

Castle Brands Inc
Form S-1/A
January 10, 2006

Table of Contents

As filed with the Securities and Exchange Commission on January 10, 2006

Registration No. 333-128676

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

**Amendment No. 2
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

Castle Brands Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

2080
*(Primary Standard Industrial
Classification Code Number)*

41-2103550
*(I.R.S. Employer Identification
Number)*

**570 Lexington Avenue, 29th Floor
New York, NY 10022
(646) 356-0200**

*(Address, Including Zip Code, and Telephone Number, Including Area Code,
of Registrant's Principal Executive Offices)*

**Mark Andrews
Chief Executive Officer
Castle Brands Inc.
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New York, NY 10022
(646) 356-0200**

*(Name, Address Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)*
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 10, 2006.

3,000,000 Shares

Common Stock

This is an initial public offering of shares of our common stock. All of the shares to be sold in the offering are being sold by us.

Prior to this offering, there has been no public market for our common stock. It is currently estimated that the initial public offering price per share will be between \$8.00 and \$10.00. We have applied to have our common stock quoted on the American Stock Exchange under the symbol ROX.

Investing in our common stock involves risks. See Risk Factors beginning on page 8 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	\$	\$
Underwriting discounts and commissions (1)	\$	\$
Proceeds to us (before the non-accountable expense allowance and other offering expenses)	\$	\$

(1) Does not include a non-accountable expense allowance payable to the underwriters in the amount of \$125,000.

We have granted the underwriters a 30-day option to purchase up to an additional 450,000 shares of common stock from us at the initial public offering price less the underwriting discount, solely to cover over-allotments.

The underwriters expect to deliver the shares to investors in this offering in New York, New York on or about , 2006.

Oppenheimer & Co.

ThinkEquity Partners LLC

Ladenburg Thalmann & Co. Inc.

, 2006.

Table of Contents

TABLE OF CONTENTS

	Page
<u>Prospectus Summary</u>	1
<u>Risk Factors</u>	8
<u>Forward-Looking Statements</u>	20
<u>Market Data and Forecasts</u>	20
<u>Use of Proceeds</u>	21
<u>Dividend Policy</u>	22
<u>Capitalization</u>	23
<u>Dilution</u>	25
<u>Selected Consolidated Financial Data</u>	27
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	30
<u>Business</u>	53
<u>Management</u>	72
<u>Certain Relationships and Related Party Transactions</u>	87
<u>Security Ownership of Certain Beneficial Owners and Management</u>	90
<u>Description of Securities</u>	94
<u>Shares Eligible for Future Sale</u>	99
<u>Underwriting</u>	101
<u>Legal Matters</u>	105
<u>Experts</u>	105
<u>Where You Can Find Additional Information</u>	105
<u>Index to Financial Statements</u>	F-1
<u>EX-23.1: CONSENT OF EISNER LLP</u>	

You should rely only on the information contained in this prospectus. No dealer, salesperson or other person is authorized to give information that is not contained in this prospectus. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is correct only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of these securities.

Table of Contents**PROSPECTUS SUMMARY**

This summary highlights information contained elsewhere in this prospectus and does not contain all the information that you should consider before investing in our common stock. You should read this entire prospectus carefully, including Risk Factors and our consolidated financial statements and related notes, before making an investment decision. All references to we, us, our, or our company refer to Castle Brands Inc. and, where appropriate, our consolidated direct and indirect subsidiaries.

Our company

We are an emerging developer and global marketer of premium branded spirits within four growing categories of the spirits industry: vodka, rum, Irish whiskey and liqueurs/cordials. Since our formation in 1998, we have invested over \$60 million in capital to develop our operating platform, acquire and grow our branded portfolio of distinctive premium spirits and establish U.S. and international sales and distribution. Our premium spirits brands include, among others, Boru vodka, Gosling's rum, Knappogue Castle Whiskey and Pallini Limoncello.

