LOGITECH INTERNATIONAL SA
Form PRE 14A
June 26, 2009

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant [X]

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Check the appropriate box:

[X] Preliminary Proxy Statement

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[ ] Definitive Proxy Statement

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Logitech International S.A.
(Name of Registrant as Specified in its Charter)

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LOGITECH INTERNATIONAL S.A.

INVITATION AND PROXY STATEMENT

FOR THE

2009 ANNUAL GENERAL MEETING OF SHAREHOLDERS

July 23, 2009

To our shareholders:

You are cordially invited to attend Logitech’s 2009 Annual General Meeting. The meeting will be held on Tuesday, September 1, 2009 at 2:30 p.m. at the Palais De Beaulieu, Rome Room, in Lausanne, Switzerland.

Enclosed is the Invitation and Proxy Statement for the meeting, which includes an agenda and discussion of the items to be voted on at the meeting, information on how you can exercise your voting rights, information concerning Logitech’s compensation of its Board members and executive officers and other relevant information.

Whether or not you plan to attend the Annual General Meeting, your vote is important.

Thank you for your continued support of Logitech.

GUERRINO DE LUCA
Chairman of the Board

LOGITECH INTERNATIONAL S.A.

Invitation to the Annual General Meeting
Tuesday, September 1, 2009
2:30 p.m. (registration starts at 1:30 p.m.)
Palais de Beaulieu — Lausanne, Switzerland

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AGENDA

A. Reports

Report on Operations for the fiscal year ended March 31, 2009

B. Proposals

1. Approval of the Annual Report, the Compensation Report, the consolidated financial statements and the statutory financial statements of Logitech International S.A. for fiscal year 2009

2. Advisory vote on compensation philosophy, policies and practices

3. Appropriation of retained earnings without payment of a dividend

4. Increase of the number of shares available for issuance under the 2006 Stock Incentive Plan

5. Release of the Board of Directors and Executive Officers for activities during fiscal year 2009

6. Elections to the Board of Directors

   6.1. Re-election of Mr. Erh-Hsun Chang

   6.2. Re-election of Mr. Kee-Lock Chua

7. Re-election of PricewaterhouseCoopers S.A. as auditors

Apples, Switzerland, July 23, 2009

The Board of Directors

QUESTIONS AND ANSWERS ABOUT THE LOGITECH 2009 ANNUAL GENERAL MEETING

GENERAL INFORMATION FOR ALL SHAREHOLDERS

Why am I receiving this Invitation and Proxy Statement?

This document is designed to comply with both Swiss corporate law and U.S. proxy statement rules. Outside of the U.S. and Canada this Invitation and Proxy Statement will be delivered to registered shareholders with certain portions translated into French and German. We made copies of this Invitation and Proxy Statement available to shareholders beginning on July 23, 2009.

Who is entitled to vote at the meeting?

Shareholders registered in the Share Register of Logitech International S.A. (including in the sub-register maintained by Logitechs U.S. transfer agent, The Bank of New York Mellon Corporation) on Thursday, August 27 2009 have the right to vote. No shareholders will be entered in the Share Register between August 28, 2009 and the day following the meeting. As of June 30, 2009 there were [ ] shares registered and entitled to vote out of a total of [ ] Logitech shares outstanding. The actual number of registered shares that will be entitled to vote at the meeting will vary depending on how many more shares are registered, or deregistered, between June 30, 2009 and August 27, 2009.

For information on the criteria for the determination of the U.S. and Canadian street name beneficial owners who may vote with respect to the meeting, please refer to Further Information for U.S. and Canadian Street Name Beneficial Owners, below.

Who is a registered shareholder?

If your shares are registered directly in your name with us in the Share Register of Logitech International S.A., or in our sub-register maintained by our U.S. transfer agent, The Bank of New York Mellon Corporation, you are considered a registered shareholder, and this Invitation and Proxy Statement and related materials are being sent to you directly by Logitech.

Who is a beneficial owner with shares registered in the name of a custodian, or street name owner?

Shareholders that have not requested registration on our Share Register directly, and hold shares through a broker, trustee or nominee or other similar organization that is a registered shareholder, are beneficial owners of shares registered in the name of a custodian. If you hold your Logitech shares through a U.S. or Canadian broker, trustee or nominee or other similar organization (also called holding in street name), which is the typical practice of our shareholders in the U.S. and Canada, the organization holding your account is considered the registered shareholder for purposes of voting at the meeting, and this Invitation and Proxy Statement and related materials are being sent or made available to you by them. You have the right to direct that organization on how to vote the shares held in your account.

Why is it important for me to vote?

Logitech is a public company and key decisions can only be made by shareholders. Whether or not you plan to attend, your vote is important so that your shares are represented.

How many registered shares must be present or represented to conduct business at the meeting?

There is no quorum requirement for the meeting. Under Swiss law, public companies do not have specific quorum requirements for shareholder meetings, and our Articles of Incorporation do not otherwise provide for a quorum requirement.

Where are Logitechs principal executive offices?

Logitechs principal executive office in Switzerland is at Moulin du Choc D, 1122 Romanel-sur-Morges, Switzerland, and our principal executive office in the United States is at 6505 Kaiser Drive, Fremont, California 94555. Logitechs main telephone number in Switzerland is +41-(0)21-863-5111 and our main telephone number in the United States is +510-795-8500.

How can I obtain Logitechs annual report and other annual reporting materials?

A copy of our 2009 Annual Report to Shareholders, this Invitation and Proxy Statement and our Annual Report on Form 10-K for fiscal year 2009 filed with the U.S. Securities and Exchange Commission are available on our website at *http://ir.logitech.com*. Shareholders also may request free copies of these materials at our principal executive offices in Switzerland or the United States, at the addresses and phone numbers above.

Where can I find the voting results of the meeting?

We intend to announce voting results at the meeting and issue a press release promptly after the meeting. We will also post results on our website at *http://ir.logitech.com* and in our quarterly report for the fiscal quarter ending September 30, 2009.

If I am not a registered shareholder, can I attend and vote at the meeting?

You may not attend the meeting and vote your shares in person at the meeting unless you either become a registered shareholder by August 27, 2009 or you obtain a legal proxy from the broker, trustee or nominee that holds your shares, giving you the right to vote the shares at the meeting. If you hold your shares through a non-U.S. or non-Canadian broker, trustee or nominee, you may become a registered shareholder by contacting our Share Registrar at our principal executive offices in Switzerland, at the above address, and following their registration instructions or, in certain countries, by requesting registration through the bank or brokerage through which you hold your shares. If you hold your shares through a U.S. or Canadian broker, trustee or nominee, you may become a registered shareholder by contacting your broker, trustee or nominee, and following their registration instructions.

FURTHER INFORMATION FOR REGISTERED SHAREHOLDERS

How can I vote if I do not plan to attend the meeting?

If you do not plan to attend the meeting you may mark the applicable box under Option 3 on the enclosed Response Coupon to appoint either Logitech or the Independent Representative, Ms. Béatrice Ehlers, to represent you at the meeting. Please provide your voting instructions by marking the applicable boxes beside the agenda items on the Response Coupon and sign, date and promptly mail your completed Response Coupon using the appropriate enclosed postage paid envelope. If you sign and return the Response Coupon but do not provide voting instructions for some or all agenda items, your voting rights will be exercised in favor of the Proposals of the Board of Directors (the Board). Please refer to the Response Coupon for more instructions.

How can I attend the meeting?

If you wish to attend the meeting, please mark Option 1 on the Response Coupon, and send the completed, signed and dated Response Coupon to Logitech using the enclosed postage paid envelope by August 21, 2009. We will send you an admission card for the meeting. If an admission card is not received by you prior to the meeting and you are a registered shareholder as of August 27, 2009, you may attend the meeting by presenting proof of identification at the meeting.

Can I have another person represent me at the meeting?

Yes. If you would like someone other than either Logitech or the Independent Representative to represent you at the meeting, please mark Option 2 on the Response Coupon and provide the name and address of the person you want to represent you. Please return the completed, signed and dated Response Coupon to Logitech using the enclosed postage paid envelope by August 21, 2009. We will send an admission card for the meeting to your representative. If the name and address instructions you provide are not clear Logitech will send the admission card to you, and you must forward it to your representative.

Can I sell my shares before the meeting if I have voted?

Logitech does not block the transfer of shares before the meeting. However, if you sell your Logitech shares before the meeting and Logitech's Share Registrar is notified of the sale, your votes with those shares will not be counted. Any person who purchases shares after the Share Register closes on Thursday, August 27, 2009 will not be able to register them until the day after the meeting and so will not be able to vote the shares at the meeting.

If I vote by proxy using the Response Coupon, can I change my vote after I have voted?

You may change your vote at any time before the final vote at the meeting. You may revoke your vote by requesting a new Response Coupon from us, and we will cancel your prior Response Coupon. If you wish to vote again you may complete the new Response Coupon and return it to us, or you may attend the meeting and vote in person. However, your attendance at the meeting will not automatically revoke your Response Coupon unless you vote again at the meeting or specifically request in writing that your prior Response Coupon be revoked.

If I vote by proxy using the Response Coupon, what happens if I do not give specific voting instructions?

If you are a registered shareholder and sign and return a Response Coupon without giving specific voting instructions for some or all agenda items, your voting rights will be exercised in favor of the Proposals of the Board of Directors. In addition, if you provide discretionary voting instructions in the Response Coupon, and other matters are properly presented for voting at the meeting, your voting rights will be exercised in favor of the recommendations of the Board of Directors at the meeting on such matters.

In addition, if your shares are represented at the meeting by an institution subject to the Swiss Federal Law on Banks and Savings Institutions, or by a professional asset manager subject to Swiss jurisdiction, and if you do not provide the institution or asset manager with general or specific voting instructions, the institution or asset manager will be obliged under Swiss law to exercise the voting rights of your shares in the manner recommended by the Board of Directors.

Who can I contact if I have questions?

If you have any questions or need assistance in voting your shares, please call us at +1-510-713-4220 or e-mail us at *investorrelations@logitech.com*.

FURTHER INFORMATION FOR U.S. OR CANADIAN "STREET NAME" BENEFICIAL OWNERS

Why did I receive a one-page notice in the mail regarding the Internet availability of proxy materials this year instead of a full set of proxy materials?

We have provided access to our proxy materials over the Internet to beneficial owners holding their shares in "street name" through a U.S. or Canadian broker, trustee or nominee. Accordingly, such brokers, trustees or nominees are forwarding a Notice of Internet Availability of Proxy Materials (the "Notice") to such beneficial owners. All such shareholders will have the ability to access the proxy materials on a website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found on the Notice. In addition, beneficial owners holding their shares in street name through a U.S. or Canadian broker, trustee or nominee may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

How can I get electronic access to the proxy materials?

The Notice will provide you with instructions regarding how to:

- View our proxy materials for the meeting on the Internet; and
- Instruct us to send our future proxy materials to you electronically by email.

Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you and will reduce the impact of our annual shareholders meetings on the environment. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Who may provide voting instructions for the meeting?

For purposes of U.S. or Canadian beneficial shareholder voting, shareholders holding shares through a U.S. or Canadian broker, trustee or nominee organization on July 13, 2009 may direct the organization on how to vote. Logitech has made arrangements with a service company to U.S. and Canadian brokers, trustees and nominee organizations for that service company to provide a reconciliation of share positions of U.S. and Canadian street name beneficial owners between July 13, 2009 and August 19, 2009, which Logitech determined is the last practicable date before the meeting for such a reconciliation. These arrangements are intended to result in the following adjustments: If a U.S. or Canadian street name beneficial owner as of July 13, 2009 votes but subsequently sells their shares before August 19, 2009, their votes will be cancelled. A U.S. or Canadian street name beneficial owner as of July 13, 2009 that has voted and subsequently increases or decreases their shareholdings but remains a beneficial owner as of August 19, 2009 will have their votes increased or decreased to reflect their shareholdings as of August 19, 2009.

If you acquire Logitech shares in street name after July 13, 2009 through a U.S. or Canadian broker, trustee or nominee, and wish to vote at the meeting or provide voting instructions by proxy, you must become a registered shareholder. You may become a registered shareholder by contacting your broker, trustee or nominee, and following their registration instructions. In order to allow adequate time for registration, for proxy materials to be sent to you, and for your voting instructions to be returned to us before the meeting, please begin the registration process as far before August 27, 2009 as possible.

If I am a U.S. or Canadian street name beneficial owner, how do I vote?

If you are a beneficial owner of shares held in street name and you wish to vote in person at the meeting, you must obtain a valid proxy from the organization that holds your shares.

If you do not wish to vote in person, you may vote by proxy. You may vote by proxy over the Internet, or if you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone by following the instructions provided in the Notice.

What happens if I do not give specific voting instructions?

If you are a beneficial owner of shares held in street name in the United States or Canada and do not provide your broker, trustee or nominee with specific voting instructions, then under the rules of various national and regional securities exchanges, your broker, trustee or nominee may generally vote on routine matters but cannot vote on non-routine matters. If the organization that holds your shares does not receive instructions from you on how to vote your shares on a non-routine matter, your shares will not be voted on such matter and will not be considered votes cast on the applicable Proposal. We encourage you to provide voting instructions to the organization that holds your shares by carefully following the instructions provided in the Notice. We believe the following Proposals will be considered non-routine: Proposal 2 (Appropriation of retained earnings without payment of a dividend), Proposal 3 (Advisory vote on compensation philosophy, policies and practices), and Proposal 4 (Increase of the number of shares available for issuance under the 2006 Stock Incentive Plan). All other Proposals involve matters that we believe will be considered routine. Any broker non-votes on any Proposals will not be considered votes cast on the Proposal.

What is the deadline for delivering my voting instructions?

If you hold your shares through a U.S. or Canadian bank or brokerage or other custodian you have until 11:59 pm (U.S. Eastern Daylight Time) on August 28, 2009 to deliver your voting instructions.

Can I change my vote after I have voted?

You may revoke your proxy and change your vote at any time before the final vote at the meeting. You may vote again on a later date on the Internet or by telephone (only your latest Internet or telephone proxy submitted prior to the meeting will be counted), or by signing and returning a new proxy card with a later date, or by attending the meeting and voting in person, if you have a legal proxy that allows you to attend the meeting and vote. However, your attendance at the Annual General Meeting will not automatically revoke your proxy unless you vote again at the meeting or specifically request in writing that your prior proxy be revoked.

