Sublimit until all obligations with respect thereof are fully paid and performed.



**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

The Amended Agreement contains EBITDA targets allowing for further interest rate reductions in the future. The Company and CB-USA are permitted to prepay the Credit Facility in whole or the Purchased Inventory Sublimit, in whole or in part, subject to certain prepayment penalties as set forth in the Loan Agreement Amendment. For the nine months ended December 31, 2018, the Company paid interest at 7.31175% through April 30, 2018, then 7.35805% through May 31, 2018, then 7.30031% through June 30, 2018, then 7.5% through September 27, 2018, then 7.75% through December 19, 2018, then 8.0% through December 31, 2018 on the Amended Agreement. For the nine months ended December 31, 2017, the Company paid interest at 9.06175% through April 30, 2017, then 9.10805% through May 31, 2017, then 9.05031% through June 30, 2017, then 9.25% through September 27, 2017, then 9.5% through December 19, 2017, then 9.75% through December 31, 2017 on the Purchased Inventory Sublimit. For the nine months ended December 31, 2017, the Company paid interest at 8.25% through June 14, 2017, then at 8.5% through December 13, 2017, and then 8.75% through December 31, 2017 on the Purchased Inventory Sublimit. Interest is payable monthly in arrears, on the first day of every month on the average daily unpaid principal amount of the Credit Facility. After the occurrence and during the continuance of any “Default” or “Event of Default” (as defined under the Amended Agreement), the Borrower is required to pay interest at a rate that is 3.25% per annum above the then applicable Credit Facility interest rate. There have been no Events of Default under the Credit Facility. ACF also receives a collateral management fee of \$1,000 per month (increased to \$2,000 after the occurrence of and during the continuance of an Event of Default) in addition to the facility fee with respect to the Purchased Inventory Sublimit. The Amended Agreement contains standard borrower representations and warranties for asset-based borrowing and a number of reporting obligations and affirmative and negative covenants. The Amended 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. The obligations of the Borrower under the Amended Agreement are secured by the grant of a pledge and security interest in all of the assets of the Borrower. At December 31, 2018, the Company was in compliance, in all respects, with the covenants under the Amended Agreement. The Credit Facility matures on July 31, 2020.

ACF required as a condition to entering into an amendment to the Amended Agreement in August 2015 that ACF enter into a participation agreement with certain related parties of the Company, including Frost Gamma Investments Trust, an entity affiliated with Phillip Frost, M.D., a director and principal shareholder of the Company, Mark E. Andrews, III, a director of the Company and the Company’s Chairman, Richard J. Lampen, a director of the Company and the Company’s President and Chief Executive Officer, Brian L. Heller, the Company’s General Counsel and Assistant Secretary, and Alfred J. Small, the Company’s Senior Vice President, Chief Financial Officer, Treasurer and Secretary, to allow for the sale of participation interests in the Purchased Inventory Sublimit and the inventory purchased with the proceeds thereof. The participation agreement provides that ACF’s commitment to fund each advance of the Purchased Inventory Sublimit shall be limited to seventy percent (70%), up to an aggregate maximum principal amount for all advances equal to \$4,900,000. Neither the Company nor CB-USA is a party to the participation agreement. However, the Company and CB-USA are party to a fee letter with the junior participants (including the related party junior participants) pursuant to which the Company and CB-USA were obligated to pay the junior participants a closing fee of \$18,000 on the effective date of the Loan Agreement Amendment and are obligated to pay a commitment fee of \$18,000 on each anniversary of the effective date until the junior participants’ obligations are terminated pursuant to the participation agreement.

In August 2015, the Company used \$3,000,000 of the Purchased Inventory Sublimit to acquire aged bourbon inventory. Frost Gamma Investments Trust (\$150,000), Mark E. Andrews, III (\$50,000), Richard J. Lampen (\$100,000), Brian L. Heller (\$42,500) and Alfred J. Small (\$15,000) each acquired participation interests in the Purchased Inventory Sublimit and the inventory purchased with the proceeds thereof. In January 2017, the Company acquired \$1,030,000 in aged bulk bourbon under the Purchased Inventory Sublimit with additional borrowings from certain related parties of the Company, including Frost Gamma Investments Trust (\$51,500), Richard J. Lampen (\$34,333), Mark E. Andrews, III (\$17,167), Brian L. Heller (\$14,592), and Alfred J. Small (\$5,150), as junior participants in the Purchased Inventory Sublimit with respect to such purchase. In October 2017, the Company acquired \$1,308,125 in aged bulk bourbon under the Purchased Inventory Sublimit with additional borrowings from certain related parties of the Company, including Frost Gamma Investments Trust (\$65,406), Richard J. Lampen (\$43,604), Mark E. Andrews, III (\$21,802), Brian L. Heller (\$18,532), and Alfred J. Small (\$6,541), as junior participants in the Purchased Inventory Sublimit with respect to such purchase. In December 2017, the Company acquired \$900,425 in aged bulk bourbon under the Purchased Inventory Sublimit with additional borrowings from certain related parties of the Company, including Frost Gamma Investments Trust (\$45,021), Richard J. Lampen (\$30,014), Mark E. Andrews, III (\$15,007), Brian L. Heller (\$12,756), and Alfred J. Small (\$4,502), as junior participants in the Purchased Inventory Sublimit with respect to such purchase. In April 2018, the Company acquired \$2,001,000 in aged bulk bourbon under the Purchased Inventory Sublimit with additional borrowings from certain related parties of the Company, including Frost Gamma Investments Trust (\$100,050), Richard J. Lampen (\$66,700), Mark E. Andrews, III (\$33,350), Brian L. Heller (\$28,348), and Alfred J. Small (\$10,005), as junior participants in the Purchased Inventory Sublimit with respect to such purchase. In June 2018, the Company acquired \$1,035,000 in aged bulk bourbon under the Purchased Inventory Sublimit with additional borrowings from certain related parties of the Company, including Frost Gamma Investments Trust (\$51,750), Richard J. Lampen (\$34,500), Mark E. Andrews, III (\$17,250), Brian L. Heller (\$14,663), and Alfred J. Small (\$5,175), as junior participants in the Purchased Inventory Sublimit with respect to such purchase. Under the terms of the participation agreement, the participants receive interest at the rate of 11% per annum.

At December 31 and March 31, 2018, \$23,739,211 and \$18,604,962, respectively, due on the Credit Facility was included in long-term liabilities. At December 31 and March 31, 2018, there was \$1,260,789 and \$2,395,038, respectively, in potential availability under the Credit Facility. In connection with the adoption of ASU 2015-03, the Company included \$67,208 and \$99,065 of debt issuance costs at December 31 and March 31, 2018, respectively, as direct deductions from the carrying amount of the related debt liability.

In October 2018, the Company and CB-USA entered into a Fifth Amendment (the “Fifth Amendment”) to the Amended Agreement to amend certain terms of the Company’s existing Credit Facility with ACF. Among other changes, the Fifth Amendment increased the maximum amount of the Credit Facility from \$23,000,000 to \$25,000,000 and amended the definition of borrowing base to increase the amount of borrowing that can be collateralized by inventory. The Company and CB-USA paid ACF an aggregate \$50,000 commitment fee in connection with the Amendment. In connection with the Amendment, the Company and CB-USA also entered into an Amended and Restated Revolving Credit Note.

In November 2018, the Company and CB-USA entered into a Sixth Amendment (the “Sixth Amendment”) to the Amended Agreement to amend certain terms of the Company’s existing Credit Facility with ACF. Among other changes, the Sixth Amendment extends the term of the Credit Facility to July 31, 2020 and amended the definition of borrowing base to increase the amount of borrowing that can be collateralized by inventory. The Company and CB-USA paid ACF an aggregate \$57,500 commitment fee in connection with the Amendment.

In January 2019, the Company and CB-USA entered into a Seventh Amendment (the “Seventh Amendment”) to the Amended Agreement to amend certain terms of the Company’s existing Credit Facility with ACF. Among other changes, the Seventh Amendment increased the maximum amount of the Credit Facility from \$25,000,000 to \$27,000,000 and amended the definition of borrowing base to increase the amount of borrowing that can be collateralized by inventory. The Seventh Amendment also contains a fixed charge coverage ratio covenant requiring the Company to maintain a fixed charge coverage ratio of not less than 1.1 to 1.0. The Company and CB-USA paid ACF an aggregate \$20,000 commitment fee in connection with the Seventh Amendment. In connection with the Seventh Amendment, the Company and CB-USA also entered into an Amended and Restated Revolving Credit Note.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

- D. In October 2013, the Company issued an aggregate initial principal amount of \$2,125,000 of unsecured 5% subordinated notes (the “Convertible Notes”). The Convertible Notes bore interest at a rate of 5% per annum, until their maturity date of December 15, 2018. The Convertible Notes, and accrued but unpaid interest thereon, were convertible in whole or in part from time to time at the option of the holders thereof into shares of the Company’s common stock at a conversion price of \$0.90 per share (the “Conversion Price”).

The purchasers of the Convertible Notes included related parties of the Company, including an affiliate of Dr. Phillip Frost (\$500,000), Mark E. Andrews, III (\$50,000), an affiliate of Richard J. Lampen (\$50,000), an affiliate of Glenn Halpryn (\$200,000), Dennis Scholl (\$100,000), and Vector Group Ltd., a more than 5% shareholder of ours, of which Richard Lampen is an executive officer, Henry Beinstein, a director of ours, is a director and Phillip Frost, M.D. is a principal shareholder (\$200,000).

During the year ended March 31, 2018, certain holders of the Convertible Notes converted an aggregate \$1,632,000 of the outstanding principal and interest balances of their Convertible Notes into 1,813,334 shares of the Company’s common stock, pursuant to the terms of the Convertible Notes. The converting holders included an affiliate of Dr. Phillip Frost, Mark E. Andrews, III an affiliate of Richard J. Lampen, and Vector Group Ltd.

The remaining Convertible Note in the aggregate principal amount of \$50,000 matured and was repaid on December 15, 2018. At March 31, 2018, \$50,000 of principal due on the Convertible Notes was included in current maturities of notes payable.

- E. In March 2017, the Company issued a promissory note to Frost Nevada Investments Trust (the “Holder”), an entity affiliated with Phillip Frost, M.D., in the aggregate principal amount of \$20,000,000 (the “Subordinated Note”). The purpose of Company’s issuance of the Subordinated Note was to finance the GCP Share Acquisition. The Subordinated Note bears interest quarterly at the rate of 11% per annum. All claims of the Holder to principal, interest and any other amounts owed under the Subordinated Note are subordinated in right of payment to all indebtedness of the Company existing as of the date of the Subordinated Note. The Subordinated Note contains customary events of default and may be prepaid by the Company, in whole or in part, without penalty, at any time.

In April 2018, the Company entered into a First Amendment to the Subordinated Note to extend the maturity date on the Subordinated Note from March 15, 2019 until September 15, 2020. No other provisions of the Subordinated Note were amended.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

**NOTE 8 - FOREIGN CURRENCY FORWARD CONTRACTS**

The Company enters into forward contracts from time to time to reduce its exposure to foreign currency fluctuations. The Company recognizes in the balance sheet derivative contracts at fair value and reflects any net gains and losses currently in earnings. At December 31 and March 31, 2018, the Company had no forward contracts outstanding.

**NOTE 9 - STOCK-BASED COMPENSATION**

In April 2018, the Company granted to employees, directors and certain consultants an aggregate of 1,100,000 restricted shares of the Company's common stock under the Company's 2013 Incentive Compensation Plan. The restricted shares vest 25% on each of the first four anniversaries of the grant date, subject to earlier vesting in certain circumstances. The Company has valued the shares at \$1,342,000.

Stock-based compensation expense for the three months ended December 31, 2018 and 2017 amounted to \$496,355 and \$504,490, respectively. Stock-based compensation expense for the nine months ended December 31, 2018 and 2017 amounted to \$1,484,059 and \$1,484,306, respectively. At December 31, 2018, total unrecognized compensation cost amounted to \$3,150,347, representing 2,146,875 unvested options and 1,984,250 unvested shares of restricted stock. This cost is expected to be recognized over a weighted-average vesting period of 1.91 years. There were 1,459,533 options exercised during the nine months ended December 31, 2018 and 269,200 options exercised during the nine months ended December 31, 2017. The Company did not recognize any related tax benefit for the three and nine months ended December 31, 2018 and 2017 from option exercises, as the effects were de minimis.

**NOTE 10 - COMMITMENTS AND CONTINGENCIES**

- A. The Company has entered into a supply agreement with an Irish distiller ("Irish Distillery"), which provides for the production of blended Irish whiskeys for the Company until the contract is terminated by either party in accordance with the terms of the agreement. The Irish Distillery may terminate the contract if it provides at least six years prior notice to the Company, except for breach. Under this agreement, the Company provides the Irish Distillery with a forecast of the estimated amount of liters of pure alcohol it requires for the next four fiscal contract years and agrees to purchase 90% of that amount, subject to certain annual adjustments. For the contract year ending June 30, 2019, the Company has contracted to purchase approximately €1,105,572 or \$1,265,199 (translated at the December 31, 2018 exchange rate) in bulk Irish whiskey, of which €489,787, or \$560,504 (translated at the December 31, 2018 exchange rate), has been purchased as of December 31, 2018. The Company is not obligated to pay the Irish Distillery for any product not yet received. During the term of this supply agreement, the Irish Distillery has the right to limit additional purchases above the commitment amount.
- B. The Company has also entered into a supply agreement with the Irish Distillery, which provides for the production of single malt Irish whiskeys for the Company until the contract is terminated by either party in accordance with the terms of the agreement. The Irish Distillery may terminate the contract if it provides at least thirteen years prior notice to the Company, except for breach. Under this agreement, the Company provides the Irish Distillery with a forecast of the estimated amount of liters of pure alcohol it requires for the next twelve fiscal contract years and agrees to purchase 80% of that amount, subject to certain annual adjustments. For the contract year ending June 30, 2019, the Company has contracted to purchase approximately €575,791 or \$658,926 (translated at the December 31, 2018 exchange rate) in bulk Irish whiskey, of which €370,790, or \$424,327 (translated at the December 31, 2018 exchange rate), has been purchased as of December 31, 2018. The Company is not obligated to pay the Irish Distillery for any product not yet received. During the term of this supply agreement, the Irish Distillery has the right to limit additional purchases above the commitment amount.
- C. The Company has entered into a supply agreement with a bourbon distiller, which provides for the production of newly-distilled bourbon whiskey. Under this agreement, the distiller will provide the Company with an agreed upon amount of original proof gallons of newly-distilled bourbon whiskey, subject to certain annual adjustments. For the contract year ending December 31, 2018, the Company has contracted to purchase approximately \$3,900,000 in newly-distilled bourbon, of which \$3,963,700 was purchased as of December 31, 2018. The Company is not obligated to pay the distiller for any product not yet received.
- D. The Company leases office space in New York, NY, Dublin, Ireland and Houston, TX. The New York, NY lease began on May 1, 2010 and expires on February 29, 2020 and provides for monthly payments of \$26,255. The Dublin lease commenced on March 1, 2009 and extends through October 31, 2019 and provides for monthly payments of €1,500 or \$1,717 (translated at the December 31, 2018 exchange rate). The Houston, TX lease commenced on April 27, 2015 and extends through June 26, 2021 and provides for monthly payments of \$3,581. The Company has also entered into non-cancelable operating leases for certain office equipment.