For our fiscal year ended March 31, 2005 and the six months ended September 30, 2005, we recorded sales of approximately 170,060 cases and 131,885 cases, respectively, which are measured based on the industry standard of nine-liter equivalent cases, and revenues of approximately \$12.6 million and \$10.1 million, which represented increases of 161% and 106% from revenues recorded for the prior comparable fiscal periods. These increases reflect both organic growth and growth from additions to our brand portfolio. We intend to continue our current growth through further market penetration of our brands, as well as through strategic relationships and acquisitions of both established and emerging spirits brands with global growth potential.

We have incurred losses since inception and had an accumulated loss of \$36.0 million as of September 30, 2005. For our fiscal year ended March 31, 2005 and the six months ended September 30, 2005, we incurred net losses of \$12.4 million and \$5.9 million, respectively. We believe that we will continue to incur sizeable net losses for the foreseeable future as we expect to make significant investment in product development and sales and marketing and to incur significant administrative expenses as we seek to grow our current and future brands.

Since December 2003, we have acquired The Roaring Water Bay Spirits Group Limited and its affiliated companies (adding Boru vodka, Brady's Irish cream and the Clontarf Irish whiskeys to our portfolio); entered into an exclusive marketing agreement with I.L.A.R. S.p.A., a family-owned Italian spirits company founded in 1875 (adding Pallini Limoncello to our portfolio); and established a strategic export venture, of which we own 60%, with the Gosling family in Bermuda (adding the Gosling's rums to our portfolio). We believe that these recent brand additions, together with our already existing brands, provide us with a strong base from which we can grow our business.

Our brands

Vodka *Boru vodka*, our leading brand, is an ultra-pure, quadruple distilled and specially filtered premium vodka. Boru is produced in Ireland and has three flavor extensions (citrus, orange and crazzberry).

Rum *Gosling's rums*, a family of premium rums with a 150-year history, for which we are, through our export venture, the exclusive marketer outside of Bermuda, including the award-winning *Gosling's Black Seal* rum; and *Sea Wynde*, a premium rum developed and introduced by us in 2001.

Irish Whiskey *Knappogue Castle Whiskey*, a vintage-dated premium single-malt Irish whiskey; *Knappogue Castle 1951*, a pure pot-still whiskey that has been aged for 36 years; and the *Clontarf Irish whiskeys*, a family of premium Irish whiskeys, available in single malt, reserve and classic pure grain versions.

Table of Contents

Liqueurs/Cordials Brady s Irish cream, a premium Irish cream liqueur; *Celtic Crossing*, a premium Irish liqueur; and, pursuant to an exclusive U.S. marketing arrangement, *Pallini Limoncello*, a premium Italian liqueur.

Our competitive strengths

We believe that our competitive strengths include the following:

our portfolio of high quality, premium branded spirits with significant potential in the higher growth categories of the distilled spirits industry;

our extensive and already established U.S. distribution network within all 50 states and our growing distribution network in Europe and elsewhere;

our sales and marketing infrastructure, including an experienced sales force of 28 people and focused advertising, marketing and promotional programs;

our highly qualified and experienced management team with successful track records in brand development, the distilled spirits industry and mergers and acquisitions;

our flexible and efficient supply chain, which enables us to operate without owning or investing in distilleries, bottling plants or other similar facilities; and

our ability to forge strategic relationships with owners of both emerging and established spirits brands seeking opportunities to expand beyond their home markets.

Our growth strategy

Our objective is to continue building a distinctive portfolio of global premium spirits brands, with a primary focus on increasing both our total and individual brand case sales. To achieve this, we intend to continue:

increasing market penetration of our existing spirits brands. We intend to utilize our existing distribution relationships and sales expertise to achieve growth and gain additional market share within retail stores, bars and restaurants, both domestically and internationally; add experienced salespeople in selected markets; increase sales to national chain accounts; and expand our international distribution relationships;

building brand awareness through innovative marketing, advertising and promotional activities. We intend to continue developing compelling campaigns to establish and reinforce the image of our brands through the coordinated efforts of our experienced internal marketing personnel and leading third-party design and advertising firms; and

selectively adding new premium brands to our spirits portfolio. We intend to continue developing new brands and pursuing strategic relationships, joint ventures and acquisitions to selectively expand our portfolio of premium spirits brands, particularly by capitalizing on and expanding our already demonstrated partnering capabilities.