FURTHER INFORMATION FOR SHAREHOLDERS WITH SHARES REGISTERED THROUGH A BANK OR BROKERAGE AS CUSTODIAN (OUTSIDE THE U.S. OR CANADA)

How do I vote by proxy if my shares are registered through my bank or brokerage as custodian?

Your broker, trustee or nominee should have enclosed or provided voting instructions for you to use in directing the broker, trustee or nominee how to vote your shares. If you did not receive such instructions you must contact your bank or brokerage for their voting instructions.

What is the deadline for delivering my voting instructions if my Logitech shares are registered through my bank or brokerage as custodian?

Banks and brokerages typically set deadlines for receiving instructions from their account holders. Outside of the U.S. and Canada, this deadline is typically two to three days before the deadline of the company holding the general meeting. This is so that the custodians can collect the voting instructions and pass them onto the company holding the meeting. If you hold Logitech shares through a bank or brokerage outside the U.S. or Canada please check with your bank or brokerage for their specific voting deadline and submit your voting instructions to them as far before the meeting date as possible.

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OTHER MEETING INFORMATION

Further Information for Depositary representatives

Institutions subject to the Swiss Federal Law on Banks and Savings Banks, as well as professional asset managers, are obliged to inform Logitech of the number and par value of the registered shares they represent.

Meeting Proposals

There are no other matters that the Board intends to present, or has reason to believe others will present, at the Annual General Meeting. If other matters are properly presented for voting at the meeting, and you have provided discretionary voting instructions in the Response Coupon or your voting instruction card, your shares will be voted in accordance with the recommendations of the Board of Directors at the meeting on such matters.

Proxy Solicitation

We will bear the expense of soliciting proxies, and we have retained Georgeson, Inc. to solicit proxies for a fee of $15,000 plus a reasonable amount to cover expenses. Certain of our directors, officers and other employees, without additional compensation, may also solicit proxies personally or in writing, by telephone, e-mail or otherwise, or we may ask our proxy solicitor to solicit votes and proxies on our behalf by telephone for a fee of $5.00 per phone call, plus reasonable expenses. In the United States we are required to request that brokers and nominees who hold shares in their names furnish our proxy material to the beneficial owners of the shares, and we must reimburse such brokers and nominees for the expenses of doing so in accordance with certain U.S. statutory fee schedules.

Tabulation of Votes

Representatives of at least two Swiss banks will serve as scrutineers of the vote tabulations at the meeting. As is typical for Swiss companies, our Share Registrar will tabulate the voting instructions of registered shareholders that are provided in advance of the meeting.

Shareholder Proposals and Nominees

Shareholder Proposals for 2009 Annual General Meeting

Under our Articles of Incorporation, one or more registered shareholders who together represent shares representing at least the lesser of (i) one percent of our issued share capital or (ii) an aggregate par value of one million Swiss francs may demand that an item be placed on the agenda of a meeting of shareholders. Any such proposal must be included by the Board in our materials for the meeting. A request to place an item on the meeting agenda must be in writing, describe the proposal and be received by our Board of Directors at least 60 days prior to the date of the meeting. The deadline to receive proposals for the agenda for the September 1, 2009 Annual General Meeting was July 2, 2009. However, under Swiss law registered shareholders, or persons holding a valid proxy from a registered shareholder, may propose alternatives to items on the 2009 Annual General Meeting agenda before or at the meeting.

Shareholder Proposals for 2010 Annual General Meeting

A registered shareholder that satisfies the minimum shareholding requirements in the Company's Articles of Incorporation may demand that an item be placed on the agenda for our 2010 meeting of shareholders by delivering a written request describing the proposal to the Secretary of Logitech at our principal executive office in either Switzerland or the United States no later than July 9, 2010. In addition, if you are a registered shareholder and satisfy the shareholding requirements under Rule 14a-8 of the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), you may submit a proposal for consideration by the Board of Directors for inclusion in the 2010 Annual General Meeting agenda by delivering a request and a description of the proposal to the Secretary of Logitech at our principal executive office in either Switzerland or the United States no later than May 9, 2010. The proposal will need to comply with Rule 14a-8 of the Exchange Act, which lists the requirements for the inclusion of shareholder proposals in company-sponsored proxy materials under U.S. securities laws. Under the Company's Articles of Incorporation only registered shareholders are recognized as Logitech shareholders. As a result, if you are not a registered shareholder you may not make proposals for the 2010 Annual General Meeting.

Nominations of Director Candidates

Nominations of director candidates by registered shareholders must follow the rules for shareholder proposals above.

Provisions of Articles of Incorporation

The relevant provisions of our Articles of Incorporation regarding the right of one or more registered shareholders who together represent shares representing at least the lesser of (i) one percent of our issued share capital or (ii) an aggregate par value of one million Swiss francs to demand that an item be placed on the agenda of a meeting of shareholders are available on our website at *http://ir.logitech.com*. You may also contact the Secretary of Logitech at our principal executive office in either Switzerland or the United States to request a copy of the relevant provisions of our Articles of Incorporation.

AGENDA PROPOSALS AND EXPLANATIONS

A. REPORTS

Report on Operations for the Fiscal Year Ended March 31, 2009

Senior management of Logitech International S.A. will provide the Annual General Meeting with a presentation and report on operations of the Company for fiscal year 2009.

B. PROPOSALS

Proposal 1

Approval of the Annual Report, the Compensation Report, the Consolidated Financial Statements and the Statutory Financial Statements of Logitech International S.A. for Fiscal Year 2009

Proposal

The Board of Directors proposes that the Annual Report, the Compensation Report, the consolidated financial statements and the statutory financial statements of Logitech International S.A. for fiscal year 2009 be approved.

Explanation

The Logitech consolidated financial statements and the statutory financial statements of Logitech International S.A. for fiscal year 2009 are contained in Logitech's Annual Report which was distributed to all registered shareholders with this Invitation and Proxy Statement. The Annual Report also contains the report of Logitech's auditors, the report of the statutory auditors and additional information on the Company's business, organization and strategy, and information relating to corporate governance as required by the SIX Swiss Exchange directive on corporate governance. The Compensation Report is included in this Invitation and Proxy Statement. Copies of the Annual Report and the Invitation and Proxy Statement are available on the Internet at *ir.logitech.com*.

Under Swiss law the annual report and financial statements of Swiss companies must be submitted to shareholders for approval or disapproval at each annual general meeting. The submission of the compensation report to a vote of shareholders as part of the approval of the annual report is a suggested best practice under applicable Swiss best corporate governance principles published by economiesuisse, a leading Swiss business organization. In the event of a negative vote on this proposal by shareholders the Board of Directors will call an extraordinary general meeting of shareholders for re-consideration of this proposal by shareholders. Approval of this proposal does not constitute approval or disapproval of any of the individual matters referred to in the Annual Report, the Compensation Report or the consolidated or statutory financial statements for fiscal year 2009.

PricewaterhouseCoopers S.A., as Logitech auditors, issued an unqualified recommendation to the Annual General Meeting that the Logitech consolidated and Logitech International S.A. financial statements be approved. PricewaterhouseCoopers S.A. express their opinion that the "consolidated financial statements for the year ended March 31, 2009 present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with accounting principles generally accepted in the United States of America (US GAAP) and comply with Swiss law." They further express their opinion and confirm that the financial statements and the proposed appropriation of available earnings comply with Swiss law and the articles of incorporation of Logitech International S.A.

Voting Requirement to Approve Proposal

The affirmative FOR vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions.

Recommendation

The Board of Directors recommends a vote FOR approval of the Annual Report, the Compensation Report, the consolidated financial statements and the statutory financial statements of Logitech International S.A. for fiscal year 2009.

Proposal 2

Advisory vote on compensation philosophy, policies and practices

Proposal

The Board of Directors proposes that shareholders approve, on an advisory basis, Logitechs compensation philosophy, policies and practices as set out in the Compensation Discussion and Analysis section of the Compensation Report for fiscal year 2009.

Explanation

At Logitechs 2008 Annual General Meeting the Logitech Board of Directors asked shareholders to approve the 2008 Compensation Report as part of shareholders approval of Logitechs 2008 annual report and financial statements. This year, the Board is also asking for an advisory vote on compensation philosophy, policies and practices as a reflection of evolving best practices in corporate governance in Switzerland and in the United States. This advisory vote is non-binding; however, the Board and the Compensation Committee of the Board will consider the voting results and seek to determine the causes of any significant negative voting result.

As discussed in the Compensation Discussion and Analysis section of Logitechs 2009 Compensation Report, Logitech has designed its compensation programs to attract, retain and motivate the high caliber of executives, managers and staff that is critical to the long-term success of its business. More specifically, Logitechs executive compensation programs have been designed to:

- be competitive with comparable companies in the industry and in the region where the executive is based to attract and retain top talent;
- maintain a balance between fixed and variable compensation and place a significant portion of total compensation at risk based on Logitechs performance;
- align executive compensation with shareholders interests by tying a significant portion of compensation to increasing share value;
- support a performance-oriented environment that rewards superior performance; and
- reflect the Compensation Committee s assessment of an executive s role and past performace through base salary and short-term incentives, and his or her potential for future contribution to Logitech through long-term equity incentive awards.

Logitechs compensation philosophy and compensation components for employees below the executive level are also set out in the Compensation Discussion and Analysis section of the Compensation Report.

While compensation is a central part of attracting, retaining and motivating the best executives and employees, we believe it is not the sole or exclusive reason why exceptional executives or employees choose to join and stay at Logitech, or why they work hard to achieve results for shareholders. In this regard, both the Compensation Committee and management believe that providing a working environment and opportunties in which executives and employees can develop, express their individual potential, and make a difference, are also a key part of Logitech’s success in attracting, retaining and motivating executives and employees.

The Compensation Committee of the Board has developed a compensation program that is described more fully in the Compensation Discussion and Analysis section of this Invitation and Proxy Statement. The Compensation Discussion and Analysis section extends from the beginning of the Compensation Report until the beginning of the section titled “Summary Compensation Table for Fiscal Year 2009.”

Voting Requirement to Approve Proposal

The affirmative “FOR” vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions.

Recommendation

The Board of Directors recommends a vote “FOR” approval, on an advisory basis, of Logitech’s compensation philosophy, policies and practices as set out in the “Compensation Discussion and Analysis” section of the Compensation Report for fiscal year 2009.

Proposal 3

Appropriation of Retained Earnings Without Payment of a Dividend

Proposal

The Board of Directors proposes that no dividend be distributed with respect to retained earnings for fiscal year 2009 and that CHF 354,924,000 (US $[   ] based on exchange rates on June 30, 2009) of retained earnings be carried forward.

(all numbers in thousands)

Retained earnings at beginning of fiscal year 2009	CHF	316,586
Appropriation of retained earnings resolved by the 2008 Annual General Meeting- Dividend	CHF	—
Attribution to reserve for treasury shares	CHF	11,062
Net income for fiscal year 2009	CHF	27,276
Retained earnings at the disposal of the Annual General Meeting at the end of fiscal year 2009	CHF	354,924

Explanation

Under Swiss law the use of retained earnings must be submitted to shareholders for approval or disapproval at each annual general meeting. The retained earnings at the disposal of Logitech shareholders at the 2009 Annual General Meeting are the earnings of Logitech International S.A., the Logitech parent holding company.

The Board of Directors continues to believe that it is in the best interests of Logitech and its shareholders to retain Logitech’s earnings for future investment in the growth of Logitech’s business, for share repurchases, and for the possible acquisition of other companies or lines of business. Accordingly, the Board is proposing that no dividend be paid to shareholders and all retained earnings at the disposal of the Annual General Meeting be carried forward.

In the event of a negative vote on this proposal by shareholders, the Board of Directors will take the vote of the shareholders into consideration, and call an extraordinary general meeting of shareholders for re-consideration by shareholders of this proposal or a revised proposal.

Voting Requirement to Approve Proposal

The affirmative FOR vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions.

Recommendation

The Board of Directors recommends a vote FOR approval of the appropriation of retained earnings without the payment of a dividend.

Proposal 4

Increase of the number of shares available for issuance under the 2006 Stock Incentive Plan

Proposal

The Board of Directors proposes shareholders approve that an additional 5 million shares be authorized for issuance under the Company's 2006 Stock Incentive Plan.

Explanation

Logitech's 2006 Stock Incentive Plan provides Logitech the ability to offer equity compensation incentives to employees and directors. The purpose of the plan is to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to our employees and directors and to promote the success of our business. The Board of Directors believes that the continued ability to offer a competitive equity incentive program is important to attract, motivate and retain the employee talent needed for Logitech's long-term success.

The plan provides for the grant of stock options, stock appreciation rights, restricted shares and restricted stock units, any or all of which may be made contingent upon the achievement of performance criteria. As of June 30, 2009 we have [ ] shares remaining for issuance under the plan of the 14 million shares previously authorized by shareholders in June 2006. We estimate that this remaining pool will be exhausted before the 2010 Annual General Meeting. As a result, the Board is seeking shareholder approval to increase the number of shares available under the plan at the 2009 Annual General Meeting. The table below sets out the shares currently available under the plan and if this proposal is approved.

2006 Stock Incentive Plan Share Reservation

Initial shares authorized under the 2006 Stock Incentive Plan	14.00 million
Shares awarded from June 2006 through June 30, 2009	([ ] million)
Additional shares requested under this amendment	5.00 million
Estimated total shares available for issuance	[ ] million

If this proposal is approved by shareholders only the number of shares available for issuance under the plan will change. The Board is not proposing an increase to the Company's conditional capital for Logitech's employee equity incentive plans. Since 2000 Logitech has used shares held in treasury from its share repurchase programs to cover its issuance obligations under employee equity incentive grants, including grants made under the 2006 Stock Incentive Plan. It expects to continue to do so.

Background on Equity Incentive Compensation at Logitech

Logitech has granted equity incentives to employees since its very earliest days in the 1980s. The use of equity compensation in part reflects market practice, especially in California's Silicon Valley, where the Company has a significant presence. However, it is also a key differentiator in attracting and retaining employees in employment markets outside of the United States where, historically, equity incentive compensation was not or is not common. The Board of Directors believes that having the ability to offer equity incentives continues to be a key part of Logitech's compensation program and the Company's long-term success.