**CASTLE BRANDS INC. AND SUBSIDIARIES**  
**Notes to Unaudited Condensed Consolidated Financial Statements - Continued**

- E. As described in Note 7C, in August 2011, the Company and CB-USA entered into the Credit Facility, as amended in July 2012, March 2013, August 2013, November 2013, August 2014, September 2014, August 2015, October 2017, May 2018, October 2018, November 2018 and January 2019.
- F. Except as set forth below, the Company believes that neither it, nor any of its subsidiaries, is currently subject to litigation which, in the opinion of management after consultation with counsel, is likely to have a material adverse effect on the Company.

The Company may become involved in litigation from time to time relating to claims arising in the ordinary course of its business. These claims, even if not meritorious, could result in the expenditure of significant financial and managerial resources.

**NOTE 11 - CONCENTRATIONS**

- A. **Credit Risk** - The Company maintains its cash and cash equivalents balances at various large financial institutions that, at times, may exceed federally and internationally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.
- B. **Customers** - Sales to one customer, the Southern Glazer's Wine and Spirits of America, Inc. family of companies ("SGWS") accounted for approximately 36.8% and 38.4% of the Company's net sales for the three months ended December 31, 2018 and 2017, respectively. Sales to SGWS accounted for approximately 36.9% and 38.2% of the Company's net sales for the nine months ended December 31, 2018 and 2017, respectively, and approximately 35.3% and 35.9% of accounts receivable at December 31 and March 31, 2018, respectively.

**NOTE 12 - GEOGRAPHIC INFORMATION**

The Company operates in one reportable segment - the sale of premium beverage alcohol. The Company's product categories are whiskeys, rum, liqueurs, vodka, tequila and ginger beer, a related non-alcoholic beverage product. The Company reports its operations in two geographic areas: International and United States.

The consolidated financial statements include revenues and assets generated in or held in the U.S. and foreign countries. The following table sets forth the amounts and percentage of consolidated sales, net, consolidated income from operations, consolidated net loss attributable to common shareholders, consolidated income tax expense and consolidated assets from the U.S. and foreign countries and consolidated sales, net by category.

	Three months ended December 31,			
	2018		2017	
<b>Consolidated Sales, net:</b>				
International	\$ 2,219,385	9.8%	\$ 2,390,478	9.9%
U.S. - control states	5,164,987	25.4%	4,965,065	22.9%
U.S. - open states	15,150,870	74.6%	16,724,080	77.1%
United States	<u>20,315,857</u>	<u>90.2%</u>	<u>21,689,145</u>	<u>90.1%</u>
<b>Total Consolidated Sales, net</b>	<u>\$ 22,535,242</u>	<u>100.0%</u>	<u>\$ 24,079,623</u>	<u>100.0%</u>
<b>Consolidated (Loss) Income from Operations:</b>				
International	\$ (31,388)	3.3%	\$ (7,228)	(0.5)%
United States	<u>(924,009)</u>	<u>96.97%</u>	<u>1,579,434</u>	<u>100.5%</u>
<b>Total Consolidated (Loss) Income from Operations</b>	<u>\$ (955,397)</u>	<u>100.0%</u>	<u>\$ 1,572,206</u>	<u>100.0%</u>
<b>Consolidated Net (Loss) Income Attributable to Common Shareholders:</b>				
International	\$ (405)	0.0%	\$ 36,186	7.8%
United States	<u>(2,177,753)</u>	<u>100.0%</u>	<u>429,394</u>	<u>92.2%</u>
<b>Total Consolidated Net (Loss) Income Attributable to Common Shareholders</b>	<u>\$ (2,178,158)</u>	<u>100.0%</u>	<u>\$ 465,580</u>	<u>100.0%</u>
<b>Income tax expense, net:</b>				
United States	<u>\$ (5,288)</u>	<u>100.0%</u>	<u>\$ 63,085</u>	<u>100.0%</u>
<b>Consolidated Sales, net by category:</b>				
Whiskey	\$ 9,943,114	44.1%	\$ 10,811,701	44.9%
Rum	4,042,545	17.9%	3,758,793	15.6%
Liqueurs	2,268,816	10.1%	2,723,578	11.3%
Vodka	235,276	1.0%	377,999	1.6%
Tequila	56	0.0%	26,565	0.1%
Ginger beer	6,045,435	26.9%	6,380,987	26.5%
<b>Total Consolidated Sales, net</b>	<u>\$ 22,535,242</u>	<u>100.0%</u>	<u>\$ 24,079,623</u>	<u>100.0%</u>



Nine months ended December 31,

	2018		2017	
<b>Consolidated Sales, net:</b>				
International	\$ 6,761,194	9.8%	\$ 6,832,624	10.4%
U.S. - control states	14,996,293	24.1%	13,609,868	23.1%
U.S. - open states	47,192,306	75.9%	45,383,568	76.9%
United States	<u>62,188,599</u>	<u>90.2%</u>	<u>58,993,436</u>	<u>89.6%</u>
<b>Total Consolidated Sales, net</b>	<u>\$ 68,949,793</u>	<u>100.0%</u>	<u>\$ 65,826,060</u>	<u>100.0%</u>
<b>Consolidated (Loss) Income from Operations:</b>				
International	\$ (85,083)	(10.9)%	\$ (20,489)	(0.7)%
United States	<u>862,729</u>	<u>110.9%</u>	<u>2,806,042</u>	<u>100.7%</u>
<b>Total Consolidated Income from Operations</b>	<u>\$ 777,646</u>	<u>100.0%</u>	<u>\$ 2,785,553</u>	<u>100.0%</u>
<b>Consolidated Net (Loss) Income Attributable to Common Shareholders:</b>				
International	\$ (1,271)	0.0%	\$ 78,447	(16.3)%
United States	<u>(3,083,730)</u>	<u>100.0%</u>	<u>(560,945)</u>	<u>116.3%</u>
<b>Total Consolidated Net Loss Attributable to Common Shareholders</b>	<u>\$ (3,085,001)</u>	<u>100.0%</u>	<u>\$ (482,498)</u>	<u>100.0%</u>
<b>Income tax expense, net:</b>				
United States	<u>\$ (23,186)</u>	<u>100.0%</u>	<u>\$ 19,337</u>	<u>100.0%</u>
<b>Consolidated Sales, net by category:</b>				
Whiskey	\$ 28,425,936	41.2%	\$ 25,317,480	38.5%
Rum	12,776,043	18.5%	12,380,558	18.8%
Liqueurs	6,792,602	9.9%	7,361,924	11.2%
Vodka	892,016	1.3%	1,021,253	1.5%
Tequila	85,218	0.1%	156,301	0.2%
Ginger beer	<u>19,977,978</u>	<u>29.0%</u>	<u>19,588,544</u>	<u>29.8%</u>
<b>Total Consolidated Sales, net</b>	<u>\$ 68,949,793</u>	<u>100.0%</u>	<u>\$ 65,826,060</u>	<u>100.0%</u>
	<b>As of December 31, 2018</b>		<b>As of March 31, 2018</b>	
<b>Consolidated Assets:</b>				
International	\$ 3,884,332	5.7%	\$ 2,886,735	4.8%
United States	<u>64,705,733</u>	<u>94.3%</u>	<u>57,446,625</u>	<u>95.2%</u>
<b>Total Consolidated Assets</b>	<u>\$ 68,590,065</u>	<u>100.0%</u>	<u>\$ 60,333,360</u>	<u>100.0%</u>

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

We develop and market premium and super premium brands in the following beverage alcohol categories: rum, whiskey, liqueurs and vodka. We also develop and market related non-alcoholic beverage products, including Goslings Stormy Ginger Beer. We distribute our products in all 50 U.S. states and the District of Columbia and in thirteen primary international markets, including Ireland, Great Britain, Northern Ireland, Germany, Canada, France, Finland, Norway, Sweden, Denmark, and the Duty Free markets. We market the following brands, among others:

- Goslings rum®
- Goslings Stormy Ginger Beer
- Goslings Dark 'n Stormy® ready-to-drink cocktail
- Jefferson's® bourbon
- Jefferson's Reserve®
- Jefferson's Ocean Aged at Sea®
- Jefferson's Wine Finish Collection
- Jefferson's The Manhattan: Barrel Finished Cocktail
- Jefferson's Chef's Collaboration
- Jefferson's Wood Experiment
- Jefferson's Presidential Select
- Jefferson's Straight Rye whiskey
- Pallini® liqueurs
- Clontarf® Irish whiskey
- Knappogue Castle Whiskey®
- Brady's® Irish Cream
- Boru® vodka
- Celtic Honey® liqueur
- Gozio® amaretto
- The Arran Malt® Single Malt Scotch Whisky
- The Robert Burns Scotch Whiskeys
- Machrie Moor Scotch Whiskeys

Our objective is to continue building Castle Brands into a profitable international spirits company, with a distinctive portfolio of premium and super premium spirits brands. To achieve this, we continue to seek to:

- **focus on our more profitable brands and markets.** We continue to focus our distribution efforts, sales expertise and targeted marketing activities on our more profitable brands and markets;
- **grow organically.** We believe that continued organic growth will enable us to achieve long-term profitability. We focus on brands that have profitable growth potential and staying power, such as our rums, whiskeys and ginger beer, sales of which have grown substantially in recent years;
- **focus on innovation.** We continue to innovate in our portfolio by developing new brand extensions, expressions, blends and processes, such as our Ocean Aged at Sea bourbons and our wine-finishes for our bourbons and Irish whiskeys. We believe that continued focus on innovation will drive sales growth, build brand loyalty, and open new markets;
- **leverage our distribution network.** Our established distribution network in all 50 U.S. states enables us to promote our brands nationally and makes us an attractive strategic partner for smaller companies seeking U.S. distribution;
- **selectively add new brand brands to our portfolio.** We continue to explore strategic relationships, joint ventures and acquisitions to selectively expand our premium spirits portfolio. For example, we added the Arran Scotch whiskeys to our portfolio as agency brands. We expect that future acquisitions or agency relations, if any, would involve some combination of cash, debt and the issuance of our stock; and
- **build consumer awareness.** We use our existing assets, expertise and resources to build consumer awareness and market penetration for our brands.



## Currency Translation

The functional currencies for our foreign operations are the Euro in Ireland and the British Pound in the United Kingdom. With respect to our consolidated financial statements, 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.

Where in this report we refer to amounts in Euros or British Pounds, we have for your convenience also in certain cases provided a conversion of those amounts to U.S. Dollars in parentheses. Where the numbers refer to a specific balance sheet account date or financial statement account period, we have used the exchange rate that was used to perform the conversions in connection with the applicable financial statement. In all other instances, unless otherwise indicated, the conversions have been made using the exchange rates as of December 31, 2018, each as calculated from the Interbank exchange rates as reported by Oanda.com. On December 31, 2018, the exchange rate of the Euro and the British Pound in exchange for U.S. Dollars was €1.00 = U.S. \$1.14438 (equivalent to U.S. \$1.00 = €0.87383) and £1.00 = U.S. \$1.27343 (equivalent to U.S. \$1.00 = £0.78528).

These conversions should not be construed as representations that the Euro and British Pound amounts actually represent U.S. Dollar amounts or could be converted into U.S. Dollars at the rates indicated.

## Critical Accounting Policies

There are no material changes from the critical accounting policies set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our annual report on Form 10-K for the year ended March 31, 2018, as amended, which we refer to as our 2018 Annual Report. Please refer to that section for disclosures regarding the critical accounting policies related to our business.

