SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

# FORM 8-K/A

# CURRENT REPORT

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

Date of report (Date of earliest event reported): September 20, 2000

HANSEN NATURAL CORPORATION
(Exact name of registrant as specified in charter)

| | | |
|---|---|---|
| DELAWARE | 0-18761 | 39-1679918 |
| (State or other jurisdiction of incorporation) | (Commission file number) | (IRS employer identification no.) |

| | |
|---|---|
| 1010 Railroad Street<br>Corona, California<br>(Address of principal executive offices) | 92882<br>(Zip Code) |

(909) 739-6200
(Registrant's telephone number, including area code)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On October 4, 2000, Hansen Natural Corporation ( the "Company" or "Registrant") filed a Current Report on Form 8-K to report that on September 20, 2000 the Company acquired, through its indirect subsidiary Blue Sky Natural Beverage Co., a Delaware corporation ("BSNBC"), certain assets of Blue Sky Natural Beverage Co., a New Mexico corporation ("BSNB-NM"), including its natural carbonated sodas and seltzer business, for a purchase price of $6.5 million (the "Acquisition"). Pursuant to Item 7 of Form 8-K, the Company indicated that it would file certain financial information no later than the date required by Item 7 of Form 8-K. This Form 8-K/A is being filed to provide the required financial information.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Business Acquired

The financial statements of BSNB-NM required by Item 7 of Form 8-K are included herein as exhibits 99.1 and 99.2.

(b) Pro Forma Financial Information

The pro forma financial statements required by paragraphs (b)(2) and (a)(4) of Item 7 of Form 8-K are included herein.

Unaudited pro forma combined statement of income for the year ended December 31, 1999;

Unaudited pro forma combined statement of income for the nine-months ended September 30, 2000;

Unaudited pro forma combined condensed balance sheet data as of September 30, 2000;

and Note to unaudited pro forma combined statements of income and combined condensed balance sheet data.

The following unaudited pro forma combined financial statements are presented for information purposes only in response to Securities and Exchange Commission ("SEC") requirements and are not necessarily indicative of the combined financial position or results of operations for future periods or the financial position or results of operations that would actually have been realized had the Company and BSNB-NM been a combined company during the specified periods. The unaudited pro forma combined financial statements, including the related note, are qualified in their entirety by reference to, and should be read in conjunction with, the historical consolidated financial statements and related notes thereto of the Company, included in its Form 10-K and Form 10-Q, filed with the SEC on March 30, 2000 and November 9, 2000, respectively; and BSNB-NM's audited financial statements and related notes thereto for 1999 and its unaudited balance sheet and statement of operations for the nine-month period ending September 30, 2000, each of which are included in this Form 8-K/A.



The following unaudited pro forma combined financial statements give effect to the Acquisition using the purchase method of accounting. The pro forma combined financial statements are based on the respective historical audited and unaudited consolidated financial statements and related notes of the Company and BSNB-NM, respectively. The pro forma adjustments are preliminary and are based on management's estimates of the value of the tangible and intangible assets acquired.

The pro forma combined statement of income for the year ended December 31, 1999 assumes that the Acquisition took place as of January 1, 1999 and combines the Company's audited consolidated statement of income for the year ended December 31, 1999 with BSNB-NM's audited statement of operations for the year ended December 31, 1999. The pro forma combined statement of income for the nine months ended September 30, 2000 assumes that the Acquisition took place as of January 1, 2000 and combines the Company's unaudited consolidated statement of income for the nine months ended September 30, 2000 with BSNB-NM's unaudited statement of operations for the nine months ended September 30, 2000. The operating results of the acquired business since the date of the Acquisition are included in the Company's unaudited consolidated statement of income for the nine-months ended September 30, 2000.

The pro forma historical condensed balance sheet data of the Company and BSNB-NM as of September 30, 2000 have been adjusted to eliminate the effects of the Acquisition. The pro forma adjustments to the historical condensed balance sheet data of the Company and BSNB-NM as of September 30, 2000 gives effect to the Acquisition. The combined condensed balance sheet data reports the actual balances of the Company as reported in the Company's Form 10-Q for the period ended September 30, 2000.