Our corporate information

We are a Delaware corporation formed in July 2003 by our predecessor company, Great Spirits Company LLC, which was formed in 1998. We maintain our principal executive offices at 570 Lexington Avenue, 29th Floor, New York, NY 10022. Our telephone number is (646) 356-0200. We also have offices in Dublin, Ireland and Houston, Texas. Our website is located at www.castlebrandsinc.com. The information contained on our website or that can be accessed through our website does not constitute part of this prospectus.

Table of Contents

The Offering

Common stock offered 3,000,000 shares

Common stock to be outstanding after this offering 11,462,646 shares

Use of proceeds We estimate that our net proceeds from this offering will be approximately \$23.0 million, assuming an initial offering price of \$9.00 per share of common stock, the midpoint of the range set forth on the cover page of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses. We intend to use the proceeds from this offering for working capital and general corporate purposes and to:

increase our sales and marketing activities;

fulfill our capital commitments to our Gosling-Castle Partners Inc. strategic export venture;

hire additional employees; and

repay a portion of our indebtedness.

Although we have no present commitments or agreements to do so, we may also use a portion of the net proceeds of this offering to invest in or acquire additional brands through mergers, stock or asset purchases, joint ventures, long-term exclusive distribution arrangements and/or other strategic relationships. See Use of Proceeds.

Proposed American Stock Exchange symbol ROX

Risk factors See Risk Factors immediately following this prospectus summary to read about factors you should consider before buying shares of our common stock.

Except where otherwise indicated, the information in this prospectus assumes that the following events, each of which will occur upon the consummation of this offering, have already occurred:

the conversion of all of our Series A convertible preferred stock into 535,715 shares of our common stock;

the conversion of all of our Series B convertible preferred stock into 200,000 shares of our common stock;

the conversion of all of our Series C convertible preferred stock into 3,353,750 shares of our common stock;

our issuance of 146,010 shares of common stock in payment of all of the dividends accrued on our preferred stock through the estimated closing of this offering, including 94,377 shares issued in payment of the \$635,092 in accrued preferred stock dividends outstanding as of September 30, 2005;

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the conversion of all 1,374,750 (\$1,656,298) principal amount of our 5% euro denominated convertible subordinated notes into 263,362 shares of our common stock; and

the conversion of \$6.0 million of the \$15.0 million principal amount of our 6% convertible notes into 857,143 shares of our common stock.

-3-

Table of Contents

The number of shares of common stock to be outstanding after this offering excludes the following:

2,000,000 shares of common stock reserved for issuance upon the exercise of stock options granted or that may be granted under our stock incentive plan, including 878,500 shares of common stock reserved for issuance upon the exercise of currently outstanding stock options, with a weighted average exercise price of \$6.83 per share;

10,000 shares of common stock reserved for issuance upon the exercise of stock options granted outside of our stock incentive plan, with an exercise price of \$6.00 per share;

598,618 shares of common stock reserved for issuance upon the exercise of outstanding warrants, with a weighted average exercise price of \$7.67 per share; and

1,125,000 shares of common stock reserved for issuance upon the conversion of \$9.0 million principal amount of our 6% convertible notes, with a conversion price of \$8.00 per share.

Unless otherwise indicated, the information in this prospectus also assumes that the underwriters do not exercise their over-allotment option to purchase up to 450,000 additional shares of common stock from us.

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. Gains or losses resulting from foreign currency transactions are included in other income/expenses.