Key Terms of the 2006 Stock Incentive Plan

For convenience, the key terms of the plan are summarized below. The summary is qualified in its entirety by the specific language of the plan, which is available as an exhibit to our Registration Statement on Form S-8 filed with the Securities and Exchange Commission on February 2, 2007, available at *http://www.sec.gov.*

Shares Available Under the Plan

If shareholders approve this proposal, we will add 5 million shares to the 2006 Stock Incentive Plan for a total of [ ] million shares. On June 30, 2009, options to purchase a total of [ ] shares, performance-based restricted stock units representing the right to acquire a total of [ ] shares (assuming 100% achievement of performance goals), and restricted stock units representing the right to acquire a total of [ ] shares were outstanding under the plan. The outstanding stock options had a weighted average exercise price of $[ ] per share. On June 30, 2009, [ ] Logitech shares remained available for future issuance under the plan.

If an award expires or is terminated or canceled without having been exercised or settled in full, or is forfeited back to or repurchased by us, the terminated portion of the award (or forfeited or repurchased shares subject to the award) will become available for future grant or sale under the plan (unless the plan has terminated). Shares are not deemed to be issued under the plan with respect to any portion of an award that is settled in cash or to the extent such shares are withheld in satisfaction of tax withholding obligations. If the exercise or purchase price of an award is paid for through the tender of shares, or tax withholding obligations are met through the tender or withholding of shares, those shares tendered or withheld will again be available for issuance under the plan.

Administration of the Plan

The Board of Directors, or the Compensation Committee, which is made up entirely of independent directors, administers the plan and is referred to below as the administrator. The administrator selects the Logitech employees who receive awards, determines the number of shares covered by the awards, and, subject to the terms and limitations in the plan, establishes the terms, conditions and other provisions of the grants. The administrator may interpret the plan and establish, amend and rescind any rules relating to the plan. The administrator may delegate to a committee of one or more directors the ability to grant awards and take certain other actions with respect to participants who are not executive officers, and may delegate certain administrative or ministerial functions under the plan to an officer or officers.

Eligibility

All full-time and part-time employees of the Logitech group, where legally eligible to participate, and non-employee directors of the Company, are eligible to receive awards under the plan. As of June 30, 2009, we had [ ] employees and ten directors (including two employee directors).

Limitation

No employee may be granted, in any fiscal year, stock options or stock appreciation rights covering more than 6 million shares, or restricted shares or stock unit awards covering more than 4 million shares. These limitations in the plan are necessary in order to preserve our ability to deduct compensation associated with certain awards granted to our executive officers in the United States. This limit is substantially greater than the number of awards that Logitech has granted to any individual in any past fiscal year. Logitech does not currently intend to grant any award approaching these limits.

Stock Options

A stock option is the right to purchase Logitech shares at a fixed exercise price for a fixed period of time. Each option is evidenced by a stock option agreement and is subject to the following terms and conditions:

Number of Options. The administrator will determine the number of shares granted to any eligible individual pursuant to a stock option.

Exercise Price. The administrator will determine the exercise price of options granted under our plan at the time the options are granted, but the exercise price generally must be at least equal to the fair market value of Logitech shares on the date of grant. The market value on the date of grant may also be determined based on an average of trading prices in a period before or after the date of grant. The fair market value of our shares generally is determined with reference to the closing sale price for Logitech shares on the day the option is granted on either the SIX Swiss Exchange (for options denominated in Swiss francs) or the Nasdaq Global Select Market (for options denominated in U.S. dollars). As of June 30, 2009, the closing price of Logitech shares was CHF [   ] per share on the SIX Swiss Exchange and $[   ] per share on the Nasdaq Global Select Market.

Exercise of Option; Form of Consideration. The administrator determines when options become exercisable, and may in its discretion, accelerate the vesting of any outstanding option. The means of payment for shares issued upon exercise of an option is specified in each option agreement. To the extent permitted by applicable law, the plan permits payment to be made by cash, cash equivalents, promissory note, other Logitech shares (with some restrictions), cashless exercises, any combination of the prior methods of payment or any other form of consideration permitted by applicable law.

Term of Option. The term of stock options will be stated in the stock option agreement. However, the term of an incentive stock option may not exceed ten years. No option may be exercised after the expiration of its term.

Termination of Service. After termination of service, an option holder may exercise his or her option for the period of time determined by the administrator and stated in the option agreement. If no period of time is stated in a participant's award agreement, a participant may exercise the option within ninety days after such termination, to the extent that the option is vested on the date of termination (but in no event later than the expiration of the term of such option as set forth in the option agreement), unless such participant's service terminates due to the participant's death or disability, in which case the participant or, if the participant has died, the participant's estate, beneficiary designated in accordance with the administrator's requirements or the person who acquires the right to exercise the option by bequest or inheritance may exercise the option, to the extent the option was vested on the date of termination (or to the extent the vesting is accelerated upon the participant's death), within one year after the date of such termination.

Stock Appreciation Rights. A stock appreciation right is the right to receive the appreciation in the fair market value of Logitech shares between the grant date and the exercise date, for that number of Logitech shares with respect to which the stock appreciation right is exercised. Logitech may pay the appreciation in either cash, in Logitech shares with equivalent value, or in some combination, as determined by the administrator. Each award of stock appreciation rights is evidenced by an award agreement specifying the terms and conditions of the award. The administrator determines the exercise price of stock appreciation rights, the vesting schedule and other terms and conditions of stock appreciation rights, except that the exercise price must be at least equal to the fair market value of Logitech shares on the date of grant. The administrator also determines the number of shares granted to a service provider pursuant to a stock appreciation right.

After termination of service, a participant will be able to exercise the vested portion of his or her stock appreciation right for the period of time determined by the administrator and stated in the award agreement. If no period of time is stated in a participant's award agreement, a participant or, in the case of death, his or her estate or beneficiary, will generally be able to exercise his or her vested stock appreciation rights for (i) 90 days after his or her termination for reasons other than death or disability, and (ii) one year following his or her termination due to death or disability. In no event may a stock appreciation right be exercised later than the expiration of its term.

Restricted Shares. Restricted share awards are awards of Logitech shares that vest in accordance with terms and conditions established by the administrator. The administrator may impose whatever conditions to vesting it determines to be appropriate. Each award of restricted shares is evidenced by an award agreement specifying the terms and conditions of the award. The administrator will determine the number of restricted shares granted to any employee. The administrator also determines the purchase price of any grants of restricted shares and, unless the administrator determines otherwise, shares that do not vest typically will be subject to forfeiture or to our right of repurchase, which we may exercise upon the voluntary or involuntary termination of the purchaser's service with us for any reason including death or disability.

Restricted Stock Units (including Performance-Based Restricted Stock Units). Restricted stock units are awards that represent the right to receive Logitech shares or cash equal to the value of Logitech shares, or some combination of both as determined by the administrator, if the restricted stock units vest. Restricted stock units vest in accordance with terms and conditions established by the administrator. The administrator may impose whatever conditions to vesting it determines to be appropriate in the award agreement specifying the terms and conditions of the award. These conditions can be continued employment, the passage of time, or performance criteria and the level of achievement against performance criteria. Restricted stock units that are subject to performance conditions are referred to as performance-based restricted stock units. No condition that is based on performance criteria and level of achievement against the criteria may be based on performance over a period of less than one year. The award agreement may provide for the forfeiture or cancellation of the restricted stock units, in whole or in part, in the event of termination of the participant's service.

Performance Goals

The administrator (in its discretion) may make performance goals applicable to an award under the plan. One or more of the following performance goals may apply: brand recognition/acceptance, cash flow, cash flow return on investment, contribution to profitability, cost control, cost positions, cost of capital, customer satisfaction, development of products, earnings before interest, taxes and amortization; earnings per share, economic profit, economic value added, free cash flow, income or net income, income before income taxes, market segment share, new product innovation, operating income or net operating income, operating margin or profit margin, operating profit or net operating profit, process excellence, product cost reduction, product mix, product release schedules, product ship targets, quality, return on assets or net assets, return on capital, return on capital employed, return on equity, return on invested capital, return on operating revenue, return on sales, revenue, sales, share price performance, strategic alliances, total shareholder return, and working capital. The performance goals may differ from participant to participant and from award to award and may be used in any combination. Any criteria used may be applied to the Logitech group as a whole, or to a business unit or a subsidiary, either individually or in any combination, and measured either annually or cumulatively over a period of years. Performance goals may be measured, as applicable, in absolute terms or in relative terms (including against prior years' results and/or against a comparison group).

The administrator may adjust any evaluation of performance against a performance goal to exclude any of the following events: asset write-downs, litigation or claim judgments or settlements; the effect of changes in tax law, accounting principles or other laws or provisions affecting reported results, accruals for reorganization and restructuring programs and any extraordinary non-recurring items. If specified in the award agreement, the administrator may also reduce the benefits under an award despite the achievement of performance goals on the basis of considerations that the administrator may determine in its discretion.

Adjustments upon Changes in Capitalization

In the event that Logitech shares or other securities change by reason of a stock dividend, stock split, combination or reclassification of shares, extraordinary dividend of cash or assets, recapitalization, reorganization or any similar event affecting the Logitech shares or other securities, the administrator will make adjustments to the number and kind of Logitech shares or other securities subject to the plan or subject to awards previously granted, and the exercise or settlement price of awards previously granted, in order to reflect the change and to preclude a dilution or enlargement of benefits under an award.

Adjustments upon Liquidation or Dissolution

In the event of our liquidation or dissolution, any unexercised award will terminate. The administrator may, in its discretion, provide that each participant will have the right to exercise all or any part of the award, including shares as to which the award would not otherwise be exercisable.

Adjustments upon Merger or Change in Control

In the event Logitech is a party to a merger, consolidation or reorganization, or the sale of substantially all of its assets, then each outstanding award will be subject to the applicable agreement, which must provide for one or more of the following: the continuation, assumption, or substitution of outstanding awards; full exercisability or vesting of outstanding awards (which may be contingent on the closing of the transaction); or the cancellation of outstanding awards and the payment to the participant in cash or shares of an amount equal to the gain or value of the shares subject to the award on the transaction closing date (which payment may be made subject to continued vesting).

Nontransferability of Awards

Unless otherwise determined by the administrator, awards granted under the plan are not transferable other than by will, by beneficiary designation or the laws of descent and distribution, and may be exercised during the participant's lifetime only by the participant. If the administrator makes an award transferable, the award shall contain such additional terms and conditions as the administrator deems appropriate.

Plan Amendment and Termination of the Plan

The plan will automatically terminate in 2016, unless we terminate it sooner. In addition, the Logitech Board of Directors has the authority to amend, alter, suspend or terminate the plan, but no amendment, alteration, suspension or termination may impair the rights of any participant under an existing award, unless agreed otherwise between the participant and the administrator.

Plan Benefits

The amount and timing of awards granted under the plan are determined in the sole discretion of the administrator and therefore cannot be determined in advance. The future awards that would be received under the plan by executive officers and other employees are discretionary and are therefore not determinable at this time.

U.S. Tax Consequences

The federal tax rules applicable to the plan under the U.S. Tax Code are summarized below. This summary does not include the tax laws of any municipality, state or country outside the United States in which a participant resides.

Stock Options

An optionee does not recognize any taxable income at the time he or she is granted a stock option. Upon exercise, the optionee recognizes taxable income generally measured by the excess of the then fair market value of the shares over the exercise price. Any taxable income recognized in connection with an option exercise by an employee is subject to tax withholding. Unless limited by Section 162(m) of the U.S. Tax Code, Logitech Inc., the Company's U.S. operating subsidiary, is generally entitled to a deduction in the same amount as the ordinary income recognized by the optionee. Upon a disposition of the shares by the optionee, any difference between the sale price and the optionee's exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

Restricted Shares, Performance-Based Restricted Stock Units and Restricted Stock Units

A participant generally will not have taxable income at the time an award of restricted shares, performance-based restricted stock units or restricted stock units are granted. Instead, he or she will recognize ordinary income in the first taxable year in which his or her interest in the shares underlying the award becomes either (i) freely transferable or (ii) no longer subject to substantial risk of forfeiture (e.g., vested). However, a holder of a restricted shares award may elect to recognize income at the time he or she receives the award in an amount equal to the fair market value of the shares underlying the award less any amount paid for the shares on the date the award is granted.

Stock Appreciation Rights

No taxable income is reportable when a stock appreciation right is granted to a participant. Upon exercise, the participant will recognize ordinary income in an amount equal to the amount of cash received and the fair market value of any shares received. Any additional gain or loss recognized upon any later disposition of the shares would be capital gain or loss.

Logitech Inc., the Company’s U.S. operating subsidiary, generally will be entitled to a tax deduction in connection with an award under the plan in an amount equal to the ordinary income realized by a participant subject to U.S. taxation and at the time such participant recognizes such income (for example, the exercise of a stock option). Special rules limit the deductibility of compensation paid to executive officers in the United States. Under Section 162(m) of the U.S. Tax Code, the annual compensation paid to executive officers in the U.S. may not be deductible to the extent it exceeds $1,000,000. However, Logitech Inc. can preserve the deductibility of certain compensation in excess of $1,000,000 if the conditions of Section 162(m) of the U.S. Tax Code are met. These conditions include shareholder approval of the plan and setting limits on the number of awards that any individual may receive per year. The plan has been designed to permit the administrator to grant awards that qualify as performance-based for purposes of satisfying the conditions of Section 162(m) of the U.S. Tax Code, which permits Logitech Inc. to continue to receive a federal income tax deduction in connection with such awards.

Voting Requirement to Approve Proposal

The affirmative “FOR” vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions.

Recommendation of the Board

The Board of Directors recommends a vote “FOR” approval to increase by 5 million shares the number of shares available for issuance under the 2006 Stock Incentive Plan.

Proposal 5

Release of the Board of Directors and Executive Officers for Activities During Fiscal Year 2009

Proposal

The Board of Directors proposes that shareholders release the members of the Board of Directors and Executive Officers for liability for activities during fiscal year 2009.

Explanation

As is customary for Swiss corporations and in accordance with Article 698, subsection 2, item 5 of the Swiss Code of Obligations, shareholders are requested to release the members of the Board of Directors and the Executive Officers from liability for their activities during fiscal year 2009. This release excludes liability claims brought by the Company or shareholders against the members of the Board of Directors or Executive Officers for activities carried out during fiscal year 2009 relating to facts that have been disclosed to shareholders, except that registered shareholders that do not vote in favor of the proposal are not bound by the result for a period ending six months after the vote.

Voting Requirement to Approve Proposal

The affirmative FOR vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions and not counting the votes of any member of the Board of Directors, any Logitech executive officers or any votes represented by Logitech.

Recommendation

The Board of Directors recommends a vote FOR the proposal to release the members of the Board of Directors and Executive Officers for liability for activities during fiscal year 2009.