HANSEN NATURAL CORPORATION AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME
FOR THE YEAR ENDED:

| | December 31, 1999 | | | |
|---|---|---|---|---|
| | Historical | | Pro forma | |
| | Company | BSNB-NM | Adjustments | Combined |
| NET SALES | $ 72,303,186 | $ 6,417,295 | $ | $ 78,720,481 |
| COST OF SALES | 38,776,532 | 4,570,070 | | 43,346,602 |
| GROSS PROFIT | 33,526,654 | 1,847,225 | | 35,373,879 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 25,337,374 | 1,661,929 | | 26,999,303 |
| Amortization of trademark license and trademarks | 307,823 | | 162,500 (1) | 470,323 |
| Other expenses | 380,378 | | | 380,378 |
| Total operating expenses | 26,025,575 | 1,661,929 | 162,500 | 27,850,004 |
| OPERATING INCOME | 7,501,079 | 185,296 | (162,500) | 7,523,875 |
| NONOPERATING EXPENSE (INCOME) | | | | |
| Interest and financing expense | 170,506 | 148,971 | 588,110 (2) | 907,587 |
| Interest income | (118,413) | (6,749) | | (125,162) |
| Gain on sale | | | | |
| Net nonoperating expense (income) | 52,093 | 142,222 | 588,110 | 782,425 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 7,448,986 | 43,074 | (750,610) | 6,741,450 |
| PROVISION FOR INCOME TAXES | 2,971,118 | | (300,244)(4) | 2,670,874 |
| NET INCOME | $ 4,477,868 | $ 43,074 | $ (450,366) | $ 4,070,576 |
| NET INCOME PER COMMON SHARE: | | | | |
| Basic | $ 0.45 | | | $ 0.41 |
| Diluted | $ 0.43 | | | $ 0.39 |
| NUMBER OF COMMON SHARES USED IN PER SHARE COMPUTATIONS: | | | | |
| Basic | 9,964,778 | | | 9,964,778 |
| Diluted | 10,510,604 | | | 10,510,604 |

See accompanying note to unaudited pro forma combined statements of income and combined condensed balance sheet data.



HANSEN NATURAL CORPORATION AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME
FOR THE NINE-MONTHS ENDED:

| | September 30, 2000 | |
|---|---|---|
| | Historical | Pro forma |

| | Company | BSNB-NM | Adjustments | Combined |
|---|---|---|---|---|
| NET SALES | $ 61,346,401 | $ 5,156,185 | $ | $ 66,502,586 |
| COST OF SALES | 32,472,187 | 3,643,876 | | 36,116,063 |
| GROSS PROFIT | 28,874,214 | 1,512,309 | | 30,386,523 |
| OPERATING EXPENSES: | | | | |
| Selling, general and administrative | 22,322,793 | 1,603,561 | | 23,926,354 |
| Amortization of trademark license and trademarks | 247,935 | | 121,875 (1) | 369,810 |
| Other expenses | | | | |
| Total operating expenses | 22,570,728 | 1,603,561 | 121,875 | 24,296,164 |
| OPERATING INCOME | 6,303,486 | (91,252) | (121,875) | 6,090,359 |
| NONOPERATING EXPENSE (INCOME) | | | | |
| Interest and financing expense | 169,059 | 101,646 | 447,222 (2) | 717,927 |
| Interest income and other | (11,467) | (314,335) | | (325,802) |
| Gain on sale of assets | | (6,402,838) | 6,402,838 (3) | - |
| Net nonoperating expense (income) | 157,592 | (6,615,527) | 6,850,060 | 392,125 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 6,145,894 | 6,524,275 | (6,971,935) | 5,698,234 |
| PROVISION FOR INCOME TAXES | 2,440,516 | | (227,639)(4) | 2,212,877 |
| NET INCOME | $ 3,705,378 | $ 6,524,275 | $ (6,744,296) | $ 3,485,357 |
| NET INCOME PER COMMON SHARE: | | | | |
| Basic | $ 0.37 | | | $ 0.35 |
| Diluted | $ 0.35 | | | $ 0.33 |
| NUMBER OF COMMON SHARES USED IN PER SHARE COMPUTATIONS: | | | | |
| Basic | 9,959,592 | | | 9,959,592 |
| Diluted | 10,440,377 | | | 10,440,377 |

See accompanying note to unaudited pro forma combined statements of income and combined condensed balance sheet data.