Where in this prospectus we refer to amounts in euros or British pounds, we have for your convenience also in certain cases provided a translation of those amounts to U.S. dollars in parenthesis. Where the numbers refer to a specific balance sheet date account or financial statement period account, we have used the exchange rate that was used to perform the translations in connection with the applicable financial statement. In all other instances, unless otherwise indicated, the translations have been made using the exchange rates as of September 30, 2005, each as calculated from the Interbank exchange rates as reported by Oanda.com. On September 30, 2005, the exchange rate of the euro in exchange for U.S. dollars and the exchange rate of the British pound in exchange for U.S. dollars were 1.00 = U.S. \$1.2048 (equivalent to U.S. \$1.00 = 0.8300) for euros and £1.00 = U.S. \$1.7628 (equivalent to U.S. \$1.00 = £0.5673) for British pounds.

These translations 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.

Table of Contents

Summary Consolidated Financial Information

The following tables set forth summary consolidated financial data and other data for the periods ended and as of the dates indicated. The summary financial data for the fiscal years ended March 31, 2003, 2004 and 2005 have been derived from our historical audited consolidated financial statements. The summary consolidated financial data presented as of and for the six months ended September 30, 2004 and 2005 have been derived from our unaudited interim consolidated financial statements, which in the opinion of our management include all adjustments, consisting of only normal recurring adjustments, that we considered necessary for a fair presentation of our financial position and results of operations as of and for such unaudited periods. The historical results are not necessarily indicative of results to be expected for future periods, and results for the six month period ended September 30, 2005 are not necessarily indicative of results that may be expected for the entire year ending March 31, 2006. You should read the following summary financial data and other data in conjunction with our consolidated financial statements, including the related notes, and the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

In December 2003, we acquired The Roaring Water Bay Spirits Group Limited and The Roaring Water Bay Spirits Marketing and Sales Company Limited, together, with their subsidiaries, referred to as Roaring Water Bay. The summary financial and other data presented in the tables below includes the results of operations of Roaring Water Bay commencing as of the December 1, 2003 closing date of the acquisition. If we assume, for comparative purposes only, that the acquisition occurred as of April 1, 2003, the beginning of our fiscal year ended March 31, 2004, our unaudited pro forma results of operations for our fiscal year ended March 31, 2004 would have been: sales, net \$8.6 million; gross profit \$3.5 million; net loss \$(6.5) million; and net loss per common share basic and diluted \$(2.92). These pro forma results are not necessarily indicative, however, of the results of operations that actually would have resulted had the acquisition occurred on April 1, 2003 or of future results.

In January 2005, we entered into a distribution agreement with Gosling's Export (Bermuda) Limited, referred to as Gosling's Export, giving us the exclusive distribution rights with respect to the Gosling's rum products in the United States and, subsequently, in the United Kingdom. Thereafter, we expanded this relationship in February 2005, when we purchased a 60% controlling interest in a newly formed entity now named Gosling-Castle Partners Inc., a strategic venture that was formed to acquire, through an export agreement with Gosling's Export, the global (excluding Bermuda) distribution rights with respect to the Gosling's rums, including an assignment by Gosling's Export to Gosling-Castle Partners of its rights under our January 2005 distribution agreement. This export agreement was entered into with Gosling's Export in February 2005, prior to our investment in Gosling-Castle Partners, and became effective on April 1, 2005. The summary financial and other data presented in the tables below include our sales of Gosling's products in the United States and the United Kingdom under our distribution agreement commencing as of its January 1, 2005 effective date and include the results of operations of Gosling-Castle Partners commencing as of the February 18, 2005 closing date of our investment in such entity, with adjustments for minority interest. Gosling-Castle Partners had no operations prior to its February 2005 formation and no meaningful operations prior to the April 1, 2005 commencement of its export agreement.

The other data presented below relates to our case sales, which are measured based on the industry standard of nine-liter equivalent cases, an important measure in our industry that we use to evaluate the effectiveness of our operations and overall financial performance. We believe that by providing this information investors can better assess trends in our business. Net sales per case is total net sales for the applicable period presented, divided by the total number of cases sold during the period. Gross profit per case and selling expense per case are derived by dividing our gross profit and selling expense, respectively, for the applicable period presented by the number of cases sold for such period.