## Financial performance overview

The following table provides information regarding our spirits case sales for the periods presented based on nine-liter equivalent cases, which is a standard spirits industry metric (table excludes related non-alcoholic beverage products):

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
<b>Cases</b>				
United States	86,620	90,815	251,837	248,058
International	21,502	20,215	61,169	63,133
<b>Total</b>	<b>108,122</b>	<b>111,030</b>	<b>313,006</b>	<b>311,191</b>
<b>Rum</b>	<b>37,289</b>	<b>35,361</b>	<b>118,342</b>	<b>119,719</b>
Whiskey	36,779	36,477	98,914	90,146
Liqueur	29,121	31,561	77,651	80,959
Vodka	4,919	7,484	17,625	19,563
Tequila	14	147	474	804
<b>Total</b>	<b>108,122</b>	<b>111,030</b>	<b>313,006</b>	<b>311,191</b>
<b>Percentage of Cases</b>				
United States	80.1%	81.8%	80.5%	79.7%
International	19.9%	18.2%	19.5%	20.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Rum</b>	<b>34.5%</b>	<b>31.9%</b>	<b>37.8%</b>	<b>38.4%</b>
Whiskey	34.1%	32.9%	31.6%	29.0%
Liqueur	26.9%	28.4%	24.8%	26.0%
Vodka	4.5%	6.7%	5.6%	6.3%
Tequila	0.0%	0.1%	0.2%	0.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The following table provides information regarding our case sales of Goslings Stormy Ginger Beer, for the periods presented:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
<b>Cases</b>				
United States	405,325	412,146	1,325,136	1,289,575
International	11,204	22,955	60,304	52,404
<b>Total</b>	<b>416,529</b>	<b>435,101</b>	<b>1,385,440</b>	<b>1,341,979</b>
<b>Percentage of Cases</b>				
United States	97.3%	94.7%	95.6%	96.1%
International	2.7%	5.3%	4.4%	3.9%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

### Results of operations

The table below provides, for the periods indicated, the percentage of net sales of certain items in our consolidated financial statements:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Sales, net	100.0%	100.0%	100.0%	100.0%
Cost of sales	63.9%	59.8%	61.5%	59.3%
Gross profit	36.1%	40.2%	38.5%	40.7%
Selling expense	25.7%	22.6%	24.6%	24.9%
General and administrative expense	13.7%	10.2%	11.9%	10.7%
Depreciation and amortization	0.9%	0.9%	0.9%	0.9%
Income from operations	(4.2)%	6.5%	1.1%	4.2%
Other (expense) income, net	(0.0)%	0.0%	(0.0)%	0.0%
Foreign exchange gain (loss)	0.1%	0.1%	0.2%	(0.0)%
Income (loss) from equity investment in non-consolidated affiliate	0.1%	(0.1)%	0.2%	0.1%
Interest expense, net	(5.4)%	(4.1)%	(4.9)%	(4.2)%
(Loss) income before provision for income taxes	(9.1)%	2.4%	(3.4)%	0.1%
Income tax benefit (expense), net	0.0%	0.3%	(0.0)%	0.0%
Net (loss) income	(9.1)%	2.7%	(3.4)%	0.1%
Net income attributable to noncontrolling interests	(0.5)%	(0.8)%	(1.0)%	(0.9)%
Net (loss) income attributable to common shareholders	(9.6)%	1.9%	(4.4)%	(0.8)%

The following is a reconciliation of net loss (income) attributable to common shareholders to EBITDA, as adjusted:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	2018	2017
Net (loss) income attributable to common shareholders	\$ (2,178,158)	\$ 465,580	\$ (3,085,001)	\$ (482,498)
Adjustments:				
Interest expense, net	1,210,707	976,017	3,362,154	2,769,440
Income tax expense (benefit), net	5,288	(63,085)	23,186	(19,337)
Depreciation and amortization	240,245	208,388	637,306	599,623
EBITDA (loss) income	(765,029)	1,586,900	937,645	2,867,228
Allowance for doubtful accounts	14,559	14,100	43,677	44,912
Allowance for obsolete inventory	315,000	50,000	475,000	100,000
Stock-based compensation expense	496,355	504,490	1,484,059	1,484,386
Transaction fees	985,543	—	985,543	—
Other expense (income), net	1,455	(931)	10,366	(872)
(Income) loss from equity investments in non-consolidated affiliate	(25,108)	20,806	(114,249)	(50,789)
Foreign exchange (gain) loss	(86,381)	(25,204)	(133,763)	7,104
Net income attributable to noncontrolling interests	116,800	199,023	714,953	562,505
EBITDA, as adjusted	\$ 1,053,194	\$ 2,349,184	\$ 4,403,232	\$ 5,014,474

Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for allowances for doubtful accounts and obsolete inventory, stock-based compensation expense, transaction fees, other expense (income), net, income from equity investment in non-consolidated affiliate, foreign exchange loss (gain) and net income attributable to noncontrolling interests is a key metric we use in evaluating our financial performance. EBITDA, as adjusted, is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. We consider EBITDA, as adjusted, important in evaluating our performance on a consistent basis across various periods. Due to the significance of non-cash and non-recurring items, EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate the business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and allocation of capital resources. We believe that EBITDA, as adjusted, eliminates items that are not indicative of our core operating performance or are based on management's estimates, such as allowance accounts, are due to changes in valuation, such as the effects of changes in foreign exchange or do not involve a cash outlay, such as stock-based compensation expense and in the three and nine months ended December 31, 2018, a non-recurring \$1.0 million charge to professional fees. Our presentation of EBITDA, as adjusted, should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items or by non-cash items, such as stock-based compensation, which is expected to remain a key element in our long-term incentive compensation program. EBITDA, as adjusted, should be considered in addition to, rather than as a substitute for, income from operations, net income and cash flows from operating activities.

Our EBITDA, as adjusted, decreased to \$1.1 million for the three months ended December 31, 2018, as compared to \$2.3 million for the comparable prior-year period and decreased to \$4.4 million for the nine months ended December 31, 2018, as compared to \$5.0 million for the comparable prior-year period, both primarily the result of our lower revenues and increased costs.

#### *Three months ended December 31, 2018 compared with three months ended December 31, 2017*

*Net sales.* Net sales decreased 6.4% to \$22.5 million for the three months ended December 31, 2018, as compared to \$24.1 million for the comparable prior-year period, primarily due to the release of high revenue specialty releases of our Jefferson's bourbon in the prior fiscal year quarter ended December 31, 2017 and sales decreases in Clontarf, vodka and certain of our liqueurs for the three months ended December 31, 2018. This was partially offset by the increased U.S. sales growth of certain of our Jefferson's bourbons and Goslings rums for the three months ended December 31, 2018. We expect to continue to focus on our faster growing brands and markets, both in the U.S. and internationally, including the release of additional high revenue specialty releases of our Jefferson's bourbons in future periods.

The table below presents the increase or decrease, as applicable, in case sales by spirits product category for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017:

	Increase/(decrease) in case sales		Percentage Increase/(decrease)	
	Overall	U.S.	Overall	U.S.
Rum	1,928	(97)	5.5%	(0.4)%
Whiskey	302	1,116	0.8%	4.1%
Liqueur	(2,440)	(2,804)	(7.7)%	(8.9)%
Vodka	(2,565)	(2,277)	(34.3)%	(34.0)%
Tequila	(133)	(133)	(90.5)%	(90.5)%
Total	(2,908)	(4,195)	(2.6)%	(4.6)%

Our international spirits case sales as a percentage of total spirits case sales increased to 19.9% for the three months ended December 31, 2018 as compared to 18.2% for the comparable prior-year period, primarily due to decreased sales in the U.S.

The following table presents the decrease in case sales of ginger beer products for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017:

	Decrease in case sales		Percentage Decrease	
	Overall	U.S.	Overall	U.S.
Ginger Beer Products	(18,572)	(6,821)	(4.1)%	(1.6)%

*Gross profit.* Gross profit decreased 15.9% to \$8.1 million for the three months ended December 31, 2018 from \$9.7 million for the comparable prior-year period, while gross margin decreased to 36.1% for the three months ended December 31, 2018 as compared to 40.2% for the comparable prior-year period. The decrease in gross profit was primarily due to decreased aggregate revenue in the current period and to the release of high margin specialty releases of our Jefferson's bourbon in the comparable prior fiscal year quarter. We expect gross margin will improve over the long-term as our lower-cost new-fill bourbon ages and becomes available for use across all of our Jefferson's expressions. We also expect gross profit to be positively impacted by an expected rebate of up to \$1.1 million on excise taxes to be recognized under the Craft Beverage Modernization and Tax Reform Act of 2017 in each of the current and next fiscal years. The timing and amount of such rebate remains subject the review and approval of the U.S. Customs and Border Protection Agency. During the three months ended December 31, 2018, we recorded additions to allowance for obsolete and slow-moving inventory of \$0.3 million. We recorded this write-off and allowance on both raw materials and finished goods, primarily in connection with label and packaging changes made to certain brands, as well as certain cost estimates and variances. The net charge has been recorded as an increase to cost of sales in the relevant period.

*Selling expense.* Selling expense increased 6.7% to \$5.8 million for the three months ended December 31, 2018 from \$5.4 million for the comparable prior-year period, primarily due to a \$0.3 million increase in advertising, marketing and promotion expense related to the timing of certain sales and marketing programs. Selling expense as a percentage of net sales increased to 25.7% for the three months ended December 31, 2018 as compared to 22.6% for the comparable prior-year period due to decreased revenues and increased expenses in the current period.

*General and administrative expense.* General and administrative expense increased 25.9% to \$3.1 million for the three months ended December 31, 2018 from \$2.5 million for the comparable prior-year period, primarily due to a one-time \$1.0 million increase in professional fees. General and administrative expense as a percentage of net sales increased to 13.7% for the three months ended December 31, 2018 as compared to 10.2% for the comparable prior-year period due to decreased revenues and increased expenses in the current period.

*Depreciation and amortization.* Depreciation and amortization was \$0.2 million for each of the three-month periods ended December 31, 2018 and 2017.

*(Loss) income from operations.* As a result of the foregoing, we had a loss from operations of (\$1.0) million for the three months ended December 31, 2018 as compared to income from operations of \$1.6 million for the comparable prior-year period. As a result of our focus on our stronger growth markets and better performing brands, and expected growth from our existing brands, we anticipate improved results of operations in the near term as compared to prior years, although there is no assurance that we will attain such results.

*Income tax expense, net.* Income tax expense, net is the estimated tax expense primarily attributable to the net taxable income recorded by Gosling-Castle Partners, Inc. ("GCP"), our 80.1% owned subsidiary, adjusted for changes in the deferred tax asset and deferred tax liability during the periods, was an immaterial net expense for the three months ended December 31, 2018 as compared to a net benefit of \$0.1 million for the comparable prior-year period.

The Company's provision for income taxes consists principally of state and local taxes in amounts necessary to align the Company's year-to-date tax provision with the effective rate that it expects to achieve for the full year.

For the three months ended December 31, 2018, the Company recorded an income tax expense of \$5,288. The effective tax rate for the three months ended December 31, 2018 was 0.26%. The effective tax rate differs from the statutory rate of 21% as the Company has concluded that its deferred tax assets are not realizable on a more-likely-than-not basis.

As of December 31, 2018, our conclusion regarding the realizability of our US deferred tax assets did not change and we have recorded a full valuation allowance against them.

*Foreign exchange.* Foreign exchange gain for the three months ended December 31, 2018 was \$0.1 million as compared to a gain of \$0.03 million for the comparable prior-year period due to the net effects of fluctuations of the U.S. dollar against the Euro and its impact on our Euro-denominated intercompany balances due to our foreign subsidiaries for inventory purchases.

*Interest expense, net.* We had interest expense, net of (\$1.2) million for the three months ended December 31, 2018 as compared to (\$1.0) million for the comparable prior-year period due to balances outstanding under our credit facilities and long-term debt. Due to the expected borrowings under our credit facilities to finance additional purchases of aged whiskies in support of the growth of our Jefferson's bourbons and other working capital needs, we expect interest expense, net to increase in the near term as compared to prior years.

*Net income attributable to noncontrolling interests.* Net income attributable to noncontrolling interests was \$0.1 million for the three months ended December 31, 2018 as compared to \$0.2 million for the comparable prior-year period, as a result of net income allocated to the 19.9% noncontrolling interests in GCP.

*Net loss attributable to common shareholders.* As a result of the net effects of the foregoing, net loss attributable to common shareholders was (\$2.2) million for the three months ended December 31, 2018 as compared to net income of \$0.5 million for the comparable prior-year period. Net loss per common share, basic and diluted, was (\$0.01) per share for the three-month period ended December 31, 2018 as compared to income of \$0.0 per share for the comparable prior year period.

***Nine months ended December 31, 2018 compared with nine months ended December 31, 2017***

*Net sales.* Net sales increased 4.7% to \$68.9 million for the nine months ended December 31, 2018, as compared to \$65.8 million for the comparable prior-year period, primarily due to U.S. sales growth of Jefferson's bourbons, Knappogue Castle Irish whiskey and Goslings Stormy Ginger Beer, partially offset by impact of the release of high revenue specialty releases of our Jefferson's bourbon in the prior fiscal year quarter ended December 31, 2017 and decreases in Clontarf and Arran whiskey sales and certain of our liqueurs in the nine-month period ended December 31, 2018. We expect to continue to focus on our faster growing brands and markets, both in the U.S. and internationally, including the release of high revenue specialty releases of our Jefferson's bourbons in future periods.

The table below presents the increase or decrease, as applicable, in case sales by spirits product category for the nine months ended December 31, 2018 as compared to the nine months ended December 31, 2017:

	Increase/(decrease) in case sales		Percentage Increase/(decrease)	
	Overall	U.S.	Overall	U.S.
Rum	(1,377)	597	(1.2)%	0.7%
Whiskey	8,768	9,592	9.7%	14.3%
Liqueur	(3,308)	(3,719)	(4.1)%	(4.6)%
Vodka	(1,938)	(2,361)	(9.9)%	(13.1)%
Tequila	(330)	(330)	(41.1)%	(41.1)%
Total	<u>1,815</u>	<u>3,778</u>	0.6%	1.5%

Our international spirits case sales as a percentage of total spirits case sales decreased to 19.5% for the nine months ended December 31, 2018 as compared to 20.3% for the comparable prior-year period, primarily due to decreased Irish whiskey and rum sales in certain international markets resulting in part from the timing of shipments to large retailers in Ireland and Scandinavia.

The following table presents the increase in case sales of ginger beer products for the nine months ended December 31, 2018 as compared to the nine months ended December 31, 2017:

	Increase in case sales		Percentage Increase	
	Overall	U.S.	Overall	U.S.
Ginger Beer Products	43,461	35,561	3.2%	2.8%

*Gross profit.* Gross profit decreased 1.0% to \$26.5 million for the nine months ended December 31, 2018 from \$26.8 million for the comparable prior-year period, while gross margin decreased to 38.5% for the nine months ended December 31, 2018 as compared to 40.7% for the comparable prior-year period. The decrease in gross profit was primarily due to increased aggregate costs in the current period and to the impact of the release of high margin specialty releases of our Jefferson's bourbon in the prior fiscal year. We expect gross margin will improve over the long-term as our lower-cost new-fill bourbon ages and becomes available for use across all of our Jefferson's expressions. We also expect gross profit to be positively impacted by an expected rebate of up to \$1.1 million on excise taxes to be recognized under the Craft Beverage Modernization and Tax Reform Act of 2017 in each of the current and next fiscal years. The timing and amount of such rebate remains subject the review and approval of the U.S. Customs and Border Protection Agency. During the nine months ended December 31, 2018, we recorded additions to allowance for obsolete and slow-moving inventory of \$0.5 million. We recorded this write-off and allowance on both raw materials and finished goods, primarily in connection with label and packaging changes made to certain brands, as well as certain cost estimates and variances. The net charge has been recorded as an increase to cost of sales in the relevant period.