HANSEN NATURAL CORPORATION AND SUBSIDIARIES

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET DATA

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| | September 30, 2000 | | | |
|---|---|---|---|---|
| | Pro forma | | | |
| | Company (7) | BSNB-NM (7) | Adjustments | Combined |
| Working Capital | $ 12,654,561 | $ (595,300) | $ 648,300 (5) | $ 12,707,561 |
| Net trade accounts receivable | 7,361,309 | 221,678 | (221,678)(6) | 7,361,309 |
| Inventories | 10,737,659 | 40,000 | | 10,777,659 |
| Total assets | 32,669,002 | 484,598 | 6,058,451 (5) | 39,212,051 |
| Long-term debt | 2,303,671 | 1,612,790 | 4,887,210 (5) | 8,803,671 |
| Deferred income tax liability | 1,225,271 | | | 1,225,271 |
| Shareholders' equity (deficit) | 21,857,395 | (1,784,872) | 1,784,872 (6) | 21,857,395 |

See accompanying note to unaudited pro forma combined statements of income and combined condensed balance sheet data.



HANSEN NATURAL CORPORATION AND SUBSIDIARIES

On September 20, 2000, the Company acquired , through its indirect subsidiary Blue Sky Natural Beverage Co., a Delaware corporation ("BSNBC"), certain assets of Blue Sky Natural Beverage Co., a New Mexico corporation ("BSNB-NM"), including the Blue Sky trademarks and certain other assets for a purchase price of $6.5 million (the "Acquisition"). The Blue Sky(R) products include a range of all-natural carbonated sodas and seltzers that are marketed throughout the United States and in certain international markets, principally to the health food trade. The Acquisition has been accounted for as a purchase in accordance with Accounting Principles Board Opinion No. 16, "Business Combinations." Accordingly, the purchase price inclusive of certain acquisition costs, was allocated to the tangible and intangible assets acquired based on their respective fair values at the date of the Acquisition. The purchase price, inclusive of certain acquisition costs, was financed through the Company's modified line of credit.

The purchase price was allocated as follows:

| | |
|---|---|
| Cash paid to BSNB-NM | $6,500,000 |
| Additional costs | 43,049 |
| Total purchase price | $6,543,049 |
| Trademarks | $6,478,049 |
| Inventories | 40,000 |
| Prepaid expenses | 13,000 |
| Fixed assets | 12,000 |
| Net assets acquired | $6,543,049 |

Trademarks acquired will be amortized on a straight-line basis over forty years. The operating results of BSNBC since the date of the Acquisition are included in the Company's results of operations.

The unaudited pro forma combined statements of income give effect to the Acquisition as if it had occurred at the beginning of the period presented.

The following adjustments have been reflected in the unaudited pro forma combined statements of income and unaudited pro forma condensed balance sheet data:

(1) To record additional amortization of trademarks and trademark license of $162,500 and $121,875 for the twelve-months and nine-months presented, respectively.
(2) To record additional interest expense of $588,110 and $447,222 for the twelve-months and nine-months presented, respectively, in respect of the increase in total debt incurred in connection with the Acquisition.
(3) To record elimination of gain realized by BSNB-NM in connection with the Acquisition.
(4) To record tax effect of pro forma adjustments.
(5) To record acquisition of BSNB-NM's business and certain assets and related increase in long-term debt.

(6) To record the elimination of certain assets, liabilities and shareholders' equity not acquired from BSNB-NM.

(7) The historical condensed balance sheet data presented are based of the balance sheets of the Company and BSNB-NM at September 30, 2000 adjusted to eliminate the effects of the Acquisition.