Proposal 6

Elections to the Board of Directors

Our Board of Directors is presently composed of ten members. Each director serves a three-year term, with the terms of the directors staggered so that not all directors are up for election in any one year. This is a recommended practice under the Swiss Code of Best Practice for Corporate Governance, in order to help ensure continuity among the Board.

At the recommendation of the Nominating Committee, the Board has nominated the two individuals below to serve as directors for the three-year term beginning as of the Annual General Meeting on September 1, 2009. Both nominees currently serve as members of the Board of Directors. Their current terms expire on the date of the Annual General Meeting on September 1, 2009.

There will be a separate vote on each nominee.

If any director nominee is unable or unwilling to serve as a nominee at the time of the Annual General Meeting, registered shareholders at the meeting or represented at the meeting by the Independent Representative or third parties may vote either for: (1) a substitute nominee designated by the present Board to fill the vacancy; or (2) another substitute nominee. Under Swiss law Board members may only be appointed by shareholders and so if there is no substitute nominee and the individuals below are elected the Board will consist of ten members. The Board has no reason to believe that any of our nominees will be unwilling or unable to serve if elected as a director.

For further information on the Board of Directors, including the current members of the Board, the Committees of the Board, the means by which the Board exercises supervision of Logitechs executive officers, and other information, please see Corporate Governance and Board of Directors Matters below.

6.1 Re-election of Mr. Erh-Hsun Chang

Proposal: The Board of Directors proposes that Mr. Erh-Hsun Chang be re-elected to the Board for a further three-year term.

Erh-Hsun Chang has been a member of the Board of Directors since June 2006. Until April 2006, Mr. Chang was the Companys Senior Vice President, Worldwide Operations and General Manager, Far East. Mr. Chang first joined Logitech in 1986 to establish its operations in Taiwan. After leaving the Company in 1988, he returned in 1995 as Vice President, General Manager, Far Eastern Area and Worldwide Operations. In April 1997, Mr. Chang was named Senior Vice President, General Manager, Far Eastern Area and Worldwide Operations. Mr. Changs other business experience includes tenure as Vice President, Manufacturing Consulting at KPMG Peat Marwick, a global professional services firm, between 1991 and 1995, and as Vice President, Sales and Marketing, Power Supply Division, of Taiwan Liton Electronics Ltd., a Taiwanese electronics company, in 1995. Mr. Chang holds a BS degree in Civil Engineering from Chung Yuang University, Taiwan, an MBA degree in Operations

Management from the University of Dallas, Texas and an MS degree in Industrial Engineering from Texas A&M University. Mr. Chang is also Vice Chairman of the Company's subsidiary in Taiwan. He is 60 years old, and is a Taiwan citizen.

The Board of Directors has determined that Mr. Chang is an independent Director.

6.2 Re-election of Mr. Kee-Lock Chua

Proposal: The Board of Directors proposes that Mr. Kee-Lock Chua be re-elected to the Board for a further three-year term.

Kee-Lock Chua has been a member of the Board of Directors since June 2000, and serves as Lead Independent Director. Mr. Chua is president and chief executive officer of the Vertex Group, a Singapore - headquartered venture capital group. Prior to joining the Vertex Group, Mr. Chua was the president and an executive director of Biosensors International Group, Ltd., a developer and manufacturer of medical devices used in interventional cardiology and critical care procedures. Previously, from 2003 to 2006, Mr. Chua was a managing director of Walden International, a U.S.-headquartered venture capital firm. From 2001 to 2003, Mr. Chua served as deputy president of NatSteel Ltd., a Singapore industrial products company active in Asia Pacific. From 2000 until 2001, Mr. Chua was the president and chief executive officer of Intraco Ltd., a Singapore-listed trading and distribution company. Prior to joining Intraco, Mr. Chua was the president of MediaRing.com Ltd., a Singapore-listed company providing voice-over-Internet services. Mr. Chua holds a BS degree in Mechanical Engineering from the University of Wisconsin, and an MS degree in Engineering from Stanford University in California. He also serves on the Board of Biosensors, Yongmao and SHC Capital, all publicly traded companies in Singapore. He is 48 years old and is a Singapore citizen.

In addition to acting as Lead Independent Director of the Board of Directors, Mr. Chua currently serves on the Compensation Committee and the Nominating Committee of the Board. The Board of Directors has determined that he is an independent Director.

Voting Requirement to Approve Proposals

The affirmative "FOR" vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions.

Recommendation

The Board of Directors recommends a vote "FOR" the election to the Board of each of the above nominees.

Proposal 7

Re-election of PricewaterhouseCoopers S.A. as Auditors

Proposal

The Board of Directors proposes that PricewaterhouseCoopers S.A. be re-elected as auditors of Logitech International S.A. for a one-year term.

Explanation

PricewaterhouseCoopers S.A., upon recommendation of the Audit Committee of the Board, is proposed for re-election for a further year as auditors for Logitech International S.A. PricewaterhouseCoopers S.A. assumed its first audit mandate for Logitech in 1988. Information on the fees paid by Logitech to PricewaterhouseCoopers S.A., as well as further information regarding PricewaterhouseCoopers S.A., is set out below under the heading "Independent Public Accountants" and "Report of the Audit Committee."

A member of PricewaterhouseCoopers S.A. will be present at the Annual General Meeting, will have the opportunity to make a statement, and will be available to respond to appropriate questions you may ask.

Voting Requirement to Approve Proposal

The affirmative “FOR” vote of a majority of the votes cast in person or by proxy at the Annual General Meeting, not counting abstentions.

Recommendation

Our Board of Directors recommends a vote “FOR” the re-election of PricewaterhouseCoopers S.A. as auditors of Logitech International S.A. for the fiscal year ending March 31, 2010.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS MATTERS

The Board of Directors is elected by the shareholders and holds the ultimate decision-making authority within Logitech, except for those matters reserved by law or by Logitech’s Articles of Incorporation to its shareholders or those that are delegated to the executive officers under the organizational regulations (also known as by-laws). The Board makes resolutions through a majority vote of the members present at the meetings. In the event of a tie, the vote of the Chairman decides.

Logitech’s Articles of Incorporation set the minimum number of directors at three. We had ten members of the Board of Directors as of June 30, 2009. If all nominees to the Board presented in Proposal 6 are elected the size of the Board will remain at ten.

BOARD OF DIRECTORS INDEPENDENCE

Each of our directors other than Daniel Borel, Guerrino De Luca and Gerald Quindlen qualifies as independent in accordance with the published listing requirements of Nasdaq and Swiss corporate governance best practices guidelines. The Board of Directors has determined that both director nominees standing for re-election at the 2009 Annual General Meeting, Erh-Hsun Chang and Kee-Lock Chua, qualify as independent. The Nasdaq independence definition includes a series of objective tests, such as that the director is not an employee of the company and has not engaged in various types of business dealings with the company. In addition, as further required by Nasdaq rules, the Board has made a subjective determination as to each independent director that no relationships exist which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making these determinations, the directors reviewed and discussed information provided by the directors and the Company with regard to each director’s business and personal activities as they may relate to Logitech and Logitech’s management. In particular, the Board considered the following information in regard to the following directors:

Erh-Hsun Chang. Until April 2006 Mr. Chang served as Logitech’s Senior Vice President, Worldwide Operations and General Manager, Far East.

Richard Laube. Mr. Laube is an executive officer of Nestlé S.A. Logitech Board member, co-founder and former Chairman, Daniel Borel, serves as Chairman of the Compensation Committee of Nestlé S.A.

Monika Ribar. Ms. Ribar is the President and Chief Executive Officer of the Panalpina Group, a Swiss freight forwarding and logistics services provider. In the ordinary course of its business, Logitech utilized the customs brokerage services of Panalpina in Logitech’s business in the Americas. Logitech paid Panalpina approximately $8.5 million for these services in fiscal year 2009. The business was awarded to Panalpina as the result of a competitive bidding process.

In each case, the Board determined that none of these facts or relationships would interfere with the exercise by Mr. Chang, Mr. Laube or Ms. Ribar of his or her independent judgment in carrying out the responsibilities of a director.

MEMBERS OF THE BOARD OF DIRECTORS

The current members of the Board of Directors are set out below.

Daniel Borel
59 Years Old
Director since 1988
Co-Founder and former CEO and Chairman, Logitech International S.A.
Swiss national

Daniel Borel is a Logitech founder and served from May 1988 until January 1, 2008 as the Chairman of the Board. From July 1992 to February 1998, he also served as Chief Executive Officer. He has held various other executive positions with Logitech. Mr. Borel holds an MS degree in Computer Science from Stanford University in California and a BE degree in Physics from the Ecole Polytechnique Fédérale, Lausanne, Switzerland. He serves on the Board of Nestlé S.A. In addition, he serves on the Board of Fondation Defitech, a Swiss foundation which contributes to research and development projects aimed at assisting the disabled, is the Chairman of the Board of SwissUp, a Swiss educational foundation promoting higher learning, and serves as President of EPFL Plus, a Swiss foundation which raises funds for the Ecole Polytechnique Fédérale de Lausanne.

Matthew Bousquette
50 Years Old
Director since 2005
Chairman, Enesco LLC
U.S. national

Matthew Bousquette is the Chairman of the Board of Enesco LLC, a U.S.-based producer of giftware and home and garden décor products. He is the former president of the Mattel Brands business unit of Mattel, Inc. Mr. Bousquette joined Mattel as senior vice president of marketing in December 1993, and was promoted to successively more senior positions at Mattel, including general manager of Boys Toys in July 1995, executive vice president of Boys Toys in May 1998, president of Boys/Entertainment in March 1999, and president of Mattel Brands from February 2003 to October 2005. Mr. Bousquette’s previous experience included various positions at Lewis Galoob Toys, Teleflora and Procter & Gamble. Mr. Bousquette earned a BBA degree from the University of Michigan.

Erh-Hsun Chang
60 Years Old
Director since 2006
Former Senior Vice President, Worldwide Operations and General Manager, Far East, Logitech
Taiwan national

Erh-Hsun Chang has been a member of the Board of Directors since June 2006. Until April 2006 Mr. Chang was the Company’s Senior Vice President, Worldwide Operations and General Manager, Far East. Mr. Chang first joined Logitech in 1986 to establish its operations in Taiwan. After leaving the Company in 1988, he returned in 1995 as Vice President, General Manager, Far Eastern Area and Worldwide Operations. In April 1997, Mr. Chang was named Senior Vice President, General Manager, Far Eastern Area and Worldwide Operations. Mr. Chang’s other business experience includes tenure as Vice President, Manufacturing Consulting at KPMG Peat Marwick, a global professional services firm, between 1991 and 1995, and as Vice President, Sales and Marketing, Power Supply Division, of Taiwan Liton Electronics Ltd., a Taiwanese electronics company, in 1995. Mr. Chang holds a BS degree in Civil Engineering from Chung Yuang University, Taiwan, an MBA degree in Operations Management from the University of Dallas, and an MS degree in Industrial Engineering from Texas A&M University. Mr. Chang is also Vice Chairman of the Company’s subsidiary in Taiwan.

Kee-Lock Chua
48 Years Old
Director since 2000
President and Chief Executive Officer, Vertex Group
Singapore national

Kee-Lock Chua is president and chief executive officer of the Vertex Group, a Singapore - headquartered venture capital group. Prior to joining the Vertex Group, Mr. Chua was the president and an executive director of Biosensors International Group, Ltd., a developer and manufacturer of medical devices used in interventional cardiology and critical care procedures. Previously, from 2003 to 2006, Mr. Chua was a managing director of Walden International, a U.S.-headquartered venture capital firm. From 2001 to 2003, Mr. Chua served as deputy president of NatSteel Ltd., a Singapore industrial products company active in Asia Pacific. From 2000 until 2001, Mr. Chua was the president and chief executive officer of Intraco Ltd., a Singapore-listed trading and distribution company. Prior to joining Intraco, Mr. Chua was the president of MediaRing.com Ltd., a Singapore-listed company providing voice-over-Internet services. Mr. Chua holds a BS degree in Mechanical Engineering from the University of Wisconsin, and an MS degree in Engineering from Stanford University in California. He also serves on the Board of Biosensors, Yongmao and SHC Capital, all publicly traded companies in Singapore.

Sally Davis
55 Years Old
Director since 2007
CEO, BT Wholesale
British national

Sally Davis is the chief executive of BT Wholesale, a position she has held since 2007. She was the Chief Portfolio Officer of British Telecom from 2005 to 2007. She had previously held senior executive roles within BT since joining the company in 1999, including President, Global Products, Global Services from 2002 to 2005, President, BT Ignite Applications Hosting from 2001 to 2002 and Director, Group Internet and Multimedia from 1999 to 2001. Before joining BT, Ms. Davis held leading roles in several major communications companies, including Bell Atlantic in the United States and Mercury Communications in the United Kingdom. Ms. Davis is a member of the Board of Directors of the Henderson Smaller Companies Investment Trust plc, a U.K. managed investment trust. She holds a BA degree from University College, London.

Guerrino De Luca
56 Years Old
Director since 1998
Chairman of the Board of Directors of Logitech International S.A.
Italian national

Guerrino De Luca has served as Chairman of the Logitech Board of Directors since January 2008. He served from February 1998 to January 2008 as Logitech's President and Chief Executive Officer, and has been a director since June 1998. Prior to joining Logitech, Mr. De Luca served as Executive Vice President of Worldwide Marketing for Apple, Inc. from February 1997 to September 1997, and as President of Claris Corporation, a U.S. personal computing software vendor, from May 1994 to February 1997.

