

HORIZON ORGANIC HOLDING CORP  
Form 10-Q  
August 14, 2002

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2002

Commission File No. 000-24337

**Horizon Organic Holding Corporation**

(a Delaware Corporation)

**I.R.S. Employer Identification Number 84-1405007**

6311 Horizon Lane  
Longmont, Colorado 80503  
(303) 530-2711

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

As of July 31, 2002, the registrant had outstanding 10,198,585 shares of its common stock, \$.001 par value per share.

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**HORIZON ORGANIC HOLDING CORPORATION**

**Form 10-Q**

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

HORIZON ORGANIC HOLDING CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands, except share amounts)

As of June 30, 2002 (unaudited) and December 31, 2001

	2002	2001
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,273	3,534
Trade accounts receivable, less allowance for doubtful accounts of \$170 in 2002 and \$137 in 2001	19,601	19,211
Inventories	15,144	14,655
Assets held for sale	29,152	7,040
Deferred income tax assets	160	160
Prepaid and other current assets	4,146	3,162
<b>Total current assets</b>	<b>69,476</b>	<b>47,762</b>
Long-term assets held for sale		25,155
<b>Property, Equipment and Cattle:</b>		
Cattle, net	1,094	1,060
Property and equipment, net	13,803	14,245
<b>Total property, equipment and cattle</b>	<b>14,897</b>	<b>15,305</b>
<b>Other Assets:</b>		
Goodwill, net of accumulated amortization of \$3,225 in 2002 and \$3,054 in 2001	25,843	24,478
Other intangible assets, net of accumulated amortization of \$4,465 in 2002 and \$3,799 in 2001	13,693	14,332
Other assets, net	2,767	2,734
<b>Total other assets</b>	<b>42,303</b>	<b>41,544</b>
<b>Total Assets</b>	<b>\$ 126,676</b>	<b>129,766</b>

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	2002	2001
	<u>          </u>	<u>          </u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities:</b>		
Current portion of long-term debt	\$ 23,850	7,306
Trade accounts payable	10,976	11,625
Other accrued expenses	8,458	6,946
	<u>          </u>	<u>          </u>
Total current liabilities	43,284	25,877
	<u>          </u>	<u>          </u>
<b>Long-Term Liabilities:</b>		
Long-term debt, less current portion	18,962	40,313
Deferred income tax liabilities	2,872	2,822
	<u>          </u>	<u>          </u>
Total long-term liabilities	21,834	43,135
	<u>          </u>	<u>          </u>
Total liabilities	65,118	69,012
	<u>          </u>	<u>          </u>
<b>Stockholders' Equity:</b>		
Preferred stock, \$.001 par value, authorized 5,000,000 shares; no shares issued or outstanding		
Common stock, \$.001 par value; authorized 30,000,000 shares; 10,194,115 and 10,126,285 shares issued and outstanding in 2002 and 2001, respectively	10	10
Additional paid-in capital	60,630	60,153
Treasury stock, 3,641 shares at June 30, 2002 (at cost)	(62)	
Accumulated other comprehensive income (loss) foreign currency translation adjustment	525	(1,185)
Retained earnings	455	1,776
	<u>          </u>	<u>          </u>
Total stockholders' equity	61,558	60,754
	<u>          </u>	<u>          </u>
Total Liabilities and Stockholders' Equity	\$ 126,676	129,766
	<u>          </u>	<u>          </u>

See accompanying notes to the unaudited consolidated financial statements.

**HORIZON ORGANIC HOLDING CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Operations and Comprehensive Income**

(In thousands, except per share amounts)

For the three months ended June 30, 2002 and 2001

(unaudited)

	2002	2001
	<u>          </u>	<u>          </u>
Net sales	\$ 44,713	38,607
Cost of sales	30,646	27,489
	<u>          </u>	<u>          </u>
Gross profit	14,067	11,118
	<u>          </u>	<u>          </u>