In 1997, the Company's wholly-owned subsidiary, Hansen Beverage Company, obtained a credit facility from Comerica-Bank California ("Comerica"), consisting of a revolving line of credit of up to $3 million in the aggregate at any time outstanding and a term loan of $4 million (the "Credit Facility"). The Credit Facility was subsequently modified from time to time. In the third quarter ended September 30, 2000, the Company entered into a modification agreement with Comerica to further amend the Credit Facility in order to finance the Acquisition, payoff the term loan, and provide additional working capital (the "Modification Agreement"). Pursuant to the Modification Agreement, the revolving line of credit was increased to $12.0 million, reducing to $6.0 million by September 2004. The revolving line of credit remains in full force and effect through September 2005. Further, the rate of interest payable by the Company on advances under the line of credit are based on the bank's base (prime) rate, plus an additional amount of up to .5% or the bank's LIBOR rate, plus an additional amount of up to 2.5%, depending upon certain financial ratios of the Company from time to time.

The initial use of proceeds under the Modification Agreement was to pay $6.5 million to BSNB-NM in connection with the Acquisition, to payoff the remaining $807,000 balance due under the term loan and to finance working capital. The Company's borrowings on the line of credit at September 30, 2000 were $8,286,000.

The Modification Agreement contains financial covenants that require the Company to maintain certain financial ratios and achieve certain levels of annual income. The Modification Agreement also contains certain non-financial covenants. At September 30, 2000, the Company was in compliance with all covenants.



(c) Exhibits

| Exhibit Number | Description |
| --- | --- |
| 99.1 | Audited Financial Statements of Blue Sky Natural Beverage, a New Mexico corporation ("BSNB-NM") for 1999 and 1998. |
| 99.2 | Unaudited Balance Sheet at September 30, 2000 for BSNB-NM and Unaudited Statement of Operations for the nine-months then ended. |



SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: December 4, 2000

HANSEN NATURAL CORPORATION

By: /s/ Rodney C. Sacks
Rodney C. Sacks
Chairman of the Board
and Chief Executive Officer

BLUE SKY NATURAL BEVERAGE CO.

Financial Statements
As of December 31, 1999 and 1998
Together with Report of Independent Public Accountants

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Blue Sky Natural Beverage Co.:

We have audited the accompanying balance sheets of BLUE SKY NATURAL BEVERAGE CO., as of December 31, 1999 and 1998 and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These financial statements and the accompanying supplemental schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the accompanying supplemental schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blue Sky Natural Beverage Co., as of December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

Albuquerque, New Mexico
May 24, 2000



BLUE SKY NATURAL BEVERAGE CO.

Balance Sheets - December 31, 1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| **Assets** | | |
| Current Assets: | | |
| Cash | $ 5,049 | $ 37,066 |
| Trade accounts receivable, net of allowance for doubtful accounts of $65,886 and $82,417 for 1999 and 1998 | 458,163 | 221,234 |
| Inventories | 22,070 | 16,176 |
| Note receivable from stockholder, current portion | 5,213 | 4,190 |
| Prepaid expenses and other | 7,935 | 4,321 |
| Total current assets | 498,430 | 282,987 |
| Note receivable from stockholder, net of current portion | 6,932 | 6,932 |
| Furniture, fixtures and equipment, net | 40,594 | 52,419 |
| Intangible assets net of amortization | 61,577 | 22,500 |
| Total assets | $ 607,533 | $ 364,838 |
| **Liabilities and Stockholders' Deficit** | | |
| Current Liabilities | | |
| Accounts payable | $ 712,658 | $ 449,102 |
| Accrued expenses | 58,175 | 52,024 |
| Current portion of long-term debt | 419,070 | 264,630 |
| Total current liabilities | 1,189,903 | 765,756 |
| Long-term debt, net of current portion | 1,109,015 | 1,333,541 |
| Total liabilities | 2,298,918 | 2,099,297 |
| Stockholders' Deficit | | |
| Common stock - $.0001 par value; 3,000,000 shares authorized; 600,000 issued and outstanding | 600 | 600 |
| Accumulated deficit | (1,691,985) | (1,735,059) |
| Total stockholders' deficit | (1,691,385) | (1,734,459) |
| Total liabilities and stockholders' deficit | $ 607,533 | $ 364,838 |

The accompanying notes to financial statements are an integral part of these balance sheets.