	Prior to joining Claris, Mr. De Luca held various positions with Apple in the United States and in Europe. Mr. De Luca holds a BS degree in Electronic Engineering from the University of Rome, Italy.
Richard Laube 53 Years Old Director since 2008 Executive Vice President, Nestlé S.A. Swiss and U.S. national	*Richard Laube* is Executive Vice President of Nestlé S.A., Chief Executive Officer of Nestlé Nutrition and a member of the Nestlé Executive Board. He joined Nestlé in April 2005 as Deputy Executive Vice President, Corporate Business Development, and was appointed Deputy Executive Vice President, Chief Executive Officer of Nestlé Nutrition in November 2005. He was appointed Executive Vice President in 2008. Prior to joining Nestlé he served from 1999 to 2004 as President, Roche Consumer Health, and served on the Roche Corporate Executive Committee from 2001 to 2004. Previously, he was employed by Procter & Gamble from 1980 to 1998, serving in successively more senior roles in Switzerland, the United States, Japan, Germany and Brazil. Mr. Laube holds MA

	and BA degrees in Organizational Development and Evaluation Research from Boston University. Mr. Laube serves as Chairman of the Board of Directors of Life Ventures S.A., Nutrition-Wellness Venture AG, The Gerber Life Insurance Company and Jenny Craig Affiliated Companies, all of which are Nestlé subsidiaries.
Robert Malcolm 57 Years Old Director since 2007 Former President, Global Marketing, Sales and Innovation, Diageo plc U.S. national	*Robert Malcolm* is retired from Diageo plc, the global premium drinks company, where he served until December 2008 as the president of Global Marketing, Sales and Innovation. Reporting to the chief executive officer and a member of the Diageo Executive Committee, Mr. Malcolm had worldwide responsibility for the marketing, sales and innovation function for Diageo and direct responsibility for strategy, equity management, innovation and global orchestration for global priority brands. Mr. Malcolm joined Diageo in 1999 and his previous appointments at the company included Global Marketing director

and Global Scotch Whiskey director at UDV, a Diageo company. He was appointed president of Global Marketing, Sales and Innovation in 2000. Previous to his employment at Diageo, Mr. Malcolm held various posts at The Procter & Gamble Company from 1975 through 1999, including vice president and general manager for Beverages for Europe, Middle East and Africa; vice president and general manager Arabian Peninsula; and vice president and general manager for Personal Cleaning Products USA. Mr. Malcolm holds a BS degree and an MBA degree from the University of Southern California.

Gerald Quindlen 50 Years Old Director since 2008 President and Chief Executive Officer, Logitech International S.A. U.S. national	*Gerald Quindlen* has served as Logitech's Pr

Issuance of common stock, net of issuance costs	1,247,343	12,474	1,180,235		
Exercise of common stock warrants	1,657,802	16,578	613,387		
Surrender of common stock in connection with exercise of common stock warrants	(27,902)	(279)	(30,971)		
Exercise of common stock options	230,033	2,300	74,407		
Stock-based compensation			191,456		
BALANCE, JUNE 30, 2014	154,948,409	$1,549,484	$159,514,479	$(141,057,800)	$

See accompanying notes to the unaudited condensed consolidated financial statements.

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CASTLE BRANDS INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Three months ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,190,495)	$(1,040,461)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	216,098	213,124
Provision for doubtful accounts	(92,165)	10,500
Amortization of deferred financing costs	48,050	30,392
Change in fair value of warrant liability	--	447,251
Income tax expense (benefit), net	162,962	(37,038)
Loss from equity investment in non-consolidated affiliate	--	6,121
Effect of changes in foreign exchange	236,447	(60,340)
Stock-based compensation expense	191,456	72,533
Changes in operations, assets and liabilities:		
Accounts receivable	1,780,782	367,348
Due from affiliates	(26,555)	(71,845)
Inventory	(5,150,717)	(547,749)
Prepaid expenses and supplies	(345,426)	(344,373)
Other assets	(5,813)	(15,517)
Accounts payable and accrued expenses	(1,101,226)	571,697
Accrued interest	2,645	545
Due to related parties	57,438	424,772
Total adjustments	(4,026,024)	1,067,421
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(5,216,519)	26,960
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(76,660)	(34,999)
Acquisition of intangible assets	(5,000)	(26,981)
Change in restricted cash	(282)	(251)
Payments under contingent consideration agreements	--	(5,940)
NET CASH USED IN INVESTING ACTIVITIES	(81,942)	(68,171)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (payments on) Keltic facility	3,461,388	(19,256)
Payments on Bourbon term loan	(261,300)	--
Net proceeds from (payments on) foreign revolving credit facility	106,347	(91,080)
Proceeds from issuance of common stock	1,231,241	—
Payments for costs of stock issuance	(38,532)	—

Proceeds from exercise of common stock warrants	598,715	—
Proceeds from exercise of common stock options	76,707	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	5,174,566	(110,336)
EFFECTS OF FOREIGN CURRENCY TRANSLATION	(170)	640
NET DECREASE IN CASH AND CASH EQUIVALENTS	(124,065)	(150,907)
CASH AND CASH EQUIVALENTS — BEGINNING	908,501	439,323
CASH AND CASH EQUIVALENTS — ENDING	$784,436	$288,416
SUPPLEMENTAL DISCLOSURES:		
Schedule of non-cash investing and financing activities:		
Conversion of series A preferred stock to common stock	$--	$319,043
Interest paid	$219,765	$179,866
Income taxes paid	$35,000	$--

See accompanying notes to the unaudited condensed consolidated financial statements.

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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, 2014 is derived from the March 31, 2014 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, 2014 included in the Company's annual report on Form 10-K for the year ended March 31, 2014, as amended ("2014 Form 10-K"). Please refer to the notes to the audited consolidated financial statements included in the 2014 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. ("McLain & Kyne"), the Company's wholly-owned foreign subsidiaries, Castle Brands Spirits Group Limited ("CB-IRL") and Castle Brands Spirits Marketing and Sales Company Limited, and the Company's 60% ownership interest in Gosling-Castle Partners, Inc. ("GCP"), with adjustments for income or loss allocated based upon percentage of ownership. The accounts of the subsidiaries have been included as of the date of acquisition. All significant intercompany transactions and balances have been eliminated.

B. Organization and operations — The Company is principally engaged in the importation, marketing and sale of premium and super premium brands of rums, whiskey, liqueurs, vodka and tequila in the United States, Canada, Europe and Asia.

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

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

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

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

G. Foreign currency — The functional currency for the Company’s foreign operations is the Euro in Ireland and the British Pound in the United Kingdom. Under ASC 830, “Foreign Currency Matters”, the translation from the applicable foreign currencies to U.S. Dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. The resulting translation adjustments are recorded as a component of other comprehensive income. Gains or losses resulting from foreign currency transactions are shown as a separate line item in the consolidated statements of operations.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

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

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

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

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

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

I. Income taxes — Under ASC 740, “Income Taxes”, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. A valuation allowance is provided to the extent a deferred tax asset is not considered recoverable.

The Company has not recognized any adjustments for uncertain tax positions. The Company recognizes interest and penalties related to uncertain tax positions in general and administrative expense; however, no such provisions for accrued interest and penalties related to uncertain tax positions have been recorded by the Company.

The Company's income tax benefit for the three months ended June 30, 2014 and 2013 consists of federal, state and local taxes attributable to GCP, which does not file a consolidated income tax return with the Company. In connection with the investment in GCP, the Company recorded a deferred tax liability on the ascribed value of the acquired intangible assets of $2,222,222, increasing the value of the asset. The difference between the book basis and tax basis created a deferred tax liability that is being amortized over a period of 15 years (the life of the licensing agreement) on a straight-line basis. For the three months ended June 30, 2014, the Company recognized ($162,962) of deferred tax expense, net and for the three months ended June 30, 2013, the Company recognized $37,038 of deferred tax benefits, respectively.

J. Recent accounting pronouncements — In May 2014, the FASB issued (Accounting Standards Update ("ASU") No. 2014-09), *Revenue from Contracts with Customers*, to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016. 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 or financial condition.

In April 2014, the FASB issued ASU No. 2014-08 which provides final guidance to change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift, such as a major line of business, a major geographical area or a major equity investment, should be presented as discontinued operations. The guidance will be applied prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. The guidance is effective for annual financial statements with fiscal years beginning on or after December 15, 2014 with early adoption permitted for disposals or classifications as held for sale which have not been reported in financial statements previously issued or available for issuance. The Company will adopt the guidance effective April 1, 2015 and the adoption of this guidance is not expected to have a material impact on the Company's results of operations, cash flows or financial condition.

In March 2014, the Emerging Issues Task Force (the "Task Force") reached a final consensus to amend the accounting guidance for stock compensation tied to performance targets (Issue No. 13-D). The objective of this guidance is to clarify the accounting treatment of certain types of performance conditions in stock-based compensation awards, more specifically, when performance targets can be achieved after the requisite service period. The Task Force concluded that performance criteria subsequent to a service period vesting requirement should be treated as vesting conditions, and as a result, this type of performance condition may delay expense recognition until achievement of the performance target is probable. Issue No. 13-D will be effective for all entities for reporting periods (including interim periods) beginning after December 15, 2015, and early adoption is permitted. The adoption of this guidance is not expected have a material impact on the Company's results of operations, cash flows or 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 and warrants or conversion of convertible preferred stock outstanding and related accrued dividends or conversion of convertible notes outstanding. In computing diluted net loss per share for the three months ended June 30, 2014 and 2013, no adjustment has been made to the weighted average outstanding common shares as the assumed exercise of outstanding options and warrants and the assumed conversion of convertible preferred stock and related accrued dividends or the assumed conversion of convertible notes is anti-dilutive.

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

	Three months ended June 30,	
	2014	**2013**
Stock options	13,242,974	10,040,765
Warrants to purchase common stock	120,000	11,874,087
Convertible preferred stock and accrued dividends	--	25,615,876
5% Convertible notes	2,361,111	—
Total	15,724,085	47,530,728

NOTE 3 — INVENTORIES

	June 30, 2014	March 31, 2014
Raw materials	$9,050,528	$4,502,234
Finished goods – net	10,498,012	10,147,795
Total	$19,548,540	$14,650,029

As of June 30 and March 31, 2014, 12% and 19%, respectively, of raw materials and 6% and 5%, respectively, of finished goods were located outside of the United States.

In March and October 2013 and April 2014, the Company acquired $2,496,000, $847,500 and $4,237,500 of aged bourbon whiskey, respectively, 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 market.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

NOTE 4 — EQUITY INVESTMENT

Discontinuation of Investment in DP Castle Partners, LLC

In August 2010, CB-USA formed DP Castle Partners, LLC ("DPCP") with Drink Pie, LLC to manage the manufacturing and marketing of Travis Hasse's Original Apple Pie Liqueur, Cherry Pie Liqueur and any future line extensions of the brand. DPCP paid a per case royalty fee to Drink Pie, LLC under a licensing agreement. CB-USA purchased the finished product from DPCP FOB – Production and CB-USA bore the risk of loss on both inventory and third-party receivables. Revenues and cost of sales were recorded at their respective gross amounts on the books and records of CB-USA. In December 2013, CB-USA determined to cease marketing and selling these brands and returned the remaining inventory to Drink Pie, LLC. For the three months ended June 30, 2013, CB-USA purchased $170,880 in finished goods from DPCP under the distribution agreement. At June 30 and March 31, 2014, CB-USA owned 20% of now inactive DPCP. CB-USA also earned a defined rate of interest on its capital contribution to DPCP, based on its ownership in DPCP. For the three months ended June 30, 2013, CB-USA earned $2,100 in interest income on its capital contribution to DPCP. The Company accounted for this investment under the equity method of accounting.

NOTE 5 — ACQUISITIONS

Acquisition of McLain & Kyne

On October 12, 2006, the Company acquired all of the outstanding capital stock of McLain & Kyne. The Company was required to pay contingent consideration based on the case sales of Jefferson's Presidential Select bourbon for a specified amount of cases. As of June 30, 2013, the Company had reached the specified case sale threshold for contingent consideration under the agreement. Accordingly, no further contingent consideration will be due. For the three months ended June 30, 2013, the sellers earned $5,940 under this agreement. The earn-out payments have been recorded as an increase to goodwill.

NOTE 6 — GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill was $496,226 at each of June 30 and March 31, 2014.

Intangible assets consist of the following:

	June 30, 2014	March 31, 2014
Definite life brands	$170,000	$170,000
Trademarks	535,947	535,947
Rights	8,271,555	8,271,555
Product development	96,959	96,959
Patents	994,000	994,000
Other	60,460	55,460
	10,128,921	10,123,921
Less: accumulated amortization	6,220,366	6,058,005
Net	3,908,555	4,065,916
Other identifiable intangible assets — indefinite lived*	4,112,972	4,112,972
	$8,021,527	$8,178,888

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

Accumulated amortization consists of the following:

	June 30, 2014	March 31, 2014
Definite life brands	$170,000	$170,000
Trademarks	269,904	262,098
Rights	5,099,159	4,961,170
Product development	20,350	20,350
Patents	660,953	644,387
Other	-	-
Accumulated amortization	$6,220,366	$6,058,005

CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

NOTE 7 — RESTRICTED CASH

At June 30 and March 31, 2014, the Company had €303,128 or $413,623 (translated at the June 30, 2014 exchange rate) and €302,920 or $416,565 (translated at the March 31, 2014 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 8A below.

NOTE 8 — NOTES PAYABLE

	June 30, 2014	March 31, 2014
Notes payable consist of the following:		
Foreign revolving credit facilities (A)	$125,855	$20,205
Note payable – GCP note (B)	214,225	211,580
Keltic facility (C)	5,414,425	1,953,037
Bourbon term loan (D)	1,753,700	2,015,000
Junior loan (E)	1,250,000	1,250,000
5% Convertible notes (F)	2,125,000	2,125,000
Total	$10,883,205	$7,574,822

A. The Company has arranged various facilities aggregating €302,714 or $413,059 (translated at the June 30, 2014 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%. The balance on the credit facilities included in notes payable totaled €92,234, or $125,855 (translated at the June 30, 2014 exchange rate), and €14,693, or $20,205 (translated at the March 31, 2014 exchange rate), at June 30 and March 31, 2014, 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, 2014, $10,579 of accrued interest was converted to amounts due to affiliates. At June 30, 2014, $214,225, consisting of $211,580 of principal and $2,645 of accrued interest, due on the GCP Note is included in long-term liabilities. At March 31, 2014, $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 the Keltic Facility (“Keltic Facility”), a revolving loan agreement with Ares Management LLC, as successor in interest to Keltic Financial Partners II, LP ("Keltic") providing for availability (subject to certain terms and conditions) of a facility of up to $5,000,000 for the purpose of providing the Company and CB-USA with working capital. In July 2012, the Keltic Facility was amended to increase availability to $7,000,000, among other changes. In March 2013, the Keltic Facility was amended to increase availability to $8,000,000, among other changes. In August 2013, the Keltic Facility was amended to modify the borrowing base calculation and covenants with respect to the Keltic Facility and permit the Company to make regularly scheduled payments of principal and interest and voluntary prepayments on the Junior Loan (as defined below), subject to certain conditions set forth in the amendment, to modify certain aspects of the EBITDA covenant contained in the loan agreement, permit the Company to incur indebtedness in an aggregate original principal amount of $2,125,000 pursuant to the terms of the Note Purchase Agreement and Convertible Notes (as each term is defined below in Note 8F), and permit the Company to make regularly scheduled payments of principal and interest and voluntary prepayments on the Convertible Notes, subject to certain conditions set forth in the amendment. In November 2013, the Keltic Facility was further amended, to, among other things, provide for the issuances of letters of credit thereunder. In August 2014, the Keltic Facility was further amended to modify certain aspects of the EBITDA covenant contained in the loan agreement for the period ending June 30, 2014.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

The Company and CB-USA are referred to individually and collectively as the Borrower. The Keltic Facility expires on December 31, 2016. The Borrower may borrow up to the maximum amount of the Keltic Facility, provided that the Borrower has a sufficient borrowing base (as defined under the loan agreement). The Keltic Facility interest rate is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 3.25%, (b) the LIBOR Rate plus 5.75% and (c) 6.50%. For the three months ended June 30, 2014, the Company paid interest at 6.5%. Interest is payable monthly in arrears, on the first day of every month on the average daily unpaid principal amount of the Keltic Facility. After the occurrence and during the continuance of any "Default" or "Event of Default" (as defined under the loan agreement), the Borrower is required to pay interest at a rate that is 3.25% per annum above the then applicable Keltic Facility interest rate. There have been no Events of Default under the Keltic Facility. The Company paid a $40,000 commitment fee in connection with the first amendment, a $70,000 closing and commitment fee in connection with the second amendment and a $25,000 closing and commitment fee in connection with the third amendment. Keltic also receives an annual facility fee in an amount equal to 1% per annum of the maximum revolving facility amount and 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). The loan agreement contains standard borrower representations and warranties for asset-based borrowing and a number of reporting obligations and affirmative and negative covenants. The loan agreement includes negative covenants that, among other things, restrict the Borrower’s ability to create additional indebtedness, dispose of properties, incur liens and make distributions or cash dividends. At June 30, 2014, the Company was in compliance, in all material respects, with the covenants under the Keltic Facility. At June 30 and March 31, 2014, $5,414,425 and $1,953,037, respectively, due on the Keltic Facility is included in long-term liabilities.