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	<u>2002</u>	<u>2001</u>
Operating expenses:		
Selling	9,900	7,651
General and administrative	2,659	1,997
Intangible asset amortization	326	772
	<u>          </u>	<u>          </u>
Total operating expenses	12,885	10,420
	<u>          </u>	<u>          </u>
Operating income	1,182	698
	<u>          </u>	<u>          </u>
Other income (expense), net:		
Interest income	11	26
Interest expense	(99)	(494)
Other, net	(34)	(46)
	<u>          </u>	<u>          </u>
Total other expense, net	(122)	(514)
	<u>          </u>	<u>          </u>
Income from continuing operations before income taxes	1,060	184
Income tax expense	(413)	(72)
	<u>          </u>	<u>          </u>
Income from continuing operations	647	112
Discontinued operations (Note 4):		
Income (loss) from operations of discontinued Idaho Dairy and Colorado herd (including loss on disposal of \$778 in 2002)	(482)	553
Income tax benefit (expense) from discontinued operations	188	(223)
	<u>          </u>	<u>          </u>
Income (loss) from discontinued operations	(294)	330
	<u>          </u>	<u>          </u>
Net income	\$ 353	442
	<u>          </u>	<u>          </u>
Income from continuing operations per basic and diluted share	\$ .06	.01
	<u>          </u>	<u>          </u>
Income (loss) from discontinued operations per basic and diluted share	\$ (.03)	.03
	<u>          </u>	<u>          </u>
Net income per basic and diluted share	\$ .03	.04
	<u>          </u>	<u>          </u>
Weighted average shares outstanding:		
Basic	10,179	9,945
Diluted	10,617	10,076
Comprehensive income:		
Net income	\$ 353	442
Foreign currency translation adjustment	2,275	(49)
	<u>          </u>	<u>          </u>
Comprehensive income	\$ 2,628	393
	<u>          </u>	<u>          </u>

See accompanying notes to the unaudited consolidated financial statements.

## HORIZON ORGANIC HOLDING CORPORATION AND SUBSIDIARIES

## Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share amounts)

For the six months ended June 30, 2002 and 2001

(unaudited)

	2002	2001
	<u>          </u>	<u>          </u>
Net sales	\$ 86,931	76,205
Cost of sales	59,014	54,357
	<u>          </u>	<u>          </u>
Gross profit	27,917	21,848
	<u>          </u>	<u>          </u>
Operating expenses:		
Selling	19,331	15,292
General and administrative	5,179	3,921
Intangible asset amortization	651	1,557
	<u>          </u>	<u>          </u>
Total operating expenses	25,161	20,770
	<u>          </u>	<u>          </u>
Operating income	2,756	1,078
	<u>          </u>	<u>          </u>
Other income (expense), net:		
Interest income	22	61
Interest expense, net of interest capitalized of \$60 in 2001	(228)	(1,073)
Other, net	(104)	(87)
	<u>          </u>	<u>          </u>
Total other expense, net	(310)	(1,099)
	<u>          </u>	<u>          </u>
Income (loss) from continuing operations before income taxes	2,446	(21)
Income tax benefit (expense)	(954)	2
	<u>          </u>	<u>          </u>
Income (loss) from continuing operations	1,492	(19)
Discontinued operations (Note 4):		
Income (loss) from operations of discontinued Idaho Dairy and Colorado herd (including loss on disposal of \$3,028 in 2002)	(3,602)	379
Income tax benefit (expense) from discontinued operations	789	(153)
	<u>          </u>	<u>          </u>
Income (loss) from discontinued operations	(2,813)	226
	<u>          </u>	<u>          </u>
Net income (loss)	\$ (1,321)	207
	<u>          </u>	<u>          </u>
Income (loss) from continuing operations per basic share	\$ .15	
	<u>          </u>	<u>          </u>
Income (loss) from continuing operations per diluted share	\$ .14	
	<u>          </u>	<u>          </u>
Income (loss) from discontinued operations per basic share	\$ (.28)	.02

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	2002	2001
	_____	_____
	_____	_____
Income (loss) from discontinued operations per diluted share	\$ (.26)	.02
Net income (loss) per basic share	\$ (.13)	.02
Net income (loss) per diluted share	\$ (.12)	.02
Weighted average shares outstanding:		
Basic	10,161	9,923
Diluted	10,589	10,036
Comprehensive income (loss):		
Net income (loss)	\$ (1,321)	207
Foreign currency translation adjustment	1,710	(1,705)
Comprehensive income (loss)	\$ 389	(1,498)

See accompanying notes to the unaudited consolidated financial statements.