BLUE SKY NATURAL BEVERAGE CO.

Statements of Operations
For the Years Ended December 31, 1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| Net Sales | $ 6,417,295 | $ 6,691,294 |
| Cost of Sales | 4,570,070 | 5,202,577 |
| Gross profit | 1,847,225 | 1,488,717 |
| Selling Expenses | 966,337 | 1,136,152 |
| General and Administrative Expenses | 695,592 | 956,068 |
| Operating income (loss) | 185,296 | (603,503) |
| Interest and other Non-Operating Income | 6,749 | 17,875 |
| Interest Expense | (148,971) | (146,644) |
| Income (loss) before income taxes | 43,074 | (732,272) |
| Income Taxes: | | |
| Effect of change to Subchapter S Corporation | - | 22,704 |
| Net income (loss) | $ 43,074 | $ (754,976) |

The accompanying notes to financial statements are an integral part of these statements.



BLUE SKY NATURAL BEVERAGE CO.

Statements of Stockholders' Deficit
For the Years Ended December 31,1999 and 1998

| | Common Stock | | Accumulated | |
|---|---|---|---|---|
| | Shares | Amount | Deficit | Total |
| Balance at December 31, 1997 | 600,000 | $ 600 | $ (980,083) | $ (979,483) |
| Net loss | - | - | (754,976) | (754,976) |
| Balance at December 31, 1998 | 600,000 | 600 | (1,735,059) | (1,734,459) |
| Net income | - | - | 43,074 | 43,074 |
| Balance at December 31, 1999 | 600,000 | $ 600 | $ (1,691,985) | $ (1,691,385) |

The accompanying notes to financial statements are an integral part of these statements.



BLUE SKY NATURAL BEVERAGE CO.

Statements of Cash Flow
For the Years Ended December 31,1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income (loss) | $ 43,074 | $ (754,976) |
| Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 42,334 | 23,347 |
| Bad debt expense | 21,579 | 92,563 |

| | | |
|---|---|---|
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (258,508) | (3,555) |
| Inventories | (5,894) | 68,672 |
| Notes receivable from stockholder | (1,023) | 2,533 |
| Income taxes receivable | | 47,091 |
| Deferred income taxes | | 22,704 |
| Prepaid expenses and other | (3,614) | 9,550 |
| Accounts payable | 263,556 | 229,811 |
| Accrued expenses | 6,151 | (103,830) |
| Net cash provided by (used for) operating activities | 107,655 | (366,090) |
| Cash Flows from Investing Activities: | | |
| Purchase of intangible assets | (60,066) | |
| Purchase of furniture, fixtures and equipment | (9,520) | (13,775) |
| Net cash used in investing activities | (69,586) | (13,775) |
| Cash Flows from Financing Activities: | | |
| Principal payments on long-term debt | (446,589) | (183,723) |
| Borrowings on long-term debt | 376,503 | 406,256 |
| Net cash (used for) provided by financing activities | (70,086) | 222,533 |
| Net Decrease in cash | (32,017) | (157,332) |
| Cash, beginning of year | 37,066 | 194,398 |
| Cash, end of year | $ 5,049 | $ 37,066 |
| Supplemental Cash Flow Information: | | |
| Cash paid during the year for interest | $ 102,781 | $ 146,644 |

The accompanying notes to financial statements are an integral part of these statements.



BLUE SKY NATURAL BEVERAGE CO.

Notes to Financial Statements
December 31, 1998 and 1999

1. Nature of Operations and Organization

Blue Sky Natural Beverage Co. (the "Company") was formed in 1980. Its principal business activities consist of marketing, development and distribution of natural beverages. The Company is located in Santa Fe, New Mexico, and distributes flavored beverages throughout the U.S. and in select international markets. The Company creates flavors to its specifications, and contracts for the manufacturing and distribution of its beverages.

