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HAUSER INC
Form 8-K
September 11, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 27, 2002

HAUSER, INC.

(Exact name of registrant as specified in its charter)

Delaware ----- (State or other jurisdiction of incorporation)	0-17174 ----- (Commission File Number)	84-0926801 ----- (IRS Employer Identification No.)
20710 S. Alameda Street Long Beach, CA 90810-1107 ----- (Address of principal executive offices)		90810 ----- Zip Code

Registrant's telephone number, including area code: (310) 637-9566

Item 2. Acquisition or Disposition of Assets.

On August 27, 2002, Hauser Technical Services, Inc., a Delaware corporation ("HTS") and a wholly owned subsidiary of Hauser, Inc. (the "Company"), sold the assets relating to its Shuster Laboratories division to STR Acquisition Sub, Inc., a Delaware corporation ("STR Acquisition Sub") and a wholly owned subsidiary of Specialized Technology Resources, Inc. ("STR"), a Delaware corporation (the "Transaction"). In connection with the Transaction, STR Acquisition Sub assumed certain liabilities related to the Shuster Laboratories division.

Under the terms of the Asset Purchase Agreement, dated as of August 27, 2002, among the Company, HTS, STR and STR Acquisition Sub (the "Purchase Agreement"), the total consideration received for the Transaction was \$7,732,907.08 (the "Purchase Price"), of which (i) \$7,000,000 was paid to the Company in cash, (ii) \$250,000 was heldback by STR Acquisition Sub and is subject to a post-closing working capital adjustment (the "Holdback"), and (iii) \$482,907.08 was to be paid to the Company upon receipt of a certain receivable by STR Acquisition Sub (the "Receivable"). The Purchase Price was determined by arms-length negotiations between the Company and STR. The investment banking firm of Peter J. Solomon Company Limited has provided a fairness opinion to the

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board of directors of the Company with respect to the Purchase Price. At the closing of the Transaction, the Company used \$6,022,000 of the Purchase Price to reduce outstanding indebtedness under its credit facility with Wells Fargo Bank, N.A. ("Wells Fargo") and \$978,000 to pay certain expenses of the Company incurred in connection with the sale. On September 6, 2002, on behalf of the Company, STR Acquisition Sub paid the Receivable to Wells Fargo, of which the entire \$482,907.08 was used to further reduce the Company's indebtedness. The Company has agreed to pay Wells Fargo amounts, if any, received upon release of the Holdback, which amounts will be used to further reduce its indebtedness. As a result of the Transaction, the Company expects to record a loss of approximately \$854,000. Upon final determination of the post-closing working capital, if all or a portion of the Holdback is received by the Company, the loss will be reduced by the amount received. There is no material relationship between either STR or STR Acquisition Sub and the Company or any of its affiliates, any director or officer of the Company, or any associate of any such director or officer.

The Shuster Laboratories division is engaged in the business of technical and management consulting, product development, product evaluation and testing, laboratory testing, laboratory affairs, auditing, consumer testing and sensory research and claims substantiation to manufacturers and marketers of foods, pharmaceuticals, dietary supplements, household and personal care products and specialty industrial products.

The foregoing description of the Purchase Agreement is qualified in its entirety by reference to such agreement, a copy of which has been filed as Exhibit 2.1 to this Form 8-K and is incorporated herein by reference.

On August 28, 2002, the Company issued a press release relating to the Transaction, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

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Item 7. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

Not applicable.

(b) Proforma Financial Information.

The following Proforma Consolidated Financial Statements for the three months ended June 30, 2002 and for the fiscal year ended March 31, 2002 give effect to the sale of certain assets and liabilities relating to the Shuster Laboratories division of HTS to STR Acquisition Sub and the subsequent payment of \$6,022,000 of the proceeds from the sale to repay a portion of the outstanding indebtedness under the Company's credit facility with Wells Fargo Bank, N.A. and \$978,000 to pay certain expenses of the Company incurred in connection with the sale. The proforma adjustments are based on available information and upon certain assumptions that the Company believes are reasonable under the circumstances. The proforma financial information should be read in conjunction with the March 31, 2002 Audited Consolidated Financial Statements of the Company and the June 30, 2002 Unaudited Consolidated Financial Statements of the Company.

The Proforma Consolidated Balance Sheet and Proforma Consolidated Statements of Operations are necessarily based upon allocations, assumptions and approximations and, therefore, do not reflect in precise

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numerical terms the impact of the transaction on the historical financial statements. In addition, such proforma statements should not be used as a basis for forecasting the future operations of the Company.

The proforma adjustments made in the preparation of the Proforma Consolidated Balance Sheet assume that the sale of certain assets and liabilities of the Shuster Laboratories division of HTS had been consummated at June 30, 2002, the end of the Company's most recent quarterly period. The proforma adjustments related to the Proforma Consolidated Statements of Operations for the three months ended June 30, 2002 and for the year ended March 31, 2002 assume that the sale of certain assets and liabilities of the Shuster Laboratories division of HTS had been consummated as of April 1, 2002 and 2001, respectively, the dates beginning the Company's fiscal years.