**HORIZON ORGANIC HOLDING CORPORATION AND SUBSIDIARIES**

**Consolidated Statements of Cash Flows**

(In thousands)

For the six months ended June 30, 2002 and 2001

(unaudited)

	2002	2001
	_____	_____
Cash flows from operating activities:		
Net income (loss)	\$ (1,321)	207
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Loss (income) from discontinued operations, net of income taxes	350	(226)
Loss from anticipated sale of Idaho and Colorado farm operations, net of income taxes	2,463	
Provision for doubtful accounts	184	24
Depreciation and amortization	1,890	2,356
Loss on sale of cattle and equipment	75	54
Deferred income taxes	35	7
Noncash payments for director services	17	12
Changes in operating assets and liabilities:		
Trade accounts receivable	(339)	531
Inventories	(452)	(759)
Prepaid and other current assets	(923)	(72)
Other assets	14	6
Trade accounts payable	(797)	(767)
Other accrued expenses	915	(242)
Income taxes payable		150

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	2002	2001
	<u>          </u>	<u>          </u>
Net cash provided by operating activities	2,111	1,281
Cash flows from investing activities:		
Net cash generated by discontinued operations	650	1,737
Purchases of property and equipment	(570)	(1,938)
Proceeds from equipment sales	163	5
Purchases of cattle	(336)	(311)
Proceeds from cattle sales	143	125
Other assets	(111)	(207)
Purchases of treasury stock	(62)	
Net cash used in investing activities	(123)	(589)
Cash flows from financing activities:		
Proceeds from (repayments of) long-term line of credit	(565)	2,400
Proceeds from long-term debt, other than line of credit		638
Repayments of long-term debt, other than line of credit	(4,265)	(4,496)
Proceeds from exercise of stock options	402	197
Proceeds from issuance of common stock under ESPP	58	58
Net cash used in financing activities	(4,370)	(1,203)
Effect of exchange rate changes on cash	121	(74)
Net decrease in cash and cash equivalents	(2,261)	(585)
Cash and cash equivalents at beginning of period	3,534	2,438
Cash and cash equivalents at end of period	\$ 1,273	1,853
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 1,165	2,294
Cash paid during the period for income taxes	\$ 385	1
Noncash investing and financing activities:		
Additional capital lease obligations	\$	638
Common stock issued to outside directors	\$ 17	12

See accompanying notes to the unaudited consolidated financial statements.

**HORIZON ORGANIC HOLDING CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(unaudited)

**1. Basis of Presentation**

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The accompanying consolidated financial statements have been prepared by Horizon Organic Holding Corporation (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally accompanying financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such SEC rules and regulations. In management's opinion, all adjustments necessary for a fair presentation of the results of operations for the periods presented have been made and are of a normal and recurring nature. Operating results for the three and six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002.

These consolidated financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and notes thereto, together with management's discussion and analysis of financial condition and results of operations, contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Certain reclassifications have been made to the 2001 financial statements to conform to the 2002 presentation.

### 2. Summary of Significant Accounting Policies

The significant accounting policies effective during the six months ended June 30, 2002 were consistent with those reported in the Company's Form 10-K for the year ended December 31, 2001 except for no longer amortizing goodwill as of the Company's adoption on January 1, 2002 of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, or SFAS 142, which requires that goodwill and certain identifiable intangible assets not be amortized, but instead will be reviewed for impairment at least annually in accordance with the provisions of this statement. Other identifiable intangibles with finite lives will continue to be amortized over their estimated useful lives. Additionally, the Company is reporting the Idaho Dairy and Colorado herd operations as discontinued operations and assets held for sale as of March 31, 2002 and has reclassified prior periods accordingly. Pursuant to SFAS 144, the Company ceased depreciating the related assets as of March 31, 2002 and wrote the assets down to the expected disposal value, less costs to sell. See Note 4.