Table of Contents

	Year ended March 31,			Six months ended September 30,	
	2003	2004	2005	2004	2005
				(unaudited)	
Consolidated statement of operations data (in thousands):					
Sales, net	\$ 2,419	\$ 4,827	\$ 12,618	\$ 4,901	\$ 10,080
Cost of sales	1,427	3,285	8,745	2,960	6,181
Gross profit	992	1,542	3,873	1,941	3,899
Selling expense	3,348	5,398	11,569	6,105	6,517
General and administrative expense	818	1,960	3,637	1,505	2,302
Depreciation and amortization	73	174	167	131	379
Operating loss	(3,247)	(5,990)	(11,500)	(5,800)	(5,299)
Other income	0	2	124	123	39
Other expense	(3)	(82)	(45)	(34)	(19)
Foreign exchange gain/(loss)	(8)	(85)	120	(338)	(347)
Interest expense, net	(182)	(304)	(998)	(578)	(620)
Current credit/(charge) on derivative financial instrument	9	26	(77)	6	15
Income tax benefit					74
Minority interests		35	5	2	224
Net loss	\$ (3,431)	\$ (6,398)	\$ (12,371)	\$ (6,619)	\$ (5,933)
Less: preferred stock and preferred membership unit dividends	15	761	1,252	620	692
Net loss attributable to common stockholders	\$ (3,446)	\$ (7,159)	\$ (13,623)	\$ (7,239)	\$ (6,625)
Net loss per common share basic and diluted	\$ (1.87)	\$ (3.20)	\$ (4.39)	\$ (2.33)	\$ (2.13)
Weighted average shares outstanding basic and diluted	1,841	2,237	3,107	3,107	3,107

Pro forma net loss per common share basic and diluted(1)			\$ (1.61)	\$ (0.86)	\$ (0.78)
Pro forma weighted average common shares outstanding basic and diluted(1)			8,463	8,463	8,463
Other data (unaudited):					
Number of case sales	21,708	64,013	170,060	72,368	131,885
Net sales per case	\$ 111.43	\$ 75.41	\$ 74.20	\$ 67.72	\$ 76.43
Gross profit per case	\$ 45.70	\$ 24.09	\$ 22.77	\$ 26.82	\$ 29.56
Selling expense per case	\$ 154.23	\$ 84.33	\$ 68.03	\$ 84.36	\$ 49.41

- (1) Assumes the conversion as of April 1, 2004 of: all shares of preferred stock outstanding as of September 30, 2005, including 535,715 shares of Series A convertible preferred stock, 200,000 shares of Series B convertible preferred stock and 3,353,750 shares of Series C convertible preferred stock, into an aggregate of 4,089,465 shares of common stock; the accrued and unpaid preferred stock dividends accrued through the estimated closing date of this offering into 146,010 shares of common stock, including \$635,092 of accrued preferred stock dividends outstanding as of September 30, 2005 into 94,377 shares of common stock; the \$1.7 million principal amount of our 5% euro denominated convertible notes outstanding as of September 30, 2005 into 263,362 shares of common stock; and \$6.0 million of the \$15.0 million principal amount of our 6% convertible notes that was outstanding as of September 30, 2005 into 857,143 shares of common stock; for an aggregate of 5,355,980 shares of common stock. Also assumes the reversal of previously recorded interest expense and corresponding changes in foreign exchange gain/(loss) related to the converting debt.