As reflected in the accompanying financial statements at December 31, 1999 and 1998, the Company has a significant accumulated deficit in stockholders' equity and current liabilities exceed current assets, which raises concern about the Company's ability to satisfy its obligations. The losses in 1998 were primarily from a production process failure for one new product and the related product recall and discontinuation. The Company absorbed all the costs of this product recall and discontinuation during 1998. The Company is continuing to pursue legal action against the outsourced providers they believe to be at fault. At this time, the outcome of these proceedings is undeterminable.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Management's plans in regard to these matters include the sale of substantially all of the Company's assets, as discussed below.

On May 23, 2000 the Company received a Letter of Intent from a party summarizing a proposed purchase transaction in which the party would purchase substantially all of the assets of the Company for a purchase price of $7.6 million. The target date of the closing of the transaction is August 15, 2000. The financial statements do not include any adjustments that might result from the outcome of this proposed transaction.

## 2. Significant Accounting Policies

### a. Basis of Accounting

The accounting and reporting policies of the Company conform with generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### b. Inventories

Inventories are carried at the lower of cost or market value on a first-in, first-out basis.



### c. Property, Plant and Equipment

Property, plant and equipment are recorded at cost. The Company depreciates these assets over their estimated useful lives on a straight-line basis as follows:

| | |
|---|---|
| Furniture, fixtures and equipment | 5 to 7 Years |
| Automobiles | 5 Years |

Expenditures for maintenance and repairs are charged to operations as incurred.

### d. Intangible Assets

Intangible assets, which are recorded at cost, include the Company's trademark and other product development costs. The trademark is being amortized over 5 years and the other product development costs are being amortized over one year.

### e. Revenue Recognition

The Company recognizes revenue net of sales and volume discounts when products are shipped. Returned products and discounts are recorded as a reduction of sales in the accompanying statements of operations.

### f. Advertising and Promotion Costs

Advertising and promotion costs are expensed as incurred as part of selling expenses.

### g. Income Taxes

Effective January 1, 1998, the Company changed its taxable status under the Internal Revenue Code (IRC) from a C corporation to a Subchapter S corporation. As a result all income taxes are passed through to the stockholders. Any deferred tax assets existing at the election date not expected to be realized within certain time limits specified by the IRC were removed from the books in 1998. Accordingly, subsequent to December 31, 1997, the only current income tax expense recorded is attributable to the removal of certain deferred tax assets. The Company recognized a net expense of $22,704 as an effect of change to Subchapter S Corporation in 1998.

h. Stock Split

On August 12, 1999 the Board of Directors of the Company approved a common stock split in the amount of 1,000 common shares to 1 common share. The effects of the stock split have been shown retroactively for comparative purposes.



3. Inventories

Inventories consist of the following at December 31:

| | 1999 | 1998 |
|---|---|---|
| Sodas (12 oz., 12 pack, 1 liter and 2 liter) | $ 13,547 | $ 4,010 |
| Concentrate flavoring | 10,440 | 10,371 |
| Bag in box | 2,777 | 2,651 |
| 20 oz. Water | | 2,730 |
| | 26,764 | 19,762 |
| Less: Allowance for spoilage | 4,694 | 3,586 |
| | $ 22,070 | $ 16,176 |

4. Note Receivable from Stockholder

The note receivable from stockholder bears interest at the rate of 5.88% with principal being amortized through November 2000.

5. Furniture, Fixtures and Equipment

Furniture, fixtures and equipment consist of the following at December 31:

| | 1999 | 1998 |
|---|---|---|
| Furniture, fixtures and equipment | $ 204,073 | $ 194,553 |
| Automobile | 16,033 | 16,033 |
| | 220,106 | 210,586 |
| Less: Accumulated depreciation | 179,512 | 158,617 |
| | $ 40,594 | $ 52,419 |

6. Defined Benefit Pension Plan

The Company had a defined benefit pension plan (the "Plan") which covered all employees meeting minimum age and length of service requirements. The Plan provided retirement benefits, which were based on a fixed percentage of the average three highest annual salaries earned during eligible years of employment. The Company was required to fund contributions in a range established actuarially in compliance with statutory Employee Retirement Income Security Act of 1974 ("ERISA") requirements. Miring 1998, the Plan was terminated and Plan assets were distributed to participants prior to December 31,1998.