D. In March 2013, the Company and CB-USA entered into an inventory term loan of $2,496,000 (the "Bourbon Term Loan") that was used to purchase bourbon inventory on March 11, 2013. Unless sooner terminated in accordance with its terms, the Bourbon Term Loan matures on December 31, 2016. The Bourbon Term Loan 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%. For the three months ended June 30, 2014, the Company paid interest of 7.5%. Interest is payable monthly in arrears, on the first day of every month on the average daily unpaid principal amount of the Bourbon Term Loan. After the occurrence and during the continuance of any "Default" or "Event of Default" (as defined under the loan agreement), the Borrower is required to pay interest at a rate that is 3.25% per annum above the then applicable Bourbon Term Loan interest rate. The Borrower is required to pay down the principal balance of the Bourbon Term Loan within 15 banking days from the completion of a bottling run of bourbon from the bourbon inventory stock purchased on or about the date of the Bourbon Term Loan in an amount equal to the purchase price of such bourbon. The unpaid principal balance of the Bourbon Term Loan, all accrued and unpaid interest thereon, all fees, costs and expenses payable in connection with the Bourbon Term Loan are due and payable in full on December 31, 2016.

Keltic required as a condition to funding the Bourbon Term Loan that Keltic had entered into a participation agreement (the "Participation Agreement") providing for an initial aggregate of $750,000 of the Bourbon Term Loan to be purchased by junior participants. Certain related parties of the Company purchased a portion of these junior participations in the Bourbon Term Loan, including Frost Gamma Investments Trust ($500,000), an entity affiliated with Phillip Frost, M.D., a director and principal shareholder of the Company, Mark E. Andrews, III ($50,000), a director of the Company and the Company's Chairman, and an affiliate of Richard J. Lampen ($50,000), a director of the Company and the Company's President and Chief Executive Officer (amounts shown are initial purchase amounts). Under the terms of the Participation Agreement, the junior participants receive interest at the rate of 11% per annum. Neither the Company nor CB-USA is a party to the Participation Agreement. However, the Borrower is party to a fee letter (the "Fee Letter") with the junior participants (including the related party junior participants) pursuant to which the Borrower is obligated to pay the junior participants an aggregate commitment fee of $45,000 in three equal annual installments of $15,000. In August 2013, the Bourbon Term Loan was amended to provide the Company with the ability to increase the maximum aggregate principal amount of the Bourbon Term Loan from $2,500,000 to up to $4,000,000 to finance the purchase of aged whiskies following the identification of junior participants to purchase a portion of the increased Bourbon Term Loan amount. The balance on the Bourbon Term Loan included in notes payable totaled $1,753,700 and $2,015,000 at June 30 and March 31, 2014, respectively.

E. In August 2013, the Company entered into a Loan Agreement (the "Junior Loan Agreement"), by and between the Company and the lending parties thereto (the "Junior Lenders"), which provides for an aggregate $1,250,000 unsecured loan (the "Junior Loan") to the Company. The Junior Loan bears interest at a rate of 11% per annum, payable quarterly in arrears commencing November 1, 2013, and matures on October 15, 2015. The Junior Loan may be prepaid in whole or in part at any time without penalty or premium but with payment of accrued interest to the date of prepayment. The Junior Loan Agreement contains customary events of default, which, if uncured, entitle each Junior Lender to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the portion of the Junior Loan made by such Junior Lender. The Junior Loan Agreement provides for a funding fee of 2% per annum on the then outstanding Junior Loan balance (pro-rated for any period of less than one year), payable pro rata among the Junior Lenders on the date of the Junior Loan Agreement and on the first and second anniversaries thereof. The Junior Lenders include Frost Gamma Investments Trust ($200,000), Mark E. Andrews, III ($50,000) and an affiliate of Richard J. Lampen ($50,000). In connection with the Junior Loan Agreement, the Junior Lenders entered into a subordination agreement with Keltic; the Company is not a party to the subordination agreement. At each of June 30 and March 31, 2014, $1,250,000 of principal due on the Junior Loan is included in long-term liabilities.

CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

F. In October 2013, the Company entered into a 5% Convertible Subordinated Note Purchase Agreement (the "Note Purchase Agreement"), by and among the Company and the purchasers party thereto, which provided for the issuance of an aggregate initial principal amount of $2,125,000 unsecured subordinated notes (the "Convertible Notes") by the Company. The Convertible Notes bear interest at a rate of 5% per annum, payable quarterly beginning on December 15, 2013 until their maturity date of December 15, 2018. The Convertible Notes and accrued but unpaid interest thereon are 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 Convertible Notes may be prepaid in whole or in part at any time without penalty or premium, but with payment of accrued interest to the date of prepayment. The Convertible Notes contain customary events of default, which, if uncured, entitle each note holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the Convertible Notes.

The purchasers of the Convertible Notes include certain 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), a director of the Company, Dennis Scholl ($100,000), a director of the Company, and Vector Group Ltd. ($200,000), a more than 5% shareholder of the Company, of which Richard Lampen is an executive officer and Henry Beinstein, a director of the Company, is a director.

The Company may forcibly convert all or any part of the Convertible Notes and all accrued but unpaid interest thereon if (i) the average daily volume of the Company's common stock (as reported on the principal market or exchange on which the common stock is listed or quoted for trading) exceeds $50,000 per trading day and (ii) the volume weighted average price of the common stock for at least twenty (20) trading days during any thirty (30) consecutive trading day period exceeds 250% of the then-current conversion price. Any forced conversion will be applied ratably to the holders of all Convertible Notes issued pursuant to the Note Purchase Agreement based on each holder's then-current note holdings.

In connection with the Note Purchase Agreement, each purchaser of the Convertible Notes was required to execute a joinder to the subordination agreement, by and among Keltic and certain other junior lenders to the Company; the Company is not a party to the Subordination Agreement. At each of June 30 and March 31, 2014, $2,125,000 of principal due on the Convertible Notes is included in long-term liabilities.

NOTE 9 — EQUITY

Equity distribution agreement - In November 2013, the Company entered into an Equity Distribution Agreement (the "Distribution Agreement") with Barrington Research Associates, Inc. ("Barrington"), as sales agent, under which the Company may issue and sell over time and from time to time, to or through Barrington, shares (the "Shares") of its common stock having a gross sales price of up to $6.0 million.

Sales of the Shares pursuant to the Distribution Agreement, may be effected by any method permitted by law deemed to be an "at-the-market" offering as defined in Rule 415 of the Securities Act of 1933, as amended, including without limitation directly on the NYSE MKT LLC or any other existing trading market for the common stock or through a market maker, up to the amount specified, and otherwise to or through Barrington in accordance with the placement notices delivered by the Company to Barrington. Also, with the prior consent of the Company, some or all of the Shares may be sold in privately negotiated transactions. Under the Distribution Agreement, Barrington will be entitled to compensation of 2.0% of the gross proceeds from the sale of all of the Shares sold through Barrington, as sales agent, pursuant to the Distribution Agreement. Also, the Company will reimburse Barrington for certain expenses incurred in connection with the matters contemplated by the Distribution Agreement, up to an aggregate of $50,000, plus up to an additional $7,500 per calendar quarter related to ongoing maintenance; provided, however, that such reimbursement amount shall not exceed 8% of the aggregate gross proceeds received by the Company under the Distribution Agreement.

In the three months ended June 30, 2014, the Company sold 1,247,343 Shares pursuant to the Distribution Agreement, with total gross proceeds of $1,231,241, before deducting sales agent and offering expenses of $38,532.

The primary portion of the Company’s Registration Statement on Form S-3 under which the shares were sold expired on August 12, 2014; accordingly, no additional shares will be sold pursuant to the Distribution Agreement.

Preferred stock dividends – Holders of the Company’s 10% Series A Convertible Preferred Stock, par value $0.01 per share (“Series A Preferred Stock”) were entitled to receive cumulative dividends at the rate per share (as a percentage of the stated value of $1,000 per share) of 10% per annum, whether or not declared by the Company’s Board of Directors, which were only payable in shares of the Company’s common stock upon conversion of the Series A Preferred Stock or upon a liquidation. For the three months ended June 30, 2013, the Company recorded accrued dividends of $189,932, included as an increase in the accumulated deficit and in additional paid-in capital on the accompanying consolidated balance sheets.

CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

On February 11, 2014, the Company's Board of Directors approved the mandatory conversion of all outstanding shares of the Series A Preferred Stock pursuant to their terms, effective on or about February 24, 2014. Pursuant to the mandatory conversion, all 6,271 outstanding shares of Series A Preferred Stock, and accrued dividends thereon, converted into 25,760,881 shares of common stock.

Preferred stock conversions – In the three months ended June 30, 2013, holders of Series A Preferred Stock converted 267 shares of Series A Preferred Stock, and accrued dividends thereon, into 1,049,492 shares of common stock.

NOTE 10 — WARRANTS

The warrants issued in connection with the Series A Preferred Stock (the "2011 Warrants") had an exercise price of $0.38 per share, subject to adjustment, and were exercisable for a period of five years. The exercise price of the 2011 Warrants was equal to 125% of the conversion price of the Series A Preferred Stock.

The Company accounted for the 2011 Warrants issued in June 2011 in the consolidated financial statements as a liability at their initial fair value of $487,022 and accounted for the 2011 Warrants issued in October 2011 as a liability at their initial fair value of $780,972. Changes in the fair value of the 2011 Warrants were recognized in earnings for each subsequent reporting period. In November 2013, in accordance with certain terms of the 2011 Warrants, the down-round provisions included in the terms of the warrant ceased to be in force or effect as a result of the historical volume weighted average price and trading volume of the Company's common stock. The Company then reclassified the fair value of the outstanding warrant liability of $6,187,968 to equity, resulting in an increase to additional paid-in capital. Further, the Company is no longer required to recognize any change in fair value of the 2011 Warrants.

For the three months ended June 30, 2013 the Company recorded a loss on the change in the value of the 2011 Warrants of $477,251.

The fair value of the warrants is a Level 3 fair value under the valuation hierarchy and was estimated using the Black-Scholes option pricing model utilizing the following assumptions:

	At Conversion	June 30, 2013
Stock price	$ 0.92	$0.38
Risk-free interest rate	0.61 %	0.66%
Expected option life in years	2.63	3.00
Expected stock price volatility	55 %	40 %
Expected dividend yield	0 %	0 %

2011 Warrants exercised – On April 2, 2014, the Company called for cancellation all 1,657,802 unexercised 2011 Warrants pursuant to the terms of such 2011 Warrants after satisfying applicable conditions. Holders of the 2011 Warrants had until 6:30 p.m. New York City time on April 21, 2014 to exercise such 2011 Warrants at $0.38 per share in cash. Pursuant to the call for cancellation, holders of all 1,657,802 unexercised 2011 Warrants exercised and received 1,657,802 shares of common stock. The Company received $629,965 in cash upon the exercise of these warrants. No 2011 Warrants were exercised in the three months ended June 30, 2013.

NOTE 11 — 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 June 30 and March 31, 2014, the Company 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.

NOTE 12 — STOCK-BASED COMPENSATION

In May 2014, the Company granted to employees, directors and certain consultants options to purchase an aggregate of 2,305,000 shares of the Company's common stock at an exercise price of $1.00 per share under the Company's 2013 Incentive Compensation Plan. The options, which expire in June 2024, vest 25% on each of the first four anniversaries of the grant date. The Company has valued the options at $1,429,100 using the Black-Scholes option pricing model.

Stock-based compensation expense for the three months ended June 30, 2014 and 2013 amounted to $191,456 and $72,533, respectively. At June 30, 2014, total unrecognized compensation cost amounted to $1,956,809, representing 6,203,011 unvested options. This cost is expected to be recognized over a weighted-average vesting period of 2.81 years. There were 230,033 options exercised during the three months ended June 30, 2014 and no options exercised during the three months ended June 30, 2013. The Company did not recognize any related tax benefit for the three months ended June 30, 2014 and 2013 from option exercises, as the option exercises were de minimis.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

NOTE 13 — COMMITMENTS AND CONTINGENCIES

A. The Company has entered into a supply agreement with Irish Distillers Limited ("IDL"), 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. IDL 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 IDL 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, 2015, the Company has contracted to purchase approximately €774,662 or $1,057,042 (translated at the June 30, 2014 exchange rate) in bulk Irish whiskey. The Company is not obligated to pay IDL for any product not yet received. During the term of this supply agreement, IDL has the right to limit additional purchases above the commitment amount.

B. The Company has also entered into a supply agreement with IDL, 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. IDL 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 IDL 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, 2015, the Company has contracted to purchase approximately €303,998 or $414,811 (translated at the June 30, 2014 exchange rate) in bulk Irish whiskey. The Company is not obligated to pay IDL for any product not yet received. During the term of this supply agreement, IDL has the right to limit additional purchases above the commitment amount.