Table of Contents**Summary balance sheet data**

(in thousands):

As of September 30, 2005

	Actual	Pro forma (unaudited)	Pro forma as adjusted
Cash and cash equivalents	\$ 8,527	\$ 8,366	\$ 30,627
Working capital	11,445	11,445	34,632
Total assets	50,720	50,220	71,656
Total debt	24,981	17,164	16,724
Total liabilities	37,152	28,701	27,128
Total stockholders' equity (deficiency)	(17,839)	18,412	41,421

The pro forma information included in the summary balance sheet data as of September 30, 2005 gives effect at that date to the following pro forma adjustments:

our accrual of additional preferred stock dividends on our convertible preferred stock from October 1, 2005 through the estimated closing date of this offering in the aggregate amount of \$390,211;

repayment in December 2005 of 133,323 (\$160,628) of indebtedness under our non-interest bearing notes owed to former stockholders of Roaring Water Bay;

our issuance of an additional 5,355,980 shares of our common stock upon (a) the conversion of all of our preferred stock into 4,089,465 shares, (b) our payment of all of the dividends accrued on our convertible preferred stock as of the estimated closing date of this offering, including those accrued since September 30, 2005, with 146,010 shares of our common stock, and (c) the conversion of \$7.7 million of our indebtedness into 1,120,505 shares of our common stock; all of which issuances will occur upon the consummation of this offering; and

the reversal of previously recorded interest expense and corresponding changes in foreign exchange gain/(loss) related to the indebtedness referred to above, in the aggregate net amount of (\$98,405), and the expensing of the \$339,823 in deferred financing charges associated with the \$6.0 million of our 6% convertible notes included in such indebtedness.

The pro forma as adjusted information as of September 30, 2005 gives effect at that date to the foregoing pro forma adjustments as well as to the following additional events:

our sale of the 3,000,000 shares of common stock in this offering at an assumed initial public offering price of \$9.00 per share, the midpoint of the range set forth on the cover page of this prospectus; and

our receipt of the estimated net proceeds therefrom, after deducting the underwriting discounts and commissions and other expenses of this offering and giving effect to our repayment from such proceeds of \$569,181 of our indebtedness, including \$101,330 of accrued interest, outstanding as of September 30, 2005 and payment of \$204,952 in dividends accrued on the preferred membership units in our predecessor company, Great Spirits Company, LLC, through December 1, 2003. Does not include \$164,065 of additional interest that will accrue from October 1, 2005 through the

estimated closing date of this offering and that will be repaid from the proceeds of this offering.

Table of Contents

RISK FACTORS

You should carefully consider the following risks and all other information set forth in this prospectus before deciding to invest in shares of our common stock. If any of the events or developments described below actually occurs, our business, financial condition and results of operations may suffer. In that case, the trading price of our common stock may decline and you could lose all or part of your investment.

Risks related to our business

Our future success is highly uncertain and cannot be predicted based upon our limited operating history.

Although our predecessor was formed in 1998, most of our brands, including Boru vodka, our leading brand, have only been acquired or introduced by us since our formation in July 2003. As a result, compared to most of our current and potential competitors, we have a relatively short operating history and our brands are early in their growth cycle. Additionally, we anticipate acquiring brands in the future that are unlikely to have established global brand recognition. Accordingly, it is difficult to predict when or whether we will be financially and operationally successful, making our business and future prospects difficult to evaluate. In making your evaluation of our prospects, you should consider that we are an emerging company with products that, as yet, have limited brand recognition and unproven global or broad-based market acceptance. As a result, we may encounter many expenses, delays, problems and difficulties that we have not anticipated and for which we have not planned. If we are unable to address these issues, if and when they arise, we may never be financially or operationally successful.

We have a history of losses, we expect to experience continuing losses for the foreseeable future, and we may never achieve profitability.

We have incurred losses since inception and had an accumulated loss of \$36.0 million as of September 30, 2005. We believe that we will continue to incur sizeable net losses for the foreseeable future as we expect to make continued and significant investment in product development, and sales and marketing and to incur significant administrative expenses as we seek to grow our current and future brands. We also anticipate that our cash allocations will exceed our income from sales for the foreseeable future. Despite our anticipated aggressive marketing expenditures, our products may never achieve widespread market acceptance and may not generate sales and profits to justify our investment. In addition, we may find that our expansion plans are more costly than we currently anticipate and that they do not ultimately result in commensurate increases in our sales, which would further increase our losses. If we continue to incur expenses at a greater rate than our revenues, we may never achieve profitability.