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HAUSER, INC.

PROFORMA CONSOLIDATED BALANCE SHEET June 30, 2002 (In thousands)

ASSETS -----	June 30, 2002 (Unaudited)	Pro Forma Adjustments	Pro Forma June 30, 2002 (Unaudited)
CURRENT ASSETS:			
Cash and cash equivalents	\$ 25	\$7,000 (2)	\$ (7,000) (4)
Accounts receivable, less allowance for doubtful accounts: \$848	8,632	483 (3)	9,7
Inventory, at lower of cost or market	7,005		7,
Prepaid expenses and other	853	(364) (2)	
Current assets of business held for sale	2,879	(2,879) (1)	
	-----	-----	-----
Total current assets	19,394	4,240	(7,000)
	-----	-----	-----
PROPERTY AND EQUIPMENT, net:	7,995	-	-
	-----	-----	-----
OTHER ASSETS:			
Deposits and other	494		
Non-current assets of business held for sale	4,772	(4,772) (1)	
	-----	-----	-----
	\$32,655	\$ (532)	\$ (7,000)
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY -----			
CURRENT LIABILITIES:			
Checks outstanding	\$ 1,205		\$ 1,
Accounts payable	4,640		4,

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Current portion of long-term debt	15,467		(6,022) (4)	9,
Note payable to related party	2,852			2,
Accrued salaries and benefits	1,243			1,
Customer deposits	297			
Accrued exit costs	162			
Amount due to related party	2,660			2,
Other current liabilities	1,841	978 (2)	(978) (4)	1,
Liabilities of business held for sale	948	(948) (1)		
	<hr/>			
Total current liabilities	31,315	30	(7,000)	24,
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STOCKHOLDERS' EQUITY

Common stock, \$.001 par value; 20,000,000 shares authorized; shares issued and outstanding: 5,976,749	6			
Additional paid-in capital	95,182			95,
Warrants	1,133			1,
Accumulated deficit	(94,981)	(562) (5)		(95,
	<hr/>			
	1,340	(562)	-	
	<hr/>			
	\$32,655	\$ (532)	\$ (7,000)	\$25,
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PROFORMA ADJUSTMENTS:

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- (1) Adjustment to reflect Shuster held for sale assets and liabilities which would have transferred to purchaser if sale had occurred June 30, 2002.
 - (2) Adjustment to reflect \$7,000,000 cash proceeds of sale, of which \$6,022,000 was used to immediately repay debt to Wells Fargo, and \$978,000 was used to pay accrued expenses resulting from the sale transaction. Two additional amounts were retained in escrow, \$482,907 which was pending collection of an account receivable, and \$250,000 subject to final accounting for working capital sold. The account receivable for \$482,907 was subsequently collected, and the amount paid to Wells Fargo. Expenses related to the sale of Shuster totaling \$364,000 were previously incurred and recorded as prepaid expenses, and will be reflected as expense in the period in which Shuster was sold.
 - (3) Adjustment to reflect account receivable of Shuster retained by the Company.
 - (4) Proceeds of sale were used to repay debt and expenses related to the sale.
 - (5) Proforma loss on sale of Shuster if sale had occurred on June 30, 2002.

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HAUSER, INC.

PROFORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2002
(In thousands, except share amounts)

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	Actual Three months ended June 30, 2002	Proforma Adjustments	Proforma Three months ended June 30, 2002
REVENUES:			
Dietary supplements	\$ 8,905		\$ 8,905
Pharmaceutical and functional food ingredients	2,458		2,458
Technical services	2,018		2,018
Total revenues	13,381	-	13,381
COST OF REVENUES:			
Dietary supplements	7,140		7,140
Pharmaceutical and functional food ingredients	2,106		2,106
Technical services	1,416		1,416
Total cost of revenues	10,662	-	10,662
GROSS PROFIT	2,719	-	2,719
OPERATING EXPENSES:			
New product development	469		469
Sales and marketing	611		611
General and administrative	1,457		1,457
Total operating expenses	2,537	-	2,537
INCOME (LOSS) FROM OPERATIONS	182	-	182
INTEREST EXPENSE	(568)	108 (1)	(460)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX BENEFIT	(386)	108	(278)
INCOME TAX BENEFIT	201	(201) (2)	-
LOSS FROM CONTINUING OPERATIONS	(185)	(93)	(278)
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS, BASIC AND DILUTED	\$ (0.03)		\$ (0.05)
WEIGHTED AVERAGE SHARES OUTSTANDING	5,957,339		5,957,339

PROFORMA ADJUSTMENTS:

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- (1) Adjustment to reflect interest savings which would have been realized if sale of Shuster had occurred April 1, 2002 and proceeds had been used to repay debt.
 - (2) The income tax benefit in continuing operations which is being eliminated by this proforma adjustment was realized due to the income of the discontinued operation. In excluding the income of the discontinued operation on a proforma basis, the benefit also is to be eliminated.