*Selling expense.* Selling expense increased 3.4% to \$16.9 million for the nine months ended December 31, 2018 from \$16.4 million for the comparable prior-year period, primarily due to an \$0.8 million increase in employee costs and a \$0.4 million increase in shipping costs, partially offset by a \$0.7 million decrease in advertising, marketing and promotion expense related to the timing of certain sales and marketing programs, including Goslings' sponsorship of the 35th America's Cup, in the prior fiscal year. Selling expense as a percentage of net sales decreased to 24.6% for the nine months ended December 31, 2018 as compared to 24.9% for the comparable prior-year period due to increased revenues in the current period.

*General and administrative expense.* General and administrative expense increased 16.5% to \$8.2 million for the nine months ended December 31, 2018 from \$7.0 million for the comparable prior-year period, primarily due to a one-time \$1.0 million increase in professional fees in the quarter ended December 31, 2018 and a \$0.5 million increase in employee costs. General and administrative expense as a percentage of net sales increased to 11.9% for the nine months ended December 31, 2018 as compared to 10.7% for the comparable prior-year period.

*Depreciation and amortization.* Depreciation and amortization was \$0.6 million for each of the nine-month periods ended December 31, 2018 and 2017.

*Income from operations.* As a result of the foregoing, we had income from operations of \$0.8 million for the nine months ended December 31, 2018 as compared to income from operations of \$2.8 million for the comparable prior-year period. As a result of our focus on our stronger growth markets and better performing brands, and expected growth from our existing brands, we anticipate improved results of operations in the near term as compared to prior years, although there is no assurance that we will attain such results.

*Income tax expense, net.* Income tax expense, net is the estimated tax expense primarily attributable to the net taxable income recorded by GCP, our 80.1% owned subsidiary, adjusted for changes in the deferred tax asset and deferred tax liability during the periods, was an immaterial net expense for each of the nine-month periods ended December 31, 2018 and 2017.

The Company's provision for income taxes consists principally of state and local taxes in amounts necessary to align the Company's year-to-date tax provision with the effective rate that it expects to achieve for the full year.

For the nine months ended December 31, 2018, the Company recorded income tax expense of \$0.02 million. The effective tax rate for the nine months ended December 31, 2018 was 0.99%. The effective tax rate differs from the statutory rate of 21% as the Company has concluded that its deferred tax assets are not realizable on a more-likely-than-not basis.

As of December 31, 2018, our conclusion regarding the realizability of our US deferred tax assets did not change and we have recorded a full valuation allowance against them.

*Foreign exchange.* Foreign exchange gain for the nine months ended December 31, 2018 was \$0.1 million as compared to an immaterial net expense for the comparable prior-year period due to the net effects of fluctuations of the U.S. dollar against the Euro and its impact on our Euro-denominated intercompany balances due to our foreign subsidiaries for inventory purchases.

*Interest expense, net.* We had interest expense, net of (\$3.4) million for the nine months ended December 31, 2018 as compared to (\$2.8) million for the comparable prior-year period due to balances outstanding under our credit facilities and long-term debt. Due to the expected borrowings under our credit facilities to finance additional purchases of aged whiskies in support of the growth of our Jefferson's bourbons and other working capital needs, we expect interest expense, net to increase in the near term as compared to prior years.

*Net income attributable to noncontrolling interests.* Net income attributable to noncontrolling interests was \$0.7 million for the nine months ended December 31, 2018 as compared to \$0.6 million for the comparable prior-year period, as a result of net income allocated to the 19.9% noncontrolling interests in GCP.

*Net loss attributable to common shareholders.* As a result of the net effects of the foregoing, net loss attributable to common shareholders was (\$3.1) million for the nine months ended December 31, 2018 as compared to a net loss of (\$0.5) million for the comparable prior-year period. Net loss per common share, basic and diluted, was (\$0.02) per share for the three-month period ended December 31, 2018 as compared to (\$0.0) per share for the comparable prior year period.



## Liquidity and capital resources

### Overview

Since our inception, we have incurred significant net losses and have not generated positive cash flows from operations. For the nine months ended December 31, 2018, we had a net loss of (\$2.4) million, and used cash of \$5.2 million in operating activities. As of December 31, 2018, we had cash and cash equivalents of \$0.6 million and had an accumulated deficit of \$153.0 million.

We believe our current cash and working capital and the availability under the Credit Facility (as defined below) will enable us to fund our losses until we achieve profitability, ensure continuity of supply of our brands, and support new brand initiatives and marketing programs through at least February 2020. We believe we can continue to meet our operating needs through additional mechanisms, if necessary, including additional or expanded debt financings, potential equity offerings and limiting or adjusting the timing of additional inventory purchases based on available resources.

### Financing

We and our wholly-owned subsidiary, CB-USA, are parties to an Amended and Restated Loan and Security Agreement (as amended, the "Loan Agreement") with ACF FinCo I LP ("ACF"), which provides for availability (subject to certain terms and conditions) of a facility (the "Credit Facility") to provide us with working capital, including capital to finance purchases of aged whiskeys in support of the growth of our Jefferson's whiskeys. We and CB-USA entered into four amendments to the Loan Agreement during our 2019 fiscal year which increased the maximum amount of the Credit Facility from \$21.0 million to \$27.0 million, including a sublimit in the maximum principal amount of \$7.0 million to permit us to acquire aged whiskey inventory (the "Purchased Inventory Sublimit") subject to certain conditions set forth in the Loan Agreement. The Credit Facility matures on July 31, 2020 (the "Maturity Date"). The monthly facility fee is 0.75% per annum of the maximum Credit Facility amount (excluding the Purchased Inventory Sublimit).

Pursuant to the Loan Agreement, we and CB-USA may borrow up to the lesser of (x) \$27.0 million and (y) the sum of the borrowing base calculated in accordance with the Loan Agreement and the Purchased Inventory Sublimit. We and CB-USA may prepay the Credit Facility in whole or the Purchased Inventory Sublimit, in whole or in part, subject to certain prepayment penalties as set forth in the Loan Agreement.

ACF required as a condition to entering into an amendment to the Loan Agreement in August 2015 that ACF enter into a participation agreement with certain related parties of ours, including Frost Gamma Investments Trust, an entity affiliated with Phillip Frost, M.D., a director of ours and a principal shareholder of ours (\$150,000), Mark E. Andrews, III, a director of ours and our Chairman (\$50,000), Richard J. Lampen, a director of ours and our President and Chief Executive Officer (\$100,000), Brian L. Heller, our General Counsel and Assistant Secretary (\$42,500), and Alfred J. Small, our Senior Vice President, Chief Financial Officer, Treasurer & Secretary (\$15,000), to allow for the sale of participation interests in the Purchased Inventory Sublimit and the inventory purchased with the proceeds thereof. The participation agreement provides that ACF's commitment to fund each advance of the Purchased Inventory Sublimit shall be limited to seventy percent (70%), up to an aggregate maximum principal amount for all advances equal to \$4.9 million. Under the terms of the participation agreement, the participants receive interest at the rate of 11% per annum. We are not a party to the participation agreement. However, we and CB-USA are party to a fee letter with the junior participants (including the related party junior participants) pursuant to which we and CB-USA were obligated to pay the junior participants a closing fee of \$18,000 on the effective date of the amendment to the Loan Agreement and are obligated to pay a commitment fee of \$18,000 on each anniversary of the effective date until the junior participants' obligations are terminated pursuant to the participation agreement.



We may borrow up to the maximum amount of the Credit Facility, provided that we have a sufficient borrowing base (as defined in the Loan Agreement). The Credit Facility interest rate (other than with respect to the Purchased Inventory Sublimit) is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 3.00%, (b) the LIBOR Rate plus 5.50% and (c) 6.0%. The interest rate applicable to the Purchased Inventory Sublimit is the rate, that when annualized, is the greatest of (a) the Prime Rate plus 4.25%, (b) the LIBOR Rate plus 6.75% and (c) 7.50%. Interest is payable monthly in arrears, on the first day of every month on the average daily unpaid principal amount of the Credit Facility. After the occurrence and during the continuance of any "Default" or "Event of Default" (as defined under the Loan Agreement) we are required to pay interest at a rate that is 3.25% per annum above the then applicable Credit Facility interest rate. The Loan Agreement contains EBITDA targets allowing for further interest rate reductions in the future. The Credit Facility currently bears interest at 7.75% (reflecting a discount for achieving one such EBITDA target) and the Purchased Inventory Sublimit currently bears interest at 9.5%. We are required to pay down the principal balance of the Purchased Inventory Sublimit within 15 banking days from the completion of a bottling run of bourbon from our bourbon inventory stock purchased with funds borrowed under the Purchased Inventory Sublimit in an amount equal to the purchase price of such bourbon. The unpaid principal balance of the Credit Facility, all accrued and unpaid interest thereon, and all fees, costs and expenses payable in connection with the Credit Facility, are due and payable in full on the Maturity Date. In addition to closing fees, ACF receives facility fees and a collateral management fee (each as set forth in the Loan Agreement). Our obligations under the Loan Agreement are secured by the grant of a pledge and a security interest in all of our assets. The Loan Amendment also contains a fixed charge coverage ratio covenant requiring us to maintain a fixed charge coverage ratio of not less than 1.1 to 1.0.

In January 2017, we acquired \$1.0 million in aged bulk bourbon purchased under the Purchased Inventory Sublimit. Certain related parties, including Frost Gamma Investments Trust (\$65,406), Richard J. Lampen (\$43,604), Mark E. Andrews, III (\$21,802), Brian L. Heller (\$18,532) and Alfred J. Small (\$6,541), were junior participants in the Purchased Inventory Sublimit with respect to such purchase.

In October 2017, we acquired \$1.3 million in aged bulk bourbon purchased under the Purchased Inventory Sublimit. Certain related parties, including Frost Gamma Investments Trust (\$51,500), Richard J. Lampen (\$34,333), Mark E. Andrews, III (\$17,167), Brian L. Heller (\$14,592) and Alfred J. Small (\$5,150), were junior participants in the Purchased Inventory Sublimit with respect to such purchase.

In December 2017, we acquired \$1.0 million in aged bulk bourbon purchased under the Purchased Inventory Sublimit. Certain related parties, including Frost Gamma Investments Trust (\$45,021), Richard J. Lampen (\$30,014), Mark E. Andrews, III (\$15,007), Brian L. Heller (\$12,756) and Alfred J. Small (\$4,502), were junior participants in the Purchased Inventory Sublimit with respect to such purchase.

In April 2018, we acquired \$2.0 million in aged bulk bourbon purchased under the Purchased Inventory Sublimit. Certain related parties, including Frost Gamma Investments Trust (\$100,050), Richard J. Lampen (\$66,700), Mark E. Andrews, III (\$33,350), Brian L. Heller (\$28,348) and Alfred J. Small (\$10,005), were junior participants in the Purchased Inventory Sublimit with respect to such purchase.

In June 2018, we acquired \$1.0 million in aged bulk bourbon under the Purchased Inventory Sublimit. Certain related parties, including Frost Gamma Investments Trust (\$51,750), Richard J. Lampen (\$34,500), Mark E. Andrews, III (\$17,250), Brian L. Heller (\$14,663), and Alfred J. Small (\$5,175), were junior participants in the Purchased Inventory Sublimit with respect to such purchase.

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 our ability to create additional indebtedness, dispose of properties, incur liens, and make distributions or cash dividends. At December 31, 2018, we were in compliance, in all material respects, with the covenants under the Loan Agreement.

In March 2017, we issued an 11% Subordinated Note due 2019, dated March 29, 2017, in the principal amount of \$20.0 million with Frost Nevada Investments Trust (the "Subordinated Note"), an entity affiliated with Phillip Frost, M.D., a director and a principal shareholder of ours. In April 2018, we entered into a first amendment to the Subordinated Note to extend the maturity date on the Subordinated Note from March 15, 2019 until September 15, 2020. No other provisions of the Subordinated Note were amended. The purpose of the Subordinated Note was to finance the GCP Share Acquisition. The Subordinated Note, as amended, bears interest quarterly at the rate of 11% per annum. The principal and interest accrued thereon is due and payable in full on September 15, 2020. All claims of the holder of the Subordinated Note to principal, interest and any other amounts owed under the Subordinated Note are subordinated in right of payment to all our indebtedness existing as of the date of the Subordinated Note. The Subordinated Note contains customary events of default and may be prepaid by us, in whole or in part, without penalty, at any time.

In December 2009, GCP issued a promissory note in the aggregate principal amount of \$0.2 million to Gosling's Export (Bermuda) Limited in exchange for credits issued on certain inventory purchases. This 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.

We have arranged various credit facilities aggregating €0.3 million or \$0.4 million (translated at the December 31, 2018 exchange rate) with an Irish bank, including overdraft coverage, creditors' insurance, customs and excise guaranty and a revolving credit facility. These facilities are payable on demand, continue until terminated by either party, are subject to annual review, and call for interest at the lender's AA1 Rate minus 1.70%. We have deposited €0.3 million or \$0.4 million (translated at the December 31, 2018 exchange rate) with the bank to secure these borrowings.