### 3. Translation of Foreign Currencies

The accounts of the Company's subsidiaries in the United Kingdom were measured using the local currency, which have been designated as the functional currency. Assets and liabilities were translated at the exchange rate in effect at the end of the period. Revenue and expenses were translated at the average exchange rate for the period. Translation adjustments arising from the use of differing exchange rates from period to period were included in comprehensive income (loss) in stockholders' equity.

### 4. Discontinued Operations

On March 31, 2002, the Company determined that its Idaho Dairy and Colorado herd operations met the definition of a disposal group under Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, or SFAS 144. The Company has a plan in place to sell the assets of the Idaho Dairy and Colorado herd operations. The Colorado herd will be transferred primarily to the Idaho Dairy in connection with the September 30, 2002 termination of the Dairy Herd Management and Supply Agreement with Aurora Dairy Corporation for the Colorado herd. The Company is in negotiations for the sale of the Idaho Dairy, which will include the Colorado

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herd, to an experienced dairy farmer and for a long-term supply agreement with the buyer for organic fluid milk. The Company expects to finalize the transactions in the fall of 2002.

The terms of the anticipated Idaho Dairy sale agreement contemplate a sale price based on net book value, which assumes that depreciation of the cattle and fixed assets would continue. Consequently, the resulting price of the Idaho Dairy continues to decrease over time. However, SFAS 144 requires that assets held for sale cease to be depreciated as of the measurement date, which was March 31, 2002. Therefore, the net book value of the assets held for sale does not decrease from an increase in accumulated depreciation since the measurement date; but it does decrease for the decrease in anticipated sale price under the contemplated sale agreement subsequent to the measurement date. Because of the resulting differences between the anticipated net book value and the anticipated selling price, the Company recognized \$0.8 million and \$1.5 million for the three and six months ended June 30, 2002, respectively, as additional loss on disposal of discontinued operations. If the Company is unable to finalize the transaction by September 30, 2002, additional loss on disposal will be recognized by the Company equaling the amount of depreciation that would be deemed to have occurred up to the anticipated date of finalizing the transaction.

The financial results from these operations for the current and prior periods are reported as discontinued operations consistent with a disposal group. Included in the loss from discontinued operations for the current three month and six month periods was an estimated loss on disposal of the Idaho Dairy and Colorado herd of \$0.8 million and \$3.0 million, respectively, before income taxes, including closing and transaction fees. The following unaudited financial data presents the combined results of operations for the Idaho Dairy and Colorado herd for the three and six months ended June 30, 2002 and 2001 (in thousands, except per share amounts):



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	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Sales	\$ 5,759	6,005	10,894	11,349
Cost of sales excluding cattle depreciation	3,493	2,736	6,754	5,580
Cattle depreciation		449	494	883
Gross profit	2,266	2,820	3,646	4,886
Operating expenses excluding fixed asset depreciation	1,536	1,540	3,108	3,031
Fixed asset depreciation		254	248	504
Loss on disposal	778		3,028	
Goodwill amortization		39		78
Operating income (loss)	(48)	987	(2,738)	1,273
Interest	434	434	864	894
Income (loss) before income taxes	(482)	553	(3,602)	379
Income tax (expense) benefit	188	(223)	789	(153)
Net income (loss)	\$ (294)	330	(2,813)	226

The following unaudited proforma financial data presents the results of operations for the Idaho Dairy and Colorado herd for the three and six months ended June 30, 2002, if the Company had concluded that its Idaho Dairy and Colorado herd operations had not met the definition of a disposal group under SFAS 144 and if the Company had not determined to sell its Idaho Dairy and Colorado herd:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Sales	\$ 5,759	6,005	10,894	11,349
Cost of sales excluding cattle depreciation	3,493	2,736	6,754	5,580
Cattle depreciation	514	449	1,007	883
Gross profit	1,752	2,820	3,133	4,886
Operating expenses excluding fixed asset depreciation	1,536	1,540	3,108	3,031
Fixed asset depreciation	264	254	512	504
Loss on disposal				
Goodwill amortization		39		78
Operating income (loss)	(48)	987	(487)	1,273