C. 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 April 30, 2016 and provides for monthly payments of $19,975. The Dublin lease commenced on March 1, 2009 and extends through October 31, 2016 and provides for monthly payments of €1,100 or $1,501 (translated at the June 30, 2014 exchange rate). The Houston, TX lease commenced on February 24, 2000 and extends through January 31, 2015 and provides for monthly payments of $1,875. The Company has also entered into non-cancelable operating leases for certain office equipment.

D. 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 has been advised that a complaint has been filed in the United States District Court for the Western District of Kentucky alleging that McLain & Kyne has violated another party's trademark rights. The complaint has not been served on McLain & Kyne. The Company believes that the claim is without merit and intends to vigorously defend against it.

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 14 — 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 exceeded the limits in effect at June 30, 2014 by approximately $570,000 and exceeded the limits in effect at March 31, 2014 by approximately $725,000.

B. Customers — Sales to one customer, the Southern Wine and Spirits of America, Inc. family of companies ("SWS"), accounted for approximately 29.3% and 33.6% of the Company's revenues for the three months ended June 30, 2014 and 2013, respectively, and approximately 31.0% of accounts receivable at June 30, 2014.

NOTE 15 — GEOGRAPHIC INFORMATION

The Company operates in one reportable segment — the sale of premium beverage alcohol. The Company's product categories are rum and related products, liqueur, whiskey, vodka and tequila. 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 revenue, consolidated results from operations, consolidated net loss attributable to common shareholders, consolidated income tax benefit and consolidated assets from the U.S. and foreign countries and consolidated revenue by category.

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CASTLE BRANDS INC. AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements - Continued

	Three months ended June 30, 2014		2013	
Consolidated Revenue:				
International	$1,578,730	13.2 %	$1,503,830	14.6 %
United States	10,403,469	86.8 %	8,914,787	85.4 %
Total Consolidated Revenue	$11,982,199	100.0%	$10,418,617	100.0%
Consolidated Results from Operations:				
International	$(27,017)	5.2 %	$40,681	(8.9)%
United States	(492,369)	94.8 %	(496,319)	108.9%
Total Consolidated Results from Operations	$(519,386)	100.0%	$(455,638)	100.0%
Consolidated Net Loss Attributable to Common Shareholders:				
International	$(60,633)	4.1 %	$16,623	(1.3)%
United States	(1,435,198)	95.9 %	(1,309,450)	101.3%
Total Consolidated Net Loss Attributable to Common Shareholders	$(1,495,831)	100.0%	$(1,292,827)	100.0%
Income tax (expense) benefit:				
United States	$(162,962)	100.0%	$37,038	100.0%
Consolidated Revenue by category:				
Rum	$4,292,195	35.8 %	$4,213,771	40.4 %
Whiskey	3,012,079	25.1 %	2,295,228	22.0 %
Liqueurs	1,902,443	15.9 %	1,870,806	18.0 %
Vodka	520,583	4.3 %	589,649	5.7 %
Tequila	85,329	0.7 %	59,902	0.6 %
Wine	--	0.0 %	114,610	1.1 %
Gosling's Stormy Ginger Beer and other*	2,169,570	18.2 %	1,274,651	12.2 %
Total Consolidated Revenue	$11,982,199	100.0%	$10,418,617	100.0%

	As of June 30, 2014		As of March 31, 2014	
Consolidated Assets:				
International	$2,551,001	6.4 %	2,201,343	6.0 %
United States	37,244,003	93.6 %	34,320,167	94.0 %

Total Consolidated Assets	$39,795,004	100.0%	36,521,510	100.0%

*Includes related non-beverage alcohol products.

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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, vodka and tequila. We distribute our products in all 50 U.S. states and the District of Columbia, in thirteen primary international markets, including Ireland, Great Britain, Northern Ireland, Germany, Canada, Israel, Bulgaria, France, Russia, Finland, Norway, Sweden, China and the Duty Free markets, and in a number of other countries in continental Europe and Latin America. We market the following brands, among others, Gosling's Rum®, Gosling's Stormy Ginger Beer, Gosling's Dark 'n Stormy® ready-to-drink cocktail, Jefferson's®, Jefferson's Reserve® and Jefferson's Presidential Select™ bourbons, Jefferson's Rye whiskey, Pallini® liqueurs, Clontarf® Irish whiskey, Knappogue Castle Whiskey®, Brady's® Irish Cream, Boru® vodka, Tierras™ tequila, Celtic Honey® liqueur, Castello Mio® sambucas and Gozio® amaretto.

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 and whiskies, sales of which have grown approximately 40% over the past two fiscal years;
- ***build consumer awareness.*** We use our existing assets, expertise and resources to build consumer awareness and market penetration for our brands;
- ***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; and
- ***selectively add new brand extensions and brands to our portfolio.*** We intend to continue to introduce new brand extensions and expressions. We continue to explore strategic relationships, joint ventures and acquisitions to selectively expand our premium spirits portfolio. We expect that future acquisitions or agency relations, if any, would involve some combination of cash, debt and the issuance of our stock.

Recent Events

Common stock equity distribution agreement

In November 2013, we entered into an Equity Distribution Agreement (the “Distribution Agreement”) with Barrington Research Associates, Inc. (“Barrington”), as sales agent, under which we may issue and sell over time and from time to time, to or through Barrington, shares (the “Shares”) of our common stock, $0.01 par value per share (“Common Stock”), having a gross sales price of up to $6.0 million.

Sales of the Shares pursuant to the Distribution Agreement may be effected by any method permitted by law deemed to be an “at-the-market” offering as defined in Rule 415 of the Securities Act of 1933, as amended, including without limitation directly on the NYSE MKT LLC or any other existing trading market for the Common Stock or through a market maker, up to the amount specified, and otherwise to or through Barrington in accordance with the placement notices delivered by us to Barrington. Also, with our prior consent, some of the Common Stock issued pursuant to the Distribution Agreement may be sold in privately negotiated transactions.

Between November 15, 2013 and June 27, 2014, we sold 6.6 million Shares pursuant to the Distribution Agreement for gross proceeds of $5.7 million, before deducting sales agent and offering expenses of $0.2 million. We used a portion of the proceeds to finance the acquisition of an additional $4.3 million in bourbon inventory in support of the growth of our Jefferson's bourbon brand. The primary portion of our Registration Statement on Form S-3 under which the shares were sold expired on August 12, 2014; accordingly, no additional shares will be sold pursuant to the Distribution Agreement.

Exercise of 2011 Warrants

On April 2, 2014, we called for cancellation as of April 21, 2014 all remaining 1.7 million unexercised warrants issued in connection with our June 2011 private placement (the “2011 Warrants”). All of these warrants were exercised prior to cancellation and we issued approximately 1.7 million shares of Common Stock and received $0.6 million in cash upon the exercise thereof.

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 June 30, 2014, each as calculated from the Interbank exchange rates as reported by Oanda.com. On June 30, 2014, the exchange rate of the Euro and the British Pound in exchange for U.S. Dollars was €1.00 = U.S. $1.36452 (equivalent to U.S. $1.00 = €0.73285) and £1.00 = U.S. $1.70276 (equivalent to U.S. $1.00 = £0.58728).

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, 2014, as amended, which we refer to as our 2014 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-beverage alcohol products):

	Three months ended June 30, 2014		2013	
Cases				
United States	68,544		67,689	
International	18,569		20,653	
Total	87,113		88,342	
Rum	40,913		43,980	
Whiskey	16,723		14,123	
Liqueurs	19,440		18,068	
Vodka	9,590		10,694	
Tequila	447		319	
Wine	--		1,155	
Other	--		3	
Total	87,113		88,342	
Percentage of Cases				
United States	78.7	%	76.6	%
International	21.3	%	23.4	%
Total	100.0	%	100.0	%
Rum	47.0	%	49.7	%
Whiskey	19.2	%	16.0	%
Liqueurs	22.3	%	20.5	%
Vodka	11.0	%	12.1	%
Tequila	0.5	%	0.4	%
Wine	0.0	%	1.3	%
Other	0.0	%	0.0	%
Total	100.0	%	100.0	%

The following table provides information regarding our case sales of non-beverage alcohol products for the periods presented:

	Three months ended June 30, 2014	2013
Cases		
United States	148,606	97,682
International	13,773	6,607
Total	162,379	104,289
United States	91.5 %	93.7 %
International	8.5 %	6.3 %
Total	100.0 %	100.0 %

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 June 30, 2014	2013
Sales, net	100.0%	100.0%
Cost of sales	62.1 %	62.4 %
Gross profit	37.9 %	37.6 %
Selling expense	27.0 %	27.8 %
General and administrative expense	13.4 %	12.1 %
Depreciation and amortization	1.8 %	2.0 %
Loss from operations	(4.3)%	(4.4)%
Other income, net	0.1 %	0.0 %
Loss from equity investment in non-consolidated affiliate	0.0 %	(0.0)%
Foreign exchange (loss) gain	(2.0)%	0.6 %
Interest expense, net	(2.4)%	(2.2)%

Net change in fair value of warrant liability	0.0 %	(4.3)%
Income tax (expense) benefit, net	(1.4)%	0.4 %
Net loss	(10.0)%	(10.0)%
Net income attributable to noncontrolling interests	(2.5)%	(2.4)%
Net loss attributable to controlling interests	(12.5)%	(12.4)%
Dividend to preferred shareholders	0.0 %	(1.8)%
Net loss attributable to common shareholders	(12.5)%	(14.2)%

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

	Three months ended June 30,	
	2014	2013
Net loss attributable to common shareholders	$(1,495,831)	$(1,482,765)
Adjustments:		
Interest expense, net	288,642	228,819
Income tax expense (benefit), net	162,962	(37,038)
Depreciation and amortization	216,098	213,124
EBITDA (loss)	(828,129)	(1,077,860)
Allowance for doubtful accounts	59,000	10,500
Stock-based compensation expense	191,456	72,533
Other income, net	(16,942)	--
Loss from equity investment in non-consolidated affiliate	--	6,121
Foreign exchange loss (gain)	236,447	(60,340)
Net change in fair value of warrant liability	--	447,251
Net income attributable to noncontrolling interests	305,336	252,372
Dividend to preferred shareholders	--	189,932
EBITDA, as adjusted	(52,832)	(159,491)

Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for allowances for doubtful accounts and obsolete inventory, other income, net, non-cash compensation expense, loss from equity investment in non-consolidated affiliate, foreign exchange, net change in fair value of warrant liability, net income attributable to noncontrolling interests and dividend to preferred shareholders is a key metric we use in evaluating our financial performance. EBITDA 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 fair value of warrant liability, or do not involve a cash outlay, such as stock-based compensation expense. 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 non-cash 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, improved to ($0.05) million for the three months ended June 30, 2014, as compared to ($0.2) million for the comparable prior-year period, primarily as a result of increased sales.

Three months ended June 30, 2014 compared with three months ended June 30, 2013

Net sales. Net sales increased 15.0% to $12.0 million for the three months ended June 30, 2014, as compared to $10.4 million for the comparable prior-year period, due to the overall growth of our Gosling's Stormy Ginger Beer, Jefferson's, Clontarf, Pallini and Brady's brands. Our international spirits case sales as a percentage of total spirits case sales decreased to 21.3% for the three months ended June 30, 2014 from 23.4% for the comparable prior-year period primarily due to increased sales volume in the United States and lower rum sales in certain international markets, particularly China. The contraction of the Gosling’s international sales was partially offset by an increase in sales of our Irish portfolio. We continue to focus on our faster growing brands and markets, both in the U.S. and internationally.

The table below presents the increase or decrease, as applicable, in case sales by spirits product category for the three months ended June 30, 2014 as compared to the three months ended June 30, 2013:

	Increase/(decrease) in case sales		Percentage increase/(decrease)	
	Overall	U.S.	Overall	U.S.
Rum	(3,067)	973	(7.0)%	3.2%
Whiskey	2,600	887	18.4%	11.1%
Liqueur	1,372	609	7.6%	3.4%
Vodka	(1,104)	(584)	(10.3)%	(6.1)%
Tequila	128	128	40.1%	40.1%
Wine	(1,155)	(1,155)	(100.0)%	(100.0)%
Other	(3)	(3)	(100.0)%	(100.0)%
Total	(1,229)	855	(1.4)%	1.3%

In addition, sales of our Gosling's Stormy Ginger Beer increased by 57,974 cases, or 55.7%, overall, including a 50,808 case increase, or 52.1%, in U.S. case sales. We anticipate continued growth of Gosling's Stormy Ginger Beer in the near term as compared to comparable prior-year periods, although there is no assurance that we will attain such results.

Gross profit. Gross profit increased 16.0% to $4.5 million for the three months ended June 30, 2014 from $3.9 million for the comparable prior-year period, and our gross margin increased to 37.9% for the three months ended June 30, 2014 compared to 37.6% for the comparable prior-year period. The increase in gross profit was primarily due to increased sales in the current period, while the increase in gross margin was due to an increase in sales of our more profitable brands, in particular the Jefferson's bourbons and our Irish whiskey brands.

Selling expense. Selling expense increased 11.9% to $3.2 million for the three months ended June 30, 2014 from $2.9 million for the comparable prior-year period, primarily due to a $0.3 million increase in employee costs and a $0.2 million increase in each of shipping costs and commissions, both due to increased sales volume, partially offset by a $0.3 million decrease in advertising, marketing and promotion expense, due to the timing of certain sales and marketing programs. The increase in sales resulted in a net decrease of selling expense as a percentage of net sales to 27.0% for the three months ended June 30, 2014 as compared to 27.8% for the comparable prior-year period.

General and administrative expense. General and administrative expense increased 27.3% to $1.6 million for the three months ended June 30, 2014 from $1.3 million for the comparable prior-year period, primarily due to a $0.1 million increase in each of professional fees, insurance, employee expense and non-cash stock based compensation expense. The increases resulted in general and administrative expense as a percentage of net sales increasing to 13.4% for the three months ended June 30, 2014 as compared to 12.1% for the comparable prior-year period.

Depreciation and amortization. Depreciation and amortization was $0.2 million for each of the three-month periods ended June 30, 2014 and 2013.

Loss from operations. As a result of the foregoing, loss from operations remained relatively constant at ($0.5) million for each of the three-month periods ended June 30, 2014 and 2013. 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 comparable prior-year periods, although there is no assurance that we will attain such results.