In October 2013, we issued an aggregate principal amount of \$2.1 million of unsecured 5% convertible subordinated notes (the “Convertible Notes”). We used a portion of the proceeds to finance the acquisition of additional bourbon inventory in support of the growth of our Jefferson’s bourbon brand. The Convertible Notes matured on December 15, 2018. The Convertible Notes, and accrued but unpaid interest thereon, were convertible in whole or in part from time to time at the option of the holders thereof into shares of our common stock, par value \$0.01 per share, at a conversion price of \$0.90 per share. The Convertible Note purchasers included certain related parties of ours, including an affiliate of Dr. Phillip Frost (\$500,000), Mark E. Andrews, III (\$50,000), an affiliate of Richard J. Lampen (\$50,000) and Vector Group Ltd., a more than 5% shareholder of ours, of which Richard Lampen is an executive officer, Henry Beinstein, a director of ours, is a director and Phillip Frost, M.D. is a principal shareholder (\$200,000), all of whom converted the outstanding principal and interest balances of their Convertible Notes into shares of our common stock in the year ended March 31, 2018.

In the year ended March 31, 2018, certain holders of the Convertible Notes, including the related party holders described above, converted an aggregate \$1,632,000 of the outstanding principal and interest balances of their Convertible Notes into 1,813,334 shares of our common stock, pursuant to the terms of the Convertible Notes.

The remaining Convertible Note of \$50,000 matured and was repaid on December 15, 2018 in the normal course.

### *Liquidity Discussion*

As of December 31, 2018, we had shareholders’ equity of \$7.7 million as compared to \$8.0 million at March 31, 2018. This decrease in shareholders’ equity was due to our (\$2.5) million total comprehensive loss for the nine months ended December 31, 2018, partially offset by the exercise of stock options and stock-based compensation expense of \$2.1 million.

We had working capital of \$43.7 million at December 31, 2018 as compared to \$38.6 million at March 31, 2018, primarily due to a \$9.0 million increase in inventory, a \$0.5 million decrease in due to related parties and a net loss of \$2.4 million, which was partially offset by a \$4.0 million increase in accounts payable and accrued expenses and a \$0.4 million decrease in accounts receivable.

As of December 31, 2018, we had cash and cash equivalents of approximately \$0.6 million, as compared to \$0.4 million as of March 31, 2018. Changes in our cash and cash equivalents are primarily attributable to the net borrowings on our credit facilities to fund our operations and working capital needs. At December 31 and March 31, 2018, we also had approximately \$0.4 million of cash restricted from withdrawal and held by a bank in Ireland as collateral for overdraft coverage, creditors’ insurance, revolving credit and other working capital purposes.

The following may materially affect our liquidity over the near-to-mid term:

- continued cash losses from operations;
- our ability to obtain additional debt or equity financing should it be required;
- an increase in working capital requirements to finance higher levels of inventories and accounts receivable;
- our ability to maintain and improve our relationships with our distributors and our routes to market;
- our ability to procure raw materials at a favorable price to support our level of sales;
- potential acquisitions of additional brands; and
- expansion into new markets and within existing markets in the U.S. and internationally.

We continue to implement sales and marketing initiatives that we expect will generate cash flows from operations in the next few years. We seek to grow our business through expansion to new markets, growth in existing markets and strengthened distributor relationships. As our brands continue to grow, our working capital requirements will increase. In particular, the growth of our Jefferson’s brands requires a significant amount of working capital relative to our other brands, as we are required to purchase and hold ever increasing amounts of aged whiskey to meet growing demand. We must purchase and hold several years’ worth of aged whiskey in inventory until such time as it is aged to our specific brand taste profiles, increasing our working capital requirements and negatively impacting cash flows.

We may also seek additional brands and agency relationships to leverage our existing distribution platform. We intend to finance any such brand acquisitions through a combination of our available cash resources, borrowings and, in appropriate circumstances, additional issuances of equity and/or debt securities. Acquiring additional brands could have a significant effect on our financial position, could materially reduce our liquidity and could cause substantial fluctuations in our quarterly and yearly operating results. We continue to control expenses, seek improvements in routes to market and contain production costs to improve cash flows.

We may seek to restructure all or a portion of our debt, including the Subordinated Note. This restructuring may consist of a combination of expanding and extending the Loan Agreement and Credit Facility with ACF, extending the term of the Subordinated Note, converting some or all of the debt to equity or paying down the debt with funds that may be raised from future equity offerings, although there is no assurance that we will be successful in such restructuring. If we are unable to restructure or refinance our debt, or are unable to raise equity on terms that are acceptable to us, it could have a significant effect on our financial position, could materially reduce our liquidity and could cause substantial fluctuations in our quarterly and yearly operating results.

As of December 31, 2018, we had borrowed \$23.8 million of the \$25.0 million then available under the Credit Facility, including \$6.1 million of the \$7.0 million available under the Purchased Inventory Sublimit, leaving \$0.3 million in potential availability for working capital needs under the Credit Facility and \$0.9 million available for aged whiskey inventory purchases. As of February 7, 2019, we had borrowed \$24.5 million of the \$27.0 million then available under the amended Credit Facility, including \$7.0 million of the \$7.0 million available under the Purchased Inventory Sublimit, leaving \$2.5 million in potential availability for working capital needs under the amended Credit Facility and \$0.0 million available for aged whiskey inventory purchases. We believe our current cash and working capital and the availability under the Credit Facility will enable us to fund our losses until we achieve profitability, ensure continuity of supply of our brands, and support new brand initiatives and marketing programs through at least February 2020. We believe we can continue to meet our operating needs through additional mechanisms, if necessary, including additional or expanded debt financings, potential equity offerings and limiting or adjusting the timing of additional inventory purchases based on available resources.

## Cash flows

The following table summarizes our primary sources and uses of cash during the periods presented:

	Nine months ended December 31,	
	2018	2017
	(in thousands)	
Net cash (used in) provided by:		
Operating activities	\$ (5,201)	\$ (4,831)
Investing activities	(207)	(405)
Financing activities	5,681	5,562
Subtotal	273	326
Effect of foreign currency translation	(28)	50
Net increase in cash and cash equivalents including restricted cash	<u>\$ 245</u>	<u>\$ 376</u>

**Operating activities.** A substantial portion of available cash has been used to fund our operating activities. In general, these cash funding requirements are based on the costs in maintaining our distribution system and our sales and marketing activities. We have also utilized cash to fund the purchase of our inventories. In general, these cash outlays for inventories are only partially offset by increases in our accounts payable to our suppliers.

On average, the production cycle for our owned brands is up to three months from the time we obtain the distilled spirits and other materials needed to bottle and package our products to the time we receive products available for sale, in part due to the international nature of our business. We do not produce Goslings rums or ginger beer, Pallini liqueurs, Arran Scotch whiskeys or Gozio amaretto. Instead, we receive the finished product directly from the owners of such brands. From the time we have products available for sale, an additional two to three months may be required before we sell our inventory and collect payment from customers. Further, our inventory at December 31, 2018 included significant additional stores of aged bourbon purchased in advance of forecasted production requirements. In October 2017, we entered into a supply agreement with a bourbon distiller, which provides for the production of newly-distilled bourbon whiskey. Under this agreement, the distiller will provide us with an agreed upon amount of original proof gallons of newly-distilled bourbon whiskey, subject to certain annual adjustments. For the contract year ending December 31, 2018, we contracted to purchase approximately \$3,900,000 in newly distilled bourbon, all of which had been purchased as of December 31, 2018. We are not obligated to pay the distiller for any product not yet received. We expect to use the aged bourbon in the normal course of future sales, generating positive cash flows in future periods.

During the nine months ended December 31, 2018, net cash used in operating activities was \$5.2 million, consisting primarily of a \$9.0 million increase in inventory, a \$0.5 million decrease in due to related parties and a net loss of \$2.4 million. These uses of cash were partially offset by a \$4.0 million increase in accounts payable and accrued expenses, a \$0.4 million decrease in accounts receivable, stock-based compensation expense of \$1.5 million and depreciation and amortization expense of \$0.7 million.

During the nine months ended December 31, 2017, net cash used in operating activities was \$4.8 million, consisting primarily of a \$5.0 million increase in inventory, a \$2.2 million increase in accounts receivable, a \$0.3 million decrease in due to related parties and a \$0.2 million increase in prepaid expenses. These uses of cash were partially offset by a \$0.6 million increase in accounts payable and accrued expenses, stock-based compensation expense of \$1.5 million, and depreciation and amortization expense of \$0.6 million.

**Investing Activities.** Net cash used in investing activities was \$0.2 million for the nine months ended December 31, 2018, representing \$0.2 million used in the acquisition of fixed and intangible assets.

Net cash used in investing activities was \$0.4 million for the nine months ended December 31, 2017, representing a \$0.2 million investment in non-consolidated affiliate and \$0.2 million used in the acquisition of fixed and intangible assets.

**Financing activities.** Net cash provided by financing activities for the nine months ended December 31, 2018 was \$5.7 million, consisting primarily of \$5.1 million in net proceeds from the Credit Facility and \$0.6 million from the exercise of stock options and \$0.1 million from the issuance of common stock under the employee stock purchase plan.

Net cash provided by financing activities for the nine months ended December 31, 2017 was \$5.6 million, consisting primarily of \$5.4 million in net borrowings on the Credit Facility and \$0.2 million from the exercise of stock options

### ***Recent accounting standards issued and adopted***

We discuss recently issued and adopted accounting standards in the “Recent accounting pronouncements” section of Note 1 of the “Notes to Unaudited Condensed Consolidated Financial Statements” in the accompanying unaudited condensed consolidated financial statements.

### **Cautionary Note Regarding Forward Looking Statements**

This annual report includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements, which involve risks and uncertainties, relate to the discussion of our business strategies and our expectations concerning future operations, margins, profitability, liquidity and capital resources and to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. We use words such as “may”, “will”, “should”, “expects”, “intends”, “plans”, “anticipates”, “believes”, “estimates”, “seeks”, “predicts”, “could”, “projects”, “potential” and similar terms and phrases, including references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties, risks and factors relating to our operations and business environments, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements. These risks and other factors include those listed under “Risk Factors” in our annual report on Form 10-K for the year ended March 31, 2018, as amended, and as follows:

- our history of losses;
- worldwide and domestic economic trends and financial market conditions could adversely impact our financial performance;
- our potential need for additional capital, which, if not available on acceptable terms or at all, could restrict our future growth and severely limit our operations;
- our brands could fail to achieve more widespread consumer acceptance, which may limit our growth;
- our dependence on a limited number of suppliers, who may not perform satisfactorily or may end their relationships with us, which could result in lost sales, incurrence of additional costs or lost credibility in the marketplace;
- our annual purchase obligations with certain suppliers;
- the failure of even a few of our independent wholesale distributors to adequately distribute our products within their territories could harm our sales and result in a decline in our results of operations;
- our need to maintain a relatively large inventory of our products to support customer delivery requirements, which could negatively impact our operations if such inventory is lost due to theft, fire or other damage;
- the potential limitation to our growth if we are unable to identify and successfully acquire additional brands that are complementary to our existing portfolio, or integrate such brands after acquisitions;
- currency exchange rate fluctuations and devaluations may significantly adversely affect our revenues, sales, costs of goods and overall financial results;
- we have identified a material weakness in our internal control over financial reporting, and our business and stock price may be adversely affected if we have other material weaknesses or significant deficiencies in our internal control over financial reporting;
- a failure of one or more of our key IT systems, networks, processes, associated sites or service providers could have a material adverse impact on our business;
- the possibility that we or our strategic partners will fail to protect our respective trademarks and trade secrets, which could compromise our competitive position and decrease the value of our brand portfolio;
- the possibility that we cannot secure and maintain listings in control states, which could cause the sales of our products to decrease significantly;
- a n impairment in the carrying value of our goodwill or other acquired intangible assets could negatively affect our operating results and shareholders’ equity;
- changes in consumer preferences and trends could adversely affect demand for our products;
- there is substantial competition in our industry and the many factors that may prevent us from competing successfully;
- adverse changes in public opinion about alcohol could reduce demand for our products;
- class action or other litigation relating to alcohol misuse or abuse could adversely affect our business; and
- adverse regulatory decisions and legal, regulatory or tax changes could limit our business activities, increase our operating costs and reduce our margins.

We assume no obligation to publicly update or revise these forward-looking statements for any reason, or to update the reasons actual results could differ materially from those anticipated in, or implied by, these forward-looking statements, even if new information becomes available in the future.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Market risk**

We are exposed to market risks arising from changes in market rates and prices, including movements in interest rates and foreign currency exchange rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes. In the future, we may enter into financial instruments to manage and reduce the impact of changes in interest rates and foreign currency exchange rates, although we do not currently have any such instruments in place. The following is additional information about the market risks we are exposed to and how we manage these risks:

#### ***Interest rate risk***

Interest on our Credit Facility (other than with respect to the Purchased Inventory Sublimit) is charged at the rate that, when annualized, is the greatest of (a) the Prime Rate plus 3.00%, (b) the LIBOR Rate plus 5.50% and (c) 6.00%. The interest rate applicable to the Purchased Inventory Sublimit is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 4.25%, (b) the LIBOR Rate plus 6.75% and (c) 7.50%. As of December 31, 2018, we had \$23.7 million outstanding under the Credit Facility, including \$6.1 million under the Purchased Inventory Sublimit, none of which is currently being hedged. Interest on our foreign revolving credit facilities is charged at the lender's AA1 Rate minus 1.70%. As of December 31, 2018, we had an immaterial amount outstanding under our foreign revolving credit facilities.

A hypothetical one percentage point (100 basis points) increase in the interest rate being charged on the \$23.7 million of unhedged debt outstanding under our Credit Facility, including the Purchased Inventory Sublimit, and our foreign revolving credit facilities at December 31, 2018 would have had an impact of approximately \$58,750 on our interest expense for the quarter.

#### ***Foreign exchange rate risk***

The majority of our sales, net and expenses are transacted in U.S. dollars. However, in the three months ended December 31, 2018, Euro denominated sales accounted for approximately 5.9% of our sales, net. We also incur expenses in foreign currencies, primarily the Euro. In the three months ended December 31, 2018, Euro denominated expenses accounted for approximately 6.9% of our expenses. A substantial change in the rate of exchange between the U.S. dollar and the Euro could have a significant adverse effect on our financial results. A hypothetical 10% change in the value of the U.S. dollar in relation to the Euro and British pound would have had an impact of approximately \$160,570 on our income from operations for the three months ended December 31, 2018.

