

AeroGrow International, Inc.  
Form 10-Q  
February 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

\_\_\_\_\_  
FORM 10-Q  
\_\_\_\_\_

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-33531

AEROGROW INTERNATIONAL, INC.  
(Exact name of registrant as specified in its charter)

NEVADA  
(State or other jurisdiction  
of incorporation or organization)

46-0510685  
(IRS Employer  
Identification Number)

6075 Longbow Drive, Suite 200, Boulder,  
Colorado  
(Address of principal executive offices)

80301  
(Zip Code)

(303) 444-7755  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

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to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

Number of shares of issuer's common stock outstanding as of February 7, 2014: 5,906,634

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Table of Contents

AeroGrow International, Inc.  
TABLE OF CONTENTS  
FORM 10-Q REPORT  
December 31, 2013

PART I Financial Information

Item 1.	<u>Financial Statements</u>	3
	<u>Condensed Balance Sheets as of December 31, 2013 (Unaudited) and March 31, 2013</u>	3
	<u>Unaudited Condensed Statements of Operations for the Three and Nine Months Ended December 31, 2013 and 2012 (Unaudited)</u>	4
	<u>Unaudited Condensed Statements of Cash Flows for the Nine Months Ended December 31, 2013 and 2012 (Unaudited)</u>	5
	<u>Notes to the Unaudited Condensed Financial Statements (Unaudited)</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4.	<u>Controls and Procedures</u>	28

PART II Other Information

Item 1.	<u>Legal Proceedings</u>	29
Item 1A.	<u>Risk Factors</u>	29
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 3.	<u>Defaults Upon Senior Securities</u>	29
Item 4.	<u>Mine Safety Disclosures</u>	29
Item 5.	<u>Other Information</u>	29
Item 6.	<u>Exhibits</u>	30
	<u>Signatures</u>	31

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Table of Contents

## PART I - FINANCIAL INFORMATION

## Item 1. Condensed Financial Statements

## AEROGROW INTERNATIONAL, INC.

## CONDENSED BALANCE SHEETS

	December 31, 2013	March 31, 2013
	(Unaudited)	(Derived from Audited Statements)
(in thousands, except share and per share data)		
<b>ASSETS</b>		
Current assets		
Cash	\$ 1,274	\$ 525
Restricted cash	15	42
Accounts receivable, net of allowance for doubtful accounts of \$13 and \$1 at December 31, 2013 and March 31, 2013, respectively	1,473	173
Other receivables	131	169
Inventory	1,598	1,229
Prepaid expenses and other	223	205
<b>Total current assets</b>	<b>4,714</b>	<b>2,343</b>
Property and equipment, net of accumulated depreciation of \$2,982 and \$2,869 at December 31, 2013 and March 31, 2013, respectively	335	266
Other assets		
Intangible assets, net of \$0 and \$135 of accumulated amortization at December 31, 2013 and March 31, 2013, respectively	2	195
Deposits	146	145
Deferred debt issuance costs, net of accumulated amortization of \$271 and \$255 at December 31, 2013 and March 31, 2013, respectively	7	23
<b>Total other assets</b>	<b>155</b>	<b>363</b>
<b>Total assets</b>	<b>\$ 5,204</b>	<b>\$ 2,972</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities		
Accounts payable	\$756	\$379
Accrued expenses	809	292
Customer deposits	-	157
Deferred rent	4	6
Notes payable	-	518
Notes payable – related party	-	122
Current portion – long term debt	112	900
Derivative warrant liability	595	-
Debt associated with sale of IP	271	-
<b>Total current liabilities</b>	<b>2,547</b>	<b>2,374</b>
Long term debt	-	1,169
<b>Total liabilities</b>	<b>2,547</b>	<b>3,543</b>
Commitments and contingencies		
Stockholders' equity (deficit)		