7. Debt

Debt consists of the following at December 31:

| | 1999 | 1998 |
| --- | --- | --- |
| Note payable to a bank, prime plus 1%, (9.5% and 8.75% at December 31. 1999 and 1998, respectively) self amortizing through June 2003, collateralized by all furniture, fixtures, equipment, inventory, accounts receivable, tangibles and intangibles, and outstanding Company stock | $ 865,785 | $ 1,071,915 |
| Revolving $200,000 credit line note payable to a bank, prime plus 1%, (9.5% and 8.75% at December 31, 1999 and 1998, respectively), due June 2000, collateralized by the same assets as those collateralized for the note payable above | 200,000 | 56,256 |
| Revolving $600,000 credit line note payable to a stockholder, 10% fixed, due February 2001, unsecured | 462,300 | 470,000 |
| | 1,528,085 | 1,598,171 |
| Less: current maturities | 419,070 | 264,630 |
| | $1,109,015 | $ 1,333,541 |

At December 31, 1999 the long-term debt matures as follows:

| | |
| --- | --- |
| 2000 | $ 419,070 |
| 2001 | 703,748 |
| 2002 | 266,070 |
| 2003 | 139,197 |
| | $ 1,528,085 |

The note payable and revolving line-of-credit to a bank requires the Company to comply with certain debt covenants including, but not limited to restrictions on certain indebtedness, and restrictions on the Company's ability to dispose of all or substantially all assets or assign certain assets. The agreements also contain subjective acceleration provisions that permit the bank to declare the debt immediately due and payable if the Company's legal status, financial condition or actions are such that the bank believes the Company's ongoing existence is questionable. Management believes that the Company is in compliance with all debt requirements at December 31, 1999. Management also believes that the Company will be able to comply with all covenants in future periods.

## 8. Incentive Stock Option Plan

On August 12, 1999 the Board of Directors of the Company approved an Incentive Stock Option Plan under which options to purchase the Company's common stock may be granted to employees through August 12, 2009. Stock options vest ratably based on gross sales goals determined by the Board of Directors. Unexercised options expire ten years from the date of grant. All options are granted at the estimated fair value of the stock at the date of grant. A total of 200,000 shares of common stock were initially reserved for options. Terminated option shares are available for future grant under the Plan. As of December 31, 1999 the Company had granted all 200,000 options at an exercise price of $ 2.96 per share, and no options have been vested or exercised. The effect on income of these options calculated in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", was immaterial in fiscal year 1999.



## 9. Commitments

The Company has non-cancelable operating leases relating to two equipment leases. The future minimum monthly payments under these operating leases at December 31, 1999 are as follows:

| | |
| --- | --- |
| 2000 | $ 4,324 |
| 2001 | 4,324 |
| 2002 | 4,324 |
| 2003 | 4,343 |

$ 15,315
===============

10. Significant Customers

For the years ended December 31, 1999 and 1998, sales to two customers approximated 27% of total net sales. Trade accounts receivable due from these two customers totaled approximately $54,992 and $29,700, at December 31, 1999 and 1998, respectively.



BLUE SKY NATURAL BEVERAGE CO.

Supplemental Schedule of Cost of Sales
For the Years Ended December 31,1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| Direct Materials | $ 4,042,347 | $ 4,588,538 |
| Freight | 411,259 | 450,254 |
| Storage and access | 6,366 | 54,545 |
| Production costs | - | 894 |
| Other direct costs | 110,098 | 108,346 |
| | $ 4,570,070 | $ 5,202,577 |



BLUE SKY NATURAL BEVERAGE CO.

Supplemerital Schedule of