If we do not enter into hedging arrangements, the more we expand our business outside the United States, the more our financial results will be exposed to exchange rate fluctuations. In the past, we have entered into forward contracts from time to time to reduce our exposure to foreign currency fluctuations. We recognize derivative contracts in the balance sheet at fair value, and reflect any net gains and losses currently in earnings. At December 31 and March 31, 2018, we had no forward contracts outstanding. Gain or loss on foreign currency forward contracts, which was de minimis during the periods presented, is included in other income and expense.

The functional currencies for our foreign operations are the Euro in Ireland and the British Pound in the United Kingdom. With respect to our consolidated financial statements, 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. The effect of foreign currency translation was a loss of (\$17,545) for the three months ended December 31, 2018 and was income of \$22,221 for the three months ended December 31, 2017. A hypothetical 10% change in the value of the U.S. dollar in relation to the Euro and British pound would have had an impact of approximately \$220,000 for the three months ended December 31, 2018 as a result of foreign currency translation.

#### ***Commodity price risk***

We currently are not exposed to commodity price risks. We do not purchase the basic ingredients such as grain, sugar cane or agave that are converted into alcohol through distillation. Instead, we have relationships with various companies to provide distillation, bottling or other production services for us. These relationships vary on a brand-by-brand basis.

As of December 31, 2018, we did not have any hedging arrangements in place to protect our exposure to commodity price fluctuations.

### **Item 4. Controls and Procedures**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. As part of this evaluation, our principal executive officer and principal financial officer reviewed the material weakness in our internal control over financial reporting discussed below, including the implementation to date of the specific reconciliation and review procedures that are part of our remediation plans. Based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective as of the period covered by this report.

#### *Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Securities Exchange Act of 1934, as amended, that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, except for the following:

Since the identification of a material weakness in our internal controls over financial reporting at March 31, 2018 over the recording of inventory transfers between domestic and foreign locations, management has begun implementing a remediation plan to address the control deficiency underlying the material weakness. The remediation plan includes:

- Implementing specific reconciliation and review procedures on a quarterly as well as annual basis designed to ensure inventory is being accurately costed.

Management has had the foregoing reconciliation and review procedures in place and operating since and in the first quarter of the Company's fiscal year ending March 31, 2019 and believes the material weakness has been remediated. Management intends to test and conclude the effectiveness of the enhanced control by March 31, 2019.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

Please see Note 11 F. to our unaudited condensed consolidated financial statements elsewhere in this Quarterly Report on Form 10-Q.

### **Item 1A. Risk Factors**

There have been no material changes to the risk factors previously disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2018.

## Item 5. Other Information

On February 8, 2019, the Company entered into an employment agreement (the “Employment Agreement”) with Richard J. Lampen, the Company’s President and Chief Executive Officer and a director (the “Executive”).

The term of the Employment Agreement ends on March 30, 2020, at which time the Employment Agreement will automatically renew for successive one-year terms, unless either party gives written notice of such party’s intention not to renew no later than sixty (60) days prior to the end of each such term or the Executive’s employment is otherwise terminated pursuant to the Employment Agreement.

Pursuant to the Employment Agreement, Mr. Lampen is entitled to a base salary at a rate, and only to the extent, authorized by the Company’s compensation committee. In addition, Mr. Lampen is eligible to receive an annual performance bonus and/or retention payment (“Incentive Bonus”), in such amount as may be determined by the Company’s compensation committee. During the term of the Employment Agreement, the Executive shall also be nominated for re-election as a member of the Board of Directors of the Company. Unless otherwise agreed, the Executive will not participate in profit-sharing, hospitalization, insurance, medical, disability, or other fringe benefit or executive perquisite plans that may otherwise be available to other senior executives of the Company.

If the Employment Agreement (i) is terminated by the Company without “Cause” (as defined in the Employment Agreement), (ii) is not renewed by the Company following the initial or any renewal term or (iii) is terminated by an Executive for “Good Reason” (as defined in the Employment Agreement), the Executive will be entitled to a 12 month severance period (the “Severance Period”), during which the Executive will continue to be paid his base salary, if any, and Incentive Bonus (which annual Incentive Bonus shall be the Incentive Bonus paid to the Executive for the performance period immediately prior to the fiscal year in which the date of termination occurs, but not less than the amount of the Incentive Bonus paid to the Executive with respect to the fiscal year ended March 31, 2018, and paid on the last day of the fiscal year during such twelve (12) month period), in addition to having all stock awards that would have vested following termination immediately vest upon termination.

If terminated by the Company for “Cause” or by the Executive without “Good Reason,” the Executive will be entitled only to any salary owed to the Executive through the date of termination.

If the Employment Agreement is terminated as a result of the death or disability of the Executive, the Executive will be entitled to any base salary owed to the Executive through the date of termination, the Incentive Bonus for the year in which the termination occurred, and base salary, if any, for the duration of the Severance Period. Further, all stock options and restricted stock awards held by the Executive shall fully vest.

If the Employment Agreement is terminated within two years after any “Change of Control” (as defined in the Employment Agreement), either by the Executive for “Good Reason” or by the Company or its successor without “Cause,” the Executive shall be paid a lump sum payment equal to one time the Executive’s base salary, if any, and Incentive Bonus otherwise payable to the Executive in the event of such termination.

The Employment Agreement contains provisions for the protection of the Company’s intellectual property and confidentiality and non-competition restrictions for the Executive (generally imposing restrictions during employment and during a 12-month period following the termination of the Employment Agreement on (i) soliciting employees to terminate their employment, (ii) soliciting business from the Company’s customers or (iii) ownership of, or employment or consultation with, competing companies).

The description of the foregoing Employment Agreement is qualified in its entirety by reference to the complete text of such document, which is filed as Exhibit 10.1 to this quarterly report on Form 10-Q and which is incorporated herein by reference.

## Item 6. Exhibits

Exhibit Number	Description
4.1	<a href="#"><u>Fifth Amendment to the Amended and Restated Loan and Security Agreement, dated as of October 4, 2018, by and among ACF FinCo I LP, the Company and Castle Brands (USA) Corp. (incorporated by reference to Exhibit 4.1 to our current report on Form 8-K filed with the SEC on October 5, 2018)</u></a>
4.2	<a href="#"><u>Sixth Amendment to the Amended and Restated Loan and Security Agreement, dated as of November 8, 2018, by and among ACF FinCo I LP, the Company and Castle Brands (USA) Corp. (incorporated by reference to Exhibit 4.3 to our Quarterly Report on Form 10-Q filed with the SEC on November 8, 2018)</u></a>
4.3	<a href="#"><u>Seventh Amendment to the Amended and Restated Loan and Security Agreement, dated as of January 23, 2019, by and among ACF FinCo I LP, the Company and Castle Brands (USA) Corp. (incorporated by reference to Exhibit 4.1 to our current report on Form 8-K filed with the SEC on January 28, 2019)</u></a>
4.4	<a href="#"><u>Amended and Restated Revolving Credit Note, dated as of January 23, 2019, in favor of ACF FinCo I LP (incorporated by reference to Exhibit 4.2 to our current report on Form 8-K filed with the SEC on January 28, 2019)</u></a>
10.1 *	<a href="#"><u>Employment Agreement, dated as of February 8, 2019, by and between Castle Brands Inc. and Richard J. Lampen.</u></a>
31.1 *	<a href="#"><u>Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
31.2 *	<a href="#"><u>Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u></a>
32.1 *	<a href="#"><u>Certification of CEO and CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

\* Filed herewith



**SIGNATURES**

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

**CASTLE BRANDS INC.**

By: /s/ Alfred J. Small

Alfred J. Small  
Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

February 8, 2019



**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT, made as of February 8, 2019 (this "Agreement"), by and between Castle Brands Inc., a Florida corporation (the "Company"), and Richard J. Lampen ("Executive").

In consideration of the mutual covenants set forth in this Agreement, the parties hereto agree as follows:

**AGREEMENT:**

1. Employment. Subject to the terms of this Agreement, the Company agrees to employ Executive, and Executive agrees to accept such employment, as the President and Chief Executive Officer of the Company. As such, Executive's responsibilities will include those normally associated with those titles in a company the size and nature of the Company. During the term of his employment hereunder, the Company shall also nominate the Executive for re-election as a member of the Board of Directors of the Company.

2. Performance of Services. Executive agrees that throughout the term of his employment hereunder he will devote such time to his responsibilities hereunder as is necessary in his reasonable judgment and consistent with past practices, and will perform the duties assigned to him pursuant to Section 1 hereof, subject, at all times, to the direction and control of the Board of Directors. Executive will provide his services from his office in Miami, Florida and shall undertake such travel as is reasonably required to fulfill his responsibilities. The Company acknowledges and agrees that during the term of his employment hereunder, consistent with past practices, Executive may hold positions as an officer and/or director of other companies and organizations and may devote a substantial amount of his business time to those activities.

3. Term. Executive will be employed for a term commencing on February 8, 2019 (the "Effective Date") and ending on March 30, 2020 (the "Initial Term") and shall be automatically renewed for successive one (1) year terms, (each such term a "Renewal Term" and, collectively, with the Initial Term, the "Term"), unless (i) Executive or the Company gives to the other party written notice of such party's intention not to renew no later than sixty (60) days prior to the end of the Initial Term or the applicable Renewal Term, as the case may be, or (ii) Executive's employment is terminated prior to the expiration of the Term pursuant to Section 6 hereof.

4. Compensation. During the Term of this Agreement the Company agrees to pay to Executive:

(a) Salary. A salary (the "Base Salary") at a rate, and only to the extent, authorized from time to time by the Compensation Committee of the Board of Directors, payable in accordance with the Company's standard payroll practices for executives then in effect.

(b) Stock Awards. Executive shall be eligible for options to purchase Common Stock of the Company or other stock awards to the extent granted by the Compensation Committee of the Board of Directors of the Company.

(c) Incentive Bonus. In each fiscal year, the Executive shall be eligible to receive an annual performance bonus and/or retention payment ("Incentive Bonus") which shall be based on Company profitability, individual performance and such other factors, if any, that the Compensation Committee may deem relevant, in such amount as may be determined by the Compensation Committee of the Board of Directors of the Company, in its sole discretion, payable in accordance with the Company's standard practices for executives as in effect from time to time. Any such retention payment shall be subject to the terms of the retention agreement governing such payment, including, without limitation, with respect to the vesting thereof.

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(d) Other Benefits. Unless otherwise agreed, Executive will not participate in profit-sharing, hospitalization, insurance, medical, disability, or other fringe benefit or executive perquisite plans that may otherwise be available to other senior executives of the Company.

5. Expenses. The Company will reimburse Executive for all expenses reasonably incurred by him in connection with the performance of his duties hereunder and the business of the Company upon the submission to the Company of appropriate invoices therefor, all in accordance with the Company's policies and procedures as in effect from time to time for senior executives of the Company.

6. Termination.

(a) Termination by the Company Without Cause or Non-Renewal of Term by the Company. The Company may terminate the employment of Executive hereunder at any time without Cause (as hereinafter defined). Notice of any such termination must be in writing and will be effective upon receipt by Executive. In the event that (x) the employment of Executive is terminated pursuant to this Section 6(a) or (y) the Initial Term or any Renewal Term is not renewed by the Company and if Executive fully complies with Sections 7, 9, 10 and 22 of this Agreement, (A) the Company will continue to pay to Executive the Base Salary per annum, if any, as in effect on the date of such termination, in accordance with the standard payroll practices of the Company as in effect from time to time, for a term of twelve (12) months immediately following the date of such termination, and (B) Executive will be entitled to an annual Incentive Bonus pursuant to Section 4(c) of this Agreement with respect to the fiscal year ending within such twelve (12) month period (which annual Incentive Bonus shall be the Incentive Bonus paid to the Executive for the performance period immediately prior to the fiscal year in which the date of termination occurs, but not less than the amount of the Incentive Bonus paid to the Executive with respect to the fiscal year ended March 31, 2018, and paid on the last day of the fiscal year during such twelve (12) month period), which shall be paid at the same time as the annual Incentive Bonus would have been paid pursuant to Section 4(c) of this Agreement. If Executive fully complies with Sections 7, 9, 10 and 22 of this Agreement, subject to the terms of Executive's option and restricted stock agreements, on the date of termination pursuant to this Section 6(a), any tranche of unvested shares or options held by Executive that would have vested following termination shall accelerate and vest without any further action of any kind by the Company or Executive. Further, if Executive fully complies with Sections 7, 9, 10 and 22 of this Agreement, subject to the terms of Executive's option agreements, any stock option held by Executive that is vested at the time of Executive's termination pursuant to this Section 6(a) (including any portion of such option for which vesting was accelerated pursuant to the preceding sentence) will be exercisable until the expiration of such option pursuant to its terms.

(b) Termination by the Company for Cause. The Company may terminate the employment of Executive hereunder for Cause (as hereinafter defined). Executive shall be entitled to thirty (30) days prior written notice of the Company's intent to terminate Executive hereunder and the right to address and/or cure such Cause during such thirty (30) day notice period, to the extent curable. Any notice of intent to terminate for Cause must specify the particular grounds therefor in reasonable detail. In the event that the employment of Executive is terminated pursuant to this clause (b), the Company will pay to Executive the amount of all accrued but unpaid Base Salary to the date of such termination, but no annual Incentive Bonus will be paid with respect to the fiscal year in which termination occurs. As used herein, "Cause" means Executive's (i) having committed in the performance of his duties under this Agreement one or more acts or omissions constituting fraud, dishonesty, or willful injury to the Company which results in a material adverse effect on the business, financial condition or results of operations of the Company, (ii) having committed one or more acts constituting gross neglect or willful misconduct which results in a material adverse effect on the business, financial condition or results of operations of the Company, (iii) breach of fiduciary duty, (iv) failure to substantially perform assigned duties relating to Executive's performance hereunder (other than any such failure owing to Executive becoming Disabled (as hereinafter defined)) as reasonably determined by a majority of the entire Compensation Committee of the Board of Directors of the Company, (v) conviction of, or the entry by the Executive of any plea of guilty or nolo contendere to, any felony, (vi) material breach of any provision of this Agreement as reasonably determined by the Compensation Committee of the Board of Directors; provided, however, that in any of the foregoing circumstances, Executive has failed to cure such Cause, to the extent curable, within the thirty (30) day period referenced in the second sentence of this Section 6(b).