We may require additional capital to finance the acquisition of additional brands and to grow existing brands and our inability to raise such capital on beneficial terms or at all could harm our operations and restrict our growth.

While the proceeds of this offering are expected to last us for at least the next 12 months, we may require additional capital in the future on an accelerated basis to fund potential acquisitions of new brands, expansion of our product lines, and increased sales, marketing and advertising costs with respect to our existing and any newly acquired brands. If, at such time, we have not generated sufficient cash from operations to finance those additional capital needs, we will need to raise additional funds through private or public equity and/or debt financing. We cannot assure you that, if and when needed, additional financing will be available to us on acceptable terms or at all. If additional capital is needed and either unavailable or cost prohibitive, our growth may be limited as we may need to change our business strategy to slow the rate of, or eliminate, our expansion or reduce or curtail our operations. In addition, any additional financing we undertake could impose covenants upon us that restrict our

Table of Contents

operating flexibility, and, if we issue equity securities to raise capital, our existing stockholders may experience dilution or the new securities may have rights senior to those of our common stock.

We are dependent on a limited number of suppliers. Failure to obtain satisfactory performance from our suppliers or loss of our existing suppliers could cause us to lose sales, incur additional costs and lose credibility in the marketplace. We also have annual purchase obligations with certain suppliers.

We depend on a limited number of third-party suppliers for the sourcing of all of our products, including both our own proprietary brands and those we distribute for others. These suppliers consist of third-party distillers, bottlers and producers in the United States, Bermuda, the Caribbean and Europe. We rely on the owners of Gosling's rum and Pallini Limoncello to produce their brands for us. With respect to our proprietary products, we, in several instances, rely on a single supplier to fulfill one or all of the manufacturing functions for one or more of our brands. For instance, The Carbery Group is the sole producer for Boru vodka, our leading brand; Irish Distillers Limited is the sole provider of our single malt, blended and grain Irish whiskey; Gaelic Heritage Corporation Limited is the sole producer of our Celtic Crossing Irish liqueur; and Terra Limited is not only the sole producer of our Brady's Irish cream liqueur but also the only bottler of both our Boru vodka and our Irish whiskeys. We do not have long-term written agreements with all of our suppliers. In addition, if we fail to complete purchases of products ordered annually, certain suppliers have the right to bill us for product not purchased during the period. The termination of our written or oral agreements, or an adverse change in the terms of these agreements could have a negative impact on our business. If our suppliers increase their prices, we may not have alternative sources of supply and may not be able to raise the prices of our products to cover all or even a portion of the increased costs. In addition, our suppliers' failure to perform satisfactorily or handle increased orders, delays in shipments of products from international suppliers, or the loss of our existing suppliers, especially our key suppliers, could cause us to fail to meet orders for our products, lose sales, incur additional costs and/or expose us to product quality issues. In turn, this could cause us to lose credibility in the marketplace and damage our relationships with distributors, ultimately leading to a decline in our business and results of operations.

We cannot yet act as our own importer of record in the United States and rely entirely on MHW Ltd. to perform this function for us. The loss of its services could thus significantly interrupt our U.S. sales and harm our reputation, our business and our results of operations.

In the United States, there is a three-tier distribution system for imported spirits: the imported brand is sold to a licensed importer; the importer sells the imported brand to a wholesale distributor; and the distributor sells the imported brand to retail liquor stores, bars, restaurants and other outlets in the states in which it is licensed to sell alcohol. While we own most of our brands, we cannot yet act as our own importer as we do not currently have any of the state licenses necessary to sell our products to the distributors. We have, as a result, historically depended on MHW Ltd. to serve in this capacity for us. In addition to acting as importer of record for us, MHW also provides and supervises storage and transportation of our products to local wholesale distributors and provides several accounting and payment related services to us. Until we are licensed in a majority of the states and bring these services in-house, the loss