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Preferred stock, \$.001 par value, 20,000,000 shares authorized, 2,649,007 and no shares issued and outstanding at December 31, 2013 and March 31, 2013, respectively	3	-
Common stock, \$.001 par value, 750,000,000 shares authorized, 5,906,635 and 5,904,877 shares issued and outstanding at December 31, 2013 and March 31, 2013, respectively	6	6
Additional paid-in capital	79,167	75,427
Stock dividend to be distributed	367	-
Accumulated deficit	(76,886)	(76,004)
Total stockholders' equity (deficit)	2,657	(571)
Total liabilities and stockholders' equity (deficit)	\$ 5,204	\$ 2,972

See accompanying notes to the condensed financial statements.

Table of Contents

AEROGROW INTERNATIONAL, INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

(in thousands, except per share data)	Three Months ended December 31,		Nine Months ended December 31,	
	2013	2012	2013	2012
Net revenue	\$4,968	\$2,972	\$6,767	\$5,533
Cost of revenue	2,867	1,665	3,977	2,905
Gross profit	2,101	1,307	2,790	2,628
<b>Operating expenses</b>				
Research and development	17	94	72	302
Sales and marketing	1,262	882	2,127	1,765
General and administrative	451	390	1,231	1,407
Total operating expenses	\$1,730	\$1,366	\$3,430	\$3,474
Profit (loss) from operations	371	(59 )	(640 )	(846 )
<b>Other (income) expense, net</b>				
Fair value changes in derivative warrant liability	18	-	31	-
Interest expense	14	228	65	441
Interest expense – related party	2	9	8	25
Debt conversion cost	-	-	-	6,648
Other expense (income)	35	1	(498 )	(97 )
Total other expense, net	69	238	(394 )	7,017
Net income (loss)	\$302	\$(297 )	\$(246 )	\$(7,863 )
Less: Deemed dividend on convertible preferred stock	-	-	(268 )	-
Less: Preferred stock dividend	(226 )	-	(367 )	-
Net income (loss) attributable to common shareholders	\$76	\$(297 )	\$(881 )	\$(7,863 )
Net income (loss) per share, basic	\$0.01	\$(0.05 )	\$(0.10 )	\$(1.35 )
Net income (loss) per share, diluted	\$0.01	\$(0.05 )	\$(0.10 )	\$(1.35 )
<b>Weighted average number of common shares outstanding, basic</b>				
	5,906	5,905	5,905	5,826
<b>Weighted average number of common shares outstanding, diluted</b>				
	5,992	5,905	5,905	5,826

See accompanying notes to the condensed financial statements.

Table of Contents

AEROGROW INTERNATIONAL, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(Unaudited)

(in thousands)	Nine Months Ended December	
	2013	31, 2012
Cash flows from operating activities:		
Net (loss)	\$(246	) \$(7,863
Adjustments to reconcile net (loss) to cash (used) provided by operations:		
Issuance of common stock and options under equity compensation plans	176	167
Issuance of common stock warrants	18	-
Depreciation and amortization expense	113	123
Bad debt expense	13	2
Fair value remeasurement of derivative warrant liability	31	-
Accretion of debt associated with sale of intellectual property	(35	) -
Gain on the forgiveness of debt	(489	) -
Debt conversion costs associated with inducement	-	3,462
Amortization of debt issuance costs	16	988
Amortization of convertible debentures, beneficial conversion feature	-	1,067
Amortization of convertible debentures, beneficial conversion feature – related party	-	189
Interest expense from warrants issued with convertible debentures	-	955
Interest expense from warrants issued with convertible debentures – related party	-	187
Change in operating assets and liabilities:		
(Increase) in accounts receivable	(1,313	) (271
Decrease in other receivable	38	52
(Increase) in inventory	(606	) (182
(Increase) decrease in other current assets	(18	) 151
Increase in accounts payable	377	72
Increase in accrued expenses	517	148
Increase in accrued interest	49	116
Increase in accrued interest-related party	8	22
(Decrease) increase in customer deposits	(157	) 149