(c) Termination by Executive. Executive may terminate his employment hereunder (x) at any time without cause or (y) for Good Reason (as hereinafter defined). In the event Executive terminates employment pursuant to subclause (x) of this clause (c), notice of any such termination must be in writing and will be effective sixty (60) days after receipt by the Company or such earlier date as may be specified by the Company after receipt of such notice. In the event that Executive terminates employment pursuant to subclause (x) of this clause (c), the Company will pay to Executive the amount of all accrued but unpaid Base Salary to the date of such termination, but no annual Incentive Bonus will be paid with respect to the fiscal year in which termination occurs. In the event that Executive terminates employment hereunder for Good Reason pursuant to subclause (y) of this clause (c) and Executive fully complies with Sections 7, 9, 10 and 22 of this Agreement, Executive will be entitled to the same salary, benefits and bonus payments as would be provided were he to be terminated by the Company without Cause pursuant to Section 6(a) above. Further, subject to the terms of Executive's option and restricted stock agreements, any tranche of unvested shares or options held by Executive that would have vested following termination for Good Reason shall accelerate and vest without any further action of any kind by the Company or Executive. In addition, subject to the terms of Executive's option agreements, upon a termination by Executive for Good Reason, any stock option held by Executive that is vested at the time of Executive's termination (including any portion of such option for which vesting was accelerated pursuant to the preceding sentence) will be exercisable until the expiration date of such option pursuant to its terms. As used herein, "Good Reason" means a termination by Executive of Executive's employment hereunder within sixty (60) days after, without Executive's consent (i) a material diminution of the Executive's title, duties or responsibilities as provided in Section 1, including without limitation, the failure to elect or re-elect the Executive as President and Chief Executive Officer of the Company or as a member of the Board of Directors of the Company, or the removal of the Executive from such position, (ii) any material diminution in the Executive's Base Salary from that in effect on the Effective Date or the most recent anniversary thereof, (iii) relocation by the Company of the Executive's primary office to any location more than fifty (50) miles away from Miami, Florida or (iv) the Company's material breach of any provision of this Agreement; provided, however, Good Reason shall only occur if the Executive gives the Company sixty (60) days' prior notice of his intent to terminate his employment setting forth with reasonable specificity the event that constitutes Good Reason, which written notice, to be effective, must be provided to the Company within sixty (60) days of the Executive's knowledge (whether actual or constructive, including, without limitation, knowledge that Executive would have reasonably obtained after making due and appropriate inquiry) of such event. Following such notice, the Company shall have thirty (30) days to cure the event constituting Good Reason and, if not cured within such period, Executive's termination will be effective upon the expiration of such sixty (60) day notice period.

(d) Termination Upon Death. This Agreement will terminate automatically on the death of Executive. In the event that the employment of Executive is terminated pursuant to this Section 6(d), the Company will promptly pay to the representative of Executive the amount of all accrued but unpaid Base Salary to the date of such termination, the annual Incentive Bonus, if any, described in Section 4(c) with respect to the fiscal year in which termination occurs, and Base Salary, if any, for a one (1) year period, in accordance with the standard payroll practices of the Company as in effect from time to time. Further, subject to the terms of Executive's option or restricted stock agreements, any tranche of unvested shares or options held by Executive that would have vested following the time of death shall accelerate and vest without any further action of any kind by the Company or Executive. In addition, subject to the terms of Executive's option agreements, upon the death of Executive, any stock option held by Executive that is vested at the time of death (including any portion of such option for which vesting was accelerated pursuant to the preceding sentence), will be exercisable by Executive's personal representative or estate until the expiration date of such option pursuant to its terms.

(e) Termination by the Company by Reason of Disability. The Company may terminate the employment of Executive hereunder after Executive becomes Disabled. Notice of any such termination must be in writing and will be effective thirty (30) days after receipt by Executive. In the event that the employment of Executive is terminated pursuant to this Section 6(e), the Company will pay to Executive or his representative the amount of all accrued but unpaid Base Salary to the date of such termination, the annual Incentive Bonus, if any, described in Section 4(c) with respect to the fiscal year in which termination occurs, and Base Salary for a one (1) year period, in accordance with the standard payroll practices of the Company as in effect from time to time, reduced by the amount, if any, received by Executive from any disability insurance maintained by the Company. Further, subject to the terms of Executive's option and restricted stock agreements, any tranche of unvested shares or options held by Executive at the time of termination by reason of Disability that would have vested following the date of such termination shall accelerate and vest without any further action of any kind by the Company or Executive. In addition, subject to the terms of Executive's option agreements, upon the termination by reason of Disability, any stock option held by Executive that is vested at the time of such termination (including any portion of such option for which vesting was accelerated pursuant to the preceding sentence) will be exercisable until the expiration date of such option pursuant to its terms. As used herein, "Disabled" means Executive becoming physically or mentally disabled or incapacitated to the extent that he has been or will be unable to perform his duties hereunder on account of such disabilities or incapacitation for a continuous period of six (6) months as determined by a qualified independent physician or group of physicians selected by the Company and approved by Executive or his representative, such approval not to be unreasonably withheld.

(f) Change of Control. A "Change of Control" shall have occurred if: (i) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than Dr. Phillip Frost, any member of his immediate family, and any "person" or "group" (as used in Section 13(d)(3) of the Exchange Act) that is controlled by Dr. Frost or any member of his immediate family, any beneficiary of the estate of Dr. Frost, or any trust, partnership, corporate or other entity controlled by any of the foregoing, becomes the "beneficial owner" (as determined pursuant to Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing more than thirty-five percent (35%) of the aggregate voting power of the Company's then outstanding securities, other than by acquisition directly from the Company; (ii) there has been a merger or equivalent combination involving the Company after which forty-nine percent (49%) or more of the voting stock of the surviving corporation is held by persons other than former shareholders of the Company; (iii) during any period of two consecutive years, individuals who at the beginning of such period were members of the Board of Directors of the Company cease for any reason to constitute at least a majority thereof (unless the appointment, election, or the nomination for election by the Company's stockholders, of each director elected during such consecutive two-year period was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period); or (iv) the Company sells or disposes of all or substantially all of its assets. In the event that the employment of Executive is terminated in connection with, or during the twenty-four (24) month period following, a Change in Control either by the Executive for Good Reason or by the Company or its successor without Cause, the Company or its successor, as applicable, will pay to Executive in a lump sum (x) an amount equal to one times the Base Salary per annum as in effect on the date of such termination plus (y) an amount equal to one times the annual Incentive Bonus described in Section 4(c), which Incentive Bonus shall be the Incentive Bonus paid to the Executive for the performance period immediately prior to the fiscal year in which the date of termination occurs, but not less than the amount of the Incentive Bonus paid to the Executive with respect to the fiscal year ended March 31, 2018. For the avoidance of doubt, in the event of any such payments pursuant to this Section 6(f), no additional payments shall be made to Executive pursuant to Section 6(a) or 6(c).

(g) Release and No Further Obligations. Notwithstanding any provision herein to the contrary, the payments and other consideration provided to Executive under Section 6(a) or (c) (collectively, the “Severance Benefits”) shall be conditioned upon Executive’s execution, delivery to the Company, and non-revocation of the form of general release (the “Release”) attached hereto as Exhibit A (and the expiration of any revocation period contained in such Release) within sixty (60) days following the date of Executive’s termination of employment hereunder. If Executive fails to execute the Release in such a timely manner so as to permit any revocation period to expire prior to the end of such sixty (60) day period, or timely revokes his acceptance of such Release following its execution, Executive shall not be entitled to any of the Severance Benefits. Except as otherwise expressly provided in this Agreement and any indemnification, stock option agreements or restricted stock agreements, by and between the Company and Executive, from and after the effective date of any termination of Executive’s employment hereunder pursuant to this Section 6, the Company will have no further obligations (for the payment of money or otherwise) to Executive or his representative, as applicable, except for continuing obligations by the Company or its successor to indemnify Executive in his capacity as an officer of the Company. If the general release is executed and delivered and no longer subject to revocation, then the following shall apply:

(i) To the extent any such cash payment to be made is not “deferred compensation” for purposes of Code Section 409A, then such payment shall commence upon the first scheduled payment date immediately after the date the general release is executed and no longer subject to revocation (the “Release Effective Date”). The first such cash payment shall include payment of all amounts that otherwise would have been due prior to the Release Effective Date under the terms of this Agreement applied as though such payments commenced immediately upon the termination of Executive’s employment, and any payments made after the Release Effective Date shall continue as provided herein. The delayed payments shall in any event expire at the time such payments would have expired had such payments commenced immediately following the termination of Executive’s employment.

(ii) To the extent any such cash payment to be made is “deferred compensation” for purposes of Code Section 409A, then such payment shall be made or commence upon the sixtieth (60th) day following the termination of Executive’s employment with interest, to be determined by applying the prime rate published in the Wall Street Journal on the date of the Executive’s termination of employment or if such date is not a business day, then the next business day. The first such cash payment shall include payment of all amounts that otherwise would have been due prior thereto under the terms of this Agreement had such payments commenced immediately upon the termination of Executive’s employment and any payments made after the sixtieth (60th) day following the termination of Executive’s employment shall continue as provided herein. The delayed payments shall in any event expire at the time such payments would have expired had such payments commenced immediately following the termination of Executive’s employment.

(h) Specified Employee. Notwithstanding anything to the contrary in this Agreement, if the Executive is deemed on the date of termination of employment to be a “specified employee” within the meaning of that term in Section 409A(a)(2)(B), then with regard to any payment or the provision of any benefit that is considered deferred compensation under Section 409A payable on account of “separation from service”, no such payment or benefit distribution will be made to the Executive prior to the earlier of (i) the expiration of the six (6)-month period measured from the date of the Executive’s “separation from service” (as such term is defined for purposes of Section 409A) or (ii) the date of the Executive’s death, to the extent such delayed commencement is otherwise required in order to avoid a prohibited distribution under Section 409A. All payments and benefits which had been delayed pursuant to the immediately preceding sentence shall be paid (with interest, to be determined by applying the prime rate published in the Wall Street Journal on the date of the Executive’s termination of employment or if such date is not a business day, then the next business day) to the Employee in a lump sum upon expiration of such six-month period (or if earlier upon the Employee’s death).

#### 7. Confidentiality.

(a) Executive will not, at any time following the Effective Date, regardless of whether Executive continues to be employed by the Company and, if Executive’s employment has been terminated, regardless of the manner, reason, time or cause thereof, directly or indirectly reveal, report, publish, disclose, transfer or furnish to any person not entitled to receive the same for the immediate benefit of the Company any Proprietary Information (as hereinafter defined). The term “Proprietary Information” means all information of any nature whatsoever, and in any form, which at the time or times concerns or relates to any aspect of any business that the Company, or its direct or indirect subsidiaries are involved in or actively contemplating (the “Business”) and which is confidential or proprietary to the Company. Proprietary Information includes, but is not limited to, items, materials and information concerning the following: marketing plans or strategies; budgets; designs; promotional strategies; client preferences and policies; creative activities for clients; concepts; intellectual property and trade secrets; product plans; financial information and all documentation, reports and data (recorded in any form) relating to the foregoing. Notwithstanding the foregoing, “Proprietary Information” does not include any information to the extent it becomes publicly known through no fault of Executive or any information which Executive is required to disclose as a result of a subpoena or other legal process.

(b) Executive agrees that all memoranda, notes, records, papers or other documents, computer disks, computer software programs and the like and all copies thereof, relating to the Business (the “Business Records”) are and will be the sole and exclusive property of the Company or its direct or indirect subsidiaries, as the case may be. Except for use for the benefit of the Company or its direct or indirect subsidiaries, Executive will not copy or duplicate any of the Business Records, nor remove them from the facilities of the Company or its direct or indirect subsidiaries, as the case may be. Executive must comply with any and all procedures which the Company or its direct or indirect subsidiaries may adopt from time to time to preserve the confidentiality of Proprietary Information and the confidentiality of property of the types described immediately above, whether or not such property contains a legend indicating its confidential nature.

(c) Upon termination of Executive’s employment with the Company for any reason whatsoever and at any other time upon the Company’s request, Executive (or his personal representative) must deliver to the Company all property described in this Section 7 which is in his possession or control.

(d) Notwithstanding anything contained herein or in any other Company policy or agreement, Executive shall not be prohibited from reporting suspected violations of law or regulation to any governmental agency, regulatory body, self-regulatory organization, or law enforcement agency, including but not limited to the SEC (collectively a “law enforcement entity”), from making any other disclosures that are protected under any law or regulation, from participating or cooperating in any inquiry, investigation, or proceeding conducted by such law enforcement entity, or from making other disclosures that are protected under state or federal law or regulation, or receiving an award for information provided to any such law enforcement entity.



8. Representation and Warranty. Executive represents and warrants to the Company that he is not a party to any employment agreement or other agreement which restricts, interferes with or impairs, or which might be claimed to restrict, interfere with or impair, in any way, Executive's use of any information or Executive's execution or performance of this Agreement.

9. Discoveries and Improvements. Executive acknowledges and agrees that all inventions, discoveries, and improvements, whether patentable or unpatentable, made, devised, or discovered by Executive, whether by himself, or jointly with others, from the date hereof until the expiration of the Term hereof, reasonably deemed to be directly related to or pertaining in any way to the Business, will be promptly disclosed in writing to the General Counsel of the Company and will be the sole and exclusive property of the Company. Executive agrees to execute any assignments to the Company or its nominee of his entire right, title, and interest in and to any such inventions, discoveries, and improvements and to execute and deliver at the cost of the Company any other instruments and documents that may be requested by the Company that are requisite or desirable in applying for and obtaining patents, copyrights or trademarks, with respect thereto in the United States and in all foreign countries. Executive further agrees, whether or not in the employ of the Company, to cooperate, to the extent and in the manner requested by the Company, in the prosecution or defense of any patent, trademark or copyright claims or any litigation or other proceeding involving any inventions, trade secrets, processes, discoveries, or improvements covered by this Agreement, provided that all expenses thereof shall be paid by the Company.