Net change in fair value of warrant liability. We recorded the fair market value of the 2011 Warrants at their initial fair value. Changes in the fair value of the 2011 Warrants were recognized in earnings for each reporting period. In November 2013, in accordance with certain terms of the 2011 Warrants, the down-round provisions included in the terms of the warrant ceased to be in effect due to the historical VWAP and trading volume of our Common Stock. As a result, the then outstanding warrant liability of $6.2 million was eliminated and recognized as an increase to additional paid-in capital. In April 2014, we called for cancellation all remaining 1.7 million unexercised 2011 Warrants pursuant to their terms, after satisfying applicable conditions. Pursuant to the call for cancellation, holders of all 1.7 million unexercised 2011 Warrants exercised and received 1.7 million shares of Common Stock. We received $0.6 million in cash upon the exercise of these 2011 Warrants. As a result, no 2011 Warrants were outstanding as of June 30, 2014. Accordingly, we are no longer required to recognize any changes in fair value of the 2011 Warrants. For the three months ended June 30, 2013, we recorded a non-cash charge for loss on the change in the value of the warrants of ($0.4) million, primarily due to the effects of our increased share price on the Black-Scholes valuation.

Income tax (expense) benefit, net. Income tax (expense) benefit, net is the estimated tax expense attributable to the net taxable income recorded by our 60% owned subsidiary, Gosling-Castle Partners, Inc., adjusted for changes in the deferred tax asset and deferred tax liability during the periods, and was net expense of ($0.2) million for the three months ended June 30, 2014 as compared to a benefit of $0.04 million for the comparable prior-year period.

Loss from equity investment in non-consolidated affiliate. In August 2010, through CB-USA, we formed DP Castle Partners, LLC (“DPCP”) with Drink Pie, LLC to manage the manufacturing and marketing of Travis Hasse’s Original Apple Pie Liqueur, Cherry Pie Liqueur and any future line extensions of the brand. We accounted for our investment in DPCP on the equity method of accounting. In December 2013, we determined to cease marketing and selling these brands and returned the remaining inventory to Drink Pie, LLC. Accordingly, we no longer recognize any gains or losses from this investment. Results from this investment were de minimis in the three-month period ended June 30, 2013.

Foreign exchange loss. Foreign exchange loss for the three months ended June 30, 2014 was ($0.2) million as compared to a gain of $0.1 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 ($0.3) million for the three months ended June 30, 2014 as compared to ($0.2) million for the comparable prior-year period due to increased balances outstanding under our credit facilities. Due to expected balances on the Keltic Facility (as defined below) and other indebtedness, we expect interest expense, net to increase in the near term as compared to prior-year periods.

Net income attributable to noncontrolling interests. Net income attributable to noncontrolling interests during the each of the three-month periods ended June 30, 2014 and 2013 was ($0.3) million, both the result of allocated net income recorded by our 60% owned subsidiary, Gosling-Castle Partners, Inc.

Dividend to preferred shareholders. Pursuant to the mandatory conversion of our Series A Preferred Stock, in February 2014 all outstanding shares of Series A Preferred Stock, and accrued dividends thereon, converted into Common Stock. Accordingly, after February 2014, we no longer recognize a dividend to preferred shareholders. For the three months ended June 30, 2013, we recognized a dividend on our Series A Preferred Stock of $0.2 million, as was then required by the terms of the preferred stock.

Net loss attributable to common shareholders. As a result of the net effects of the foregoing, including the non-cash charge for loss on the net change in fair value of warrant liability and the dividend accrual in the prior year, offset by the income tax expense, net in the current year, net loss attributable to common shareholders remained at ($1.5) million for each of the three-month periods ended June 30, 2014 and 2013. Net loss per common share, basic and diluted, was ($0.01) per share for each of the three-month periods ended June 30, 2014 and 2013. Net loss per common share, basic and diluted, as reported in the current period was improved by the issuance of 45.0 million shares of Common Stock in connection with the Distribution Agreement, the conversion of Series A Preferred Stock and the 2011 Warrants exercises described above.

Liquidity and capital resources

Overview

Since our inception, we have incurred significant operating and net losses and have not generated positive cash flows from operations. For the three months ended June 30, 2014, we had a net loss of $1.5 million, and used cash of $5.2 million in operating activities. As of June 30, 2014, we had cash and cash equivalents of $0.8 million and had an accumulated deficit of $140.9 million.

We believe our current cash and working capital, and the availability under the Keltic 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.

Existing Financing

See Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Events for a discussion of our recent financing activities.

In August 2011, we entered into the Keltic Facility (“Keltic Facility”), a revolving loan agreement with Ares Management LLC, as successor in interest to Keltic Financial Partners II, LP ("Keltic"), which, as amended, provides for availability (subject to certain terms and conditions) of a facility of up to $8.0 million for the purpose of providing us with working capital and a term loan to finance purchases of aged whiskies (the “Bourbon Term Loan”) in the initial aggregate principal amount of $2.5 million, which was used for the purchase of bourbon inventory on March 11, 2013. In August 2013, the Bourbon Term Loan was amended to provide us with the ability to increase the maximum aggregate principal amount of the Bourbon Term Loan from $2.5 million to up to $4.0 million to finance the purchase of aged whiskies following the identification of junior participants to purchase a portion of the increased Bourbon Term Loan amount. Unless sooner terminated in accordance with their respective terms, the Keltic Facility and Bourbon Term Loan expire on December 31, 2016 (the "Maturity Date"). We may borrow up to the maximum amount of the Keltic Facility, provided that we have a sufficient borrowing base (as defined in the loan agreement). The Keltic Facility interest rate is the rate that, when annualized, is the greatest of (a) the Prime Rate plus 3.25%, (b) the LIBOR Rate plus 5.75% and (c) 6.50%. The Bourbon Term Loan 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%. Interest is payable monthly in arrears, on the first day of every month on the average daily unpaid principal amount of the Keltic Facility and the Bourbon Term Loan. 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 Keltic Facility or Bourbon Term Loan, as applicable, interest rate. The Keltic Facility currently bears interest at 6.50% and the Bourbon Term Loan currently bears interest at 7.50%. We are required to pay down the principal balance of the Bourbon Term Loan within 15 banking days from the completion of a bottling run of bourbon from our bourbon inventory stock purchased on or about the date of the Bourbon Term Loan in an amount equal to the purchase price of such bourbon. The unpaid principal balance of the Bourbon Term Loan, all accrued and unpaid interest thereon, all fees, costs and expenses payable in connection with the Bourbon Term Loan are due and payable in full on the Maturity Date. In addition to closing fees, Keltic receives an annual facility fee and a collateral management fee (each as set forth in the loan agreement).

The Keltic loan agreement contains standard borrower representations and warranties for asset-based borrowing and a number of reporting obligations and affirmative and negative covenants. The Keltic 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 June 30, 2014, we were in compliance, in all material respects, with the covenants under the Keltic loan agreement, as amended.

Keltic required as a condition to funding the Bourbon Term Loan that Keltic had entered into a participation agreement providing for an aggregate of $750,000 of the initial $2.5 million principal amount of the Bourbon Term Loan to be purchased by junior participants. Certain related parties of ours purchased a portion of these junior participations in the Bourbon Term Loan, including Frost Gamma Investments Trust ($500,000), an entity affiliated with Phillip Frost, M.D., a director and principal shareholder of ours, Mark E. Andrews, III ($50,000), a director of ours and our Chairman, and an affiliate of Richard J. Lampen ($50,000), a director of ours and our President and Chief Executive Officer (amounts shown are initial purchase amounts). Under the terms of the participation agreement, the junior participants receive interest at the rate of 11% per annum. We are not a party to the participation agreement. However, we are party to a fee letter with the junior participants (including the related party junior participants) pursuant to which we pay the junior participants an aggregate commitment fee of $45,000 paid in three equal annual installments of $15,000.

In August 2014, we entered into a Sixth Amendment in order to modify certain aspects of the EBITDA covenant contained in the Keltic Facility for the period ending June 30, 2014.

In August 2013, we entered into a Loan Agreement (the "Junior Loan Agreement"), by and between us and the lending parties thereto (the "Junior Lenders"), which provides for an aggregate $1.25 million unsecured loan (the "Junior Loan") to us. The Junior Loan bears interest at a rate of 11% per annum, payable quarterly in arrears commencing November 1, 2013, and matures on October 15, 2015. The Junior Loan may be prepaid in whole or in part at any time without penalty or premium but with payment of accrued interest to the date of prepayment. The Junior Loan Agreement contains customary events of default, which, if uncured, entitle each Junior Lender to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the portion of the Junior Loan made by such Junior Lender. The Junior Loan Agreement provides for a funding fee of 2% per annum on the then outstanding Junior Loan balance (pro-rated for any period of less than one year), payable pro rata among the Junior Lenders on the date of the Junior Loan Agreement and on the first and second anniversaries thereof. The Junior Lenders include Frost Gamma Investments Trust, Mark E. Andrews, III and an affiliate of Richard J. Lampen. In connection with the Junior Loan Agreement, the Junior Lenders entered into the subordination agreement with Keltic; we are not a party to the subordination agreement.

In December 2009, Gosling-Castle Partners, Inc., a 60% owned subsidiary, 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 €0.4 million or $0.5 million (translated at the March 31, 2014 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%.

Liquidity Discussion

As of June 30, 2014, we had shareholders' equity of $21.0 million as compared to $19.9 million at March 31, 2014. This increase is primarily due to the net issuance of $1.2 million of Common Stock under the Distribution Agreement and the exercise of $0.6 million of our 2011 Warrants, partially offset by our total comprehensive loss for the three months ended June 30, 2014.

We had working capital of $23.3 million at June 30, 2014 as compared to $19.1 million at March 31, 2014. This increase is primarily due to a $5.2 million increase in inventory, a $0.3 million increase in prepaid expenses and a $0.1 million increase in our foreign revolving credit facility, partially offset by a $1.8 million decrease in accounts receivable and a net $1.0 million decrease in accounts payable, accrued expenses and due to related parties.

As of June 30, 2014, we had cash and cash equivalents of approximately $0.8 million, as compared to $0.9 million as of March 31, 2014. The decrease is primarily attributable to the funding of our operations and working capital needs for the three months ended June 30, 2014, partially offset by the equity issued and debt used. At June 30, 2014, 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 significant levels of 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 a plan to support the growth of existing brands through sales and marketing initiatives that we expect will generate cash flows from operations in the next few years. As part of this plan, 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 bourbon to meet growing demand. While we are seeking solutions to our long-term bourbon supply needs, we are required to purchase and hold several years’ worth of aged bourbon 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 are also seeking additional brands and agency relationships to leverage our existing distribution platform. We intend to finance our 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 seek ways to control expenses, improve routes to market and contain production costs to improve cash flows.

As of June 30, 2014, we had borrowed $5.4 million of the $8.0 million available under the Keltic Facility, leaving $2.6 million in then potential availability for working capital needs. As of the date of this report, we had borrowed $5.4 million of the $8.0 million available under the Keltic Facility, leaving $2.6 million in potential availability for working capital needs. We believe our current cash and working capital and the availability under the Keltic 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 June 2015.

Cash flows

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

	Three months ended June 30,	
	2014	2013
	(in thousands)	
Net cash provided by (used in):		
Operating activities	$ (5,217)	$ 27
Investing activities	(82)	(68)
Financing activities	5,175	(110)
Effect of foreign currency translation	(0)	(0)
Net decrease in cash and cash equivalents	$ (124)	$ (151)

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 operating losses, driven chiefly by the costs in maintaining our distribution system and our sales and marketing activities. We have also utilized cash to fund 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 Gosling’s rums, Pallini liqueurs, Tierras tequila 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 June 30, 2014 included significant additional stores of aged bourbon purchased in advance of forecasted production requirements. We expect to reduce the aged bourbon in the normal course of future sales, generating positive cash flows in future periods.

During the three months ended June 30, 2014, net cash used in operating activities was $5.2 million, consisting primarily of a $5.2 million increase in inventory, a net loss of $1.2 million, a $1.1 million decrease in accounts payable and accrued expenses, a $0.3 million increase in prepaid expenses and $0.2 million in income tax expense, net. These uses of cash were partially offset by a $1.8 million decrease in accounts receivable, stock based compensation expense of $0.2 million, and depreciation and amortization expense of $0.2 million.

During the three months ended June 30, 2013, net cash provided by operating activities was $0.03 million, consisting primarily of a net loss of $1.0 million, a $0.5 million increase in inventory and a $0.3 million increase in prepaid expenses. These uses of cash were partially offset by a $0.4 million increase in due to affiliates, a $0.4 million decrease in accounts receivable, change in fair value of warrant liability of $0.4 million and depreciation and amortization expense of $0.2 million.

Investing Activities. Net cash used in investing activities was $0.08 million for the three months ended June 30, 2014, representing $0.08 million used in the acquisition of fixed and intangible assets.

Net cash used in investing activities was $0.07 million for the three months ended June 30, 2013, representing $0.06 million used in the acquisition of fixed and intangible assets and $6,000 in payments under contingent consideration agreements.

Financing activities. Net cash provided by financing activities for the three months ended June 30, 2014 was $5.2 million, consisting of $3.5 million in net proceeds from the Keltic Facility, $1.2 million in net proceeds from the issuance of Common Stock pursuant to the Distribution Agreement, $0.6 million in proceeds from the exercise of 2011 Warrants, $0.1 million in proceeds from the foreign revolving credit facilities and $0.1 million in proceeds from the exercise of stock options, offset by the $0.3 million paid on the Bourbon Term Loan.

Net cash used in financing activities for the three months ended June 30, 2013 was $0.1 million, consisting of $0.09 million paid on the foreign revolving credit facilities and $0.02 million paid on the Keltic Facility.

Recent accounting standards issued and adopted.

We discuss recently issued and adopted accounting standards in the “Accounting standards adopted” and “Recent accounting pronouncements” sections 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", "estimat "expects", "predicts", "could", "projects", "potential" and similar terms and phrases, including references to assumptions, in th 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, 2014, as amended, and as follows:

- our history of losses;
- recent 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;

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- 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;
- the possibility that we cannot secure and maintain listings in control states, which could cause the sales of our products to decrease significantly;
- 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;
- 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 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;
- an 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;
- 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 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, and, based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective as of such date.

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.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Please see Note 13 D. to our unaudited condensed consolidated financial statements elsewhere in this Quarterly Report on Form 10-Q.

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Item 6. Exhibits

Exhibit Number	Description
31.1*	Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification Pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	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.

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

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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)

August 14, 2014

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