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HAUSER, INC.

PROFORMA CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2002
(In thousands, except share amounts)

	Actual, as Reported Year Ended March 31, 2002	Discontinued Operations (1)	Actual, Showing Discontinued Operations Year Ended March 31, 2002	P Ad
REVENUES:				
Dietary Supplements	\$ 32,059	\$ -	\$ 32,059	
Pharmaceutical and functional food ingredients	6,375	-	6,375	
Technical services	19,188	(10,379)	8,809	
Other	-	-	-	
Total revenues	57,622	(10,379)	47,243	
COST OF REVENUES:				
Dietary Supplements	24,707	-	24,707	
Pharmaceutical and functional food ingredients	5,320	-	5,320	
Technical services	14,402	(7,852)	6,550	
Write-down of inventory	212	-	212	
Total cost of revenues	44,641	(7,852)	36,789	
GROSS PROFIT (LOSS)	12,981	(2,527)	10,454	
OPERATING EXPENSES:				
New product development	2,580	-	2,580	

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Sales and marketing	3,374	(728)	2,646
General and administrative	8,319	(1,403)	6,916
Restructuring charge	2,884	-	2,884
Total operating expenses	17,157	(2,131)	15,026
LOSS FROM OPERATIONS	(4,176)	(396)	(4,572)
OTHER INCOME (EXPENSE):			
Interest and other income	12	(12)	-
Interest expense	(1,653)	376	(1,277)
Gain from sale of assets	309	-	309
Total other (expense) income	(1,332)	364	(968)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX BENEFIT	(5,508)	(32)	(5,540)
INCOME TAX BENEFIT	(103)	-	(103)
LOSS FROM CONTINUING OPERATIONS	(5,405)	(32)	(5,437)
INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS, BASIC AND DILUTED	(0.96)		(0.96)
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC AND DILUTED	5,637,735		5,637,735

PROFORMA ADJUSTMENTS:

- (1) Subsequent to March 31, 2002 the Company adopted SFAS 144, which required the results of Shuster discontinued operations during the three months ended June 30, 2002, as the Company adopted SFAS 144 during that period. Accordingly, the results for the year ended March 31, 2002 have been restated as if Shuster had been a discontinued operation.
- (2) Adjustment to reflect interest savings which would have been realized if sale of Shuster had been used to repay debt.

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(c) Exhibits.

- 2.1 Asset Purchase Agreement, dated August 27, 2002, among Hauser, Inc., Hauser Technical Services, Inc., Specialized Technology Resources, Inc. and STR Acquisition Sub, Inc.*

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The following exhibits and schedules to the Asset Purchase Agreement have been omitted:

Exhibit A-1 - Katz Employment Agreement
Exhibit A-2 - Damon Employment Agreement
Exhibit B - Form of Assignment and Assumption of Lease
Exhibit C - Form of Bill of Sale, Assignment and Assumption Agreement
Exhibit D - Form of Intellectual Property Assignment
Exhibit E - Form of Opinion of Willkie Farr & Gallagher
Schedule 1.2(b) - Fixed Assets and Equipment
Schedule 1.2(c)(i)(A) - Technology
Schedule 1.2(c)(i)(B) - Trademark Rights
Schedule 1.2(c)(i)(C) - Copyright Rights
Schedule 1.2(c)(i)(D) - Internet Rights
Schedule 1.2(f) - Information Systems
Schedule 1.4 - Accrued Commissions and Other Liabilities
Schedule 3.3 - Governmental Approvals; Consents
Schedule 3.4 - Financial Statements
Schedule 3.5 - Absence of Changes
Schedule 3.6(b) - Leased Real Property
Schedule 3.7 - Contracts
Schedule 3.9 - Intangible Property Rights
Schedule 3.10 - Insurance
Schedule 3.12(b)(i) - Employee Benefit Plans
Schedule 3.12(c) - Employment Contracts
Schedule 3.13 - Licenses and Permits
Schedule 3.15 - Environmental Matters
Schedule 3.16 - Accounts Receivable
Schedule 3.17 - Accounts Payable
Schedule 3.18 - Sufficiency of Assets
Schedule 3.19 - Condition of Facilities
Schedule 4.3 - Government Approvals; Consents
Schedule 5.6(c)(i) - Offers of Employment
Schedule 11.13(a)(iv) - Certain Officers and Employees Knowledge

* Pursuant to Rule 601(b)(2) of Regulation S-K, certain exhibits and schedules have been omitted from this filing. The Company agrees to furnish supplementally a copy of any omitted exhibit or schedule to the Securities and Exchange Commission upon request.

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99.1 Press Release, dated August 28, 2002.

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SIGNATURES

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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 hereunto duly authorized.

HAUSER, INC.

Dated: September 11, 2002

By: /s/ Kenneth C. Cleveland

Name: Kenneth C. Cleveland
Title: President and Chief
Executive Officer

Exhibit Index

Exhibit No. -----	Description -----
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