10. Restrictive Covenants.

(a) Executive acknowledges and agrees that his position with the Company places him in a position of confidence and trust with respect to Proprietary Information. Executive consequently agrees that it is reasonable and necessary for the protection of the goodwill of the Business that Executive make the covenants contained herein. Accordingly, Executive agrees that, during the Term of this Agreement and for a period of twelve (12) months after the date of expiration or termination of Executive's employment hereunder for any reason whatsoever, Executive will not, without the prior written consent of the Company and provided that the Company has not failed to make any payments to the Executive when due in accordance with the provisions of Section 6 hereof and otherwise comply with the terms and conditions of this Agreement, (i) employ, solicit or encourage to leave the employ of the Company, or to become employed by any person other than the Company, any employee of the Company, (ii) persuade or attempt to persuade any customer of the Company as of the date of the termination or expiration of Executive's employment, to cease doing business with, or to reduce the amount of business it does with, the Company, or solicit the business of any of the Company's customers as of the date of the termination or expiration of Executive's employment, with respect to any product or service which competes with the products and services of the Company as of the date of termination of Executive's employment or (iii) compete with the Company as a consultant to, employee of, or equity participant in, any venture which competes with the Business within the United States of America. No provision of this Section 10 shall prohibit Executive from merely owning (i.e., having no participation or involvement in the management) no more than three percent (3%) of the outstanding equity securities of any actively traded public entity. Notwithstanding anything contained herein to the contrary, in the event that Executive's employment is terminated by Executive for Good Reason or by the Company or any successor without Cause in connection with, or during the twenty-four (24) month period following, a Change of Control, the provisions of Sections 10 and 22 of this Agreement shall not apply to Executive.

(b) Executive has carefully considered the nature and extent of the restrictions upon him and the rights and remedies conferred upon the Company under Sections 10 and 11 of this Agreement and hereby acknowledges and agrees that the same are reasonable in time and territory, are designed to avoid competition which otherwise would be unfair to the Company, do not stifle the inherent skill and experience of Executive, would not operate as a bar to Executive's sole means of support, are required to protect the legitimate interests of the Company and do not confer a benefit upon the Company disproportionate to the benefit otherwise afforded Executive by this Agreement.

11. Certain Remedies. The parties hereto acknowledge that, in the event of a breach or a threatened breach by Executive of any of his obligations under Sections 7, 9, 10 or 22 of this Agreement, the Company will not have an adequate remedy at law. Accordingly, in the event of any such breach or threatened breach by Executive, the Company will be entitled to such equitable and injunctive relief as may be available to restrain Executive and any business, firm, partnership, individual, corporation or entity participating in such breach or threatened breach from the violation of the provisions hereof, and nothing herein will be construed as prohibiting the Company from pursuing any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages.

12. Notices. All notices hereunder must be in writing and addressed to the General Counsel of the Company at 122 East 42<sup>nd</sup> Street, Suite 5000, New York, NY, 10168 and to Executive at the address provided by Executive to the Company. Each such address for notice may be changed by notice of such change given to the other party hereto. All such notices will be effective upon receipt.

13. Entire Agreement. This Agreement, together with any agreements executed by the Company and Executive in respect of indemnification or awards under any equity, benefit or welfare plan, constitutes the entire understanding and agreement of the parties hereto regarding the employment of Executive. This Agreement supersedes all prior negotiations, discussions, correspondence, communications, understandings and agreements between the parties relating to the subject matter of this Agreement.

14. Governing Law/Arbitration. This Agreement will be governed, interpreted and construed according to the internal laws of the State of Florida without regard to conflict of laws principles. Any controversy or claim arising out of, or relating to, this Agreement or the breach thereof, must be promptly settled by arbitration by a panel of three (3) arbitrators in Miami, Florida, in accordance with the Commercial Rules of the American Arbitration Association then in effect, and judgment upon the award rendered may be entered in any court having jurisdiction thereof. It is expressly understood that the arbitrators will have the authority to grant legal and equitable relief, including both temporary restraints and preliminary injunctive relief to the same extent as could a court of competent jurisdiction, and that the arbitrators are empowered to order either side to fully cooperate in promptly resolving any controversies or claims under this Agreement. Notwithstanding the foregoing, in the event of a breach or threatened breach by Executive of any provision of Section 7, 9, 10 or 22 of this Agreement, the Company will be entitled to seek an injunction from any court of competent jurisdiction in Miami-Dade County, Florida and Executive hereby submits to the personal jurisdiction of any such court.

15. Severability. Should any part of this Agreement be held or declared to be void or illegal for any reason by an arbitrator or court of competent jurisdiction, such provision will be ineffective, but all other parts of this Agreement which can be effected without such illegal part will nevertheless remain in full force and effect. In such a case, the parties shall, and the court of competent jurisdiction may, replace the invalid provision with a legally permissible arrangement, which comes nearest to the intended purpose of the invalid provision.

16. Headings. The Section headings contained in this Agreement are for reference purposes only and will not affect the meaning or interpretation of this Agreement.

17. Withholding. Anything to the contrary notwithstanding, all payments required to be made by the Company hereunder to Executive will be subject to withholding of such amounts relating to taxes (whether or not related to payments required to be made by the Company hereunder) as the Company may reasonably determine it should withhold pursuant to any applicable law or regulation.

18. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original, but all of which will collectively constitute a single original.

19. No Reliance; Opportunity to Consult with Counsel. The parties hereto each represent to the other that in executing this Agreement each does not rely upon, and has not relied upon, any representation or statement not set forth herein with regard to the subject matter, basis or effect of this Agreement or otherwise. Executive acknowledges that he has had an opportunity to consult with an attorney of his choice prior to executing this Agreement.

20. No Assignment. Neither this Agreement nor the right to receive any payments hereunder may be assigned by Executive except as provided for herein. This Agreement will be binding upon Executive, his heirs, executors and administrators and upon the Company, its successors and assigns.

21. No Duty to Mitigate. Executive shall not be required to mitigate the amount of any damages that Executive may incur or other payments to be made to Executive hereunder as a result of any termination or expiration of this Agreement, nor shall any payments to Executive be reduced by any other payments Executive may receive.

22. Non-Disparagement. Executive agrees not to publicly criticize, denigrate or disparage the Company, its past and present direct and indirect subsidiaries, affiliates, successors, assigns and all of their past and present employees, officers and directors. The Company agrees not to, and to use commercially reasonable efforts to cause its past and present direct and indirect subsidiaries, affiliates, successors, assigns and all of their past and present employees, officers and directors not to, publicly criticize, denigrate or disparage Executive.

23. Survival. The provisions of Sections 6, 7, 9, 10, 11, 13, 14, 15, 17, 20, 21, 22 and this Section 23 will survive the termination or expiration of this Agreement.

24. Waiver. A delay or failure by either party to require strict performance by the other party of any undertakings or agreements contained in this Agreement will not waive, affect or diminish any right of such party thereafter to demand strict compliance and performance therewith. Any waiver by either party of any default by the other party under this Agreement will not waive or affect any other such default, whether such default is prior or subsequent thereto and whether of the same or a different type.

25. Compliance with Section 409A.

(i) The intent of the parties is that payments and benefits under this Agreement comply with Internal Revenue Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") so as not to subject Executive to the payment of the additional tax, interest and any tax penalty which may be imposed under Section 409A and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith.

(ii) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment unless such termination is also a "separation from service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "termination," "termination of employment," "termination of the Employment Period" or like terms shall mean "separation from service."

(iii) All expenses or other reimbursements under this Agreement shall be made on or prior to the last day of the taxable year following the taxable year in which such expenses were incurred by Executive (provided that if any such reimbursements constitute taxable income to Executive, such reimbursements shall be paid no later than March 15th of the calendar year following the calendar year in which the expenses to be reimbursed were incurred), and no such reimbursement or expenses eligible for reimbursement in any taxable year shall in any way affect the expenses eligible for reimbursement in any other taxable year.

(iv) For purposes of Code Section 409A, Executive's right to receive any installment payment pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

Castle Brands Inc.

Executive

By: /s/ Alfred J. Small

By: /s/ Richard J. Lampen

Name: Alfred J. Small

Name: Richard J. Lampen

Title: Chief Financial Officer

Acknowledged:

By: /s/ Dr. Richard Krasno

Name: Dr. Richard Krasno

## EXHIBIT A

### Form of General Release

#### GENERAL RELEASE

1. (a) As a condition to and in consideration of the payments and benefits described in Section 6 of the Employment Agreement, dated as of February 8, 2019, between Castle Brands Inc. and me relating to my employment with Castle Brands Inc., and for other good and valuable consideration, I, with the intention of binding myself and my heirs, beneficiaries, trustees, administrators, executives, assigns and legal representatives (collectively, the “Releasors”), hereby irrevocably and unconditionally release, remise, and forever discharge Castle Brands Inc. and the Releasees (as defined in Section 1(b)) with respect to any and all agreements, promises, rights, debts, liabilities, claims, causes of action and demands of any kind whatsoever (upon any legal or equitable theory, whether contractual, common law, or statutory, under federal, state or local law or otherwise), whether known or unknown, asserted or unasserted, fixed or contingent, apparent or concealed, that the Releasors ever had, now have or hereafter can, shall or may have for, upon, or by reason of any matter, cause or thing whatsoever existing, accruing, arising or occurring at any time on or prior to the date I execute this General Release, including, without limitation, (i) any and all rights and claims arising out of or in connection with my employment by Castle Brands Inc., the terms and conditions of such employment, or the termination of my employment; (ii) any and all contract claims, claims for bonuses, claims for severance allowances or entitlements; (iii) fraud claims, defamation, disparagement and other personal injury and tort claims; and (iv) claims under any federal, state, or municipal employee benefit, wage payment, discrimination, or fair employment practices law (e.g., on the basis of sex, religion, age, race, or disability), statute, or regulation, and claims for costs and expenses (including but not limited to experts’ fees and attorneys’ fees) with respect thereto. This General Release includes, without limitation, any and all rights and claims under the Title VII of the Civil Rights Act of 1964, as amended, the Employee Retirement Income Security Act of 1974, the Americans with Disabilities Act of 1990, the U.S. Pregnancy Discrimination Act, the U.S. Family and Medical Leave Act, the U.S. Fair Labor Standards Act, the U.S. Equal Pay Act, The Workers Adjustment and Notification Act, the Equal Pay Act of 1963, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act of 1990, the Civil Rights Act of 1866, the Family and Medical Leave Act of 1993, the Civil Rights Act of 1991, the New York Conscientious Employee Protection Act, the New York Equal Pay Act, the New York Smokers’ Rights Law, the New York Family Leave Act, the New York Genetic Privacy Act, the New York Constitution, and all other federal, state and local laws, in each case as such laws have been or may be amended. Nothing in this General Release shall deprive me of any compensation that was earned but not paid prior to my termination; accrued benefits to which I have acquired a vested right under any employee benefit plan or policy, stock plan or deferred compensation arrangement; any other benefits or any health care continuation coverage to the extent required by applicable law; or any right that I may have under the Employment Agreement dated February 8, 2019, as amended.

(b) For purposes of this General Release, the term “Castle Brands Inc. and the Releasees” includes Castle Brands Inc., its past and present direct and indirect subsidiaries, affiliates, successors, assigns, and all of its and their past, present, and future employees, officers, directors, attorneys, agents, and legal representatives, whether acting as agents or in individual capacities, and this General Release shall inure to the benefit of and shall be binding and enforceable by all such entities and individuals.

2. Notwithstanding anything to the contrary in this General Release, in the event that any of the parties released under this General Release initiates a lawsuit or other claim (each, an “Original Lawsuit or Claim”) against any of the Releasors, the Releasors may counterclaim or bring any lawsuit or other claim against such released party and/or Castle Brands Inc. and/or its subsidiaries so long as such counterclaim, lawsuit or other claim is related to the Original Lawsuit or Claim. Except as specifically stated in this Section 2, this Section 2 shall not affect the other provisions of this General Release

3. (a) Opportunity to Review. I acknowledge that before signing this General Release, I was given a period of at least forty-five (45) days in which to review and consider it. I acknowledge that I was encouraged by Castle Brands Inc. to review this General Release, and that to the extent I wish to do so I have done so. I further acknowledge that I have read this General Release in its entirety, and that I fully understand the terms and legal effect of this General Release. I am entering into this General Release voluntarily and of my own free will. If I executed this General Release before the end of the forty-five (45) day period, such early execution was completely voluntary, and I had reasonable and ample time in which to review this General Release.

(b) Revocability. I agree that, for a period of seven days after I sign this General Release (the “Revocation Period”), I have the right to revoke it by providing notice, in writing (delivered by hand or by overnight mail), to Castle Brands Inc., Attention: General Counsel. Notwithstanding anything contained herein to the contrary, this General Release will not become effective and enforceable until after the expiration of the Revocation Period.

Date signed:

\_\_\_\_\_  
Name:



## SECTION 302 CERTIFICATION

I, Richard J. Lampen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Castle Brands Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2019

*/s/ Richard J. Lampen*  
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Richard J. Lampen  
Chief Executive Officer  
(Principal Executive Officer)

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## SECTION 302 CERTIFICATION

I, Alfred J. Small, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Castle Brands Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 8, 2019

*/s/ Alfred J. Small*

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Alfred J. Small  
Chief Financial Officer  
(Principal Financial Officer and Principal Accounting Officer)

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Richard J. Lampen, the President and Chief Executive Officer of Castle Brands Inc. (the "Registrant"), and Alfred J. Small, Chief Financial Officer of the Registrant, each hereby certifies that:

1. The Registrant's Quarterly Report on Form 10-Q for the period ended December 31, 2018 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: February 8, 2019

*/s/ Richard J. Lampen*

Richard J. Lampen  
Chief Executive Officer  
(Principal Executive Officer)

*/s/ Alfred J. Small*

Alfred J. Small  
Chief Financial Officer  
(Principal Financial Officer and Principal  
Accounting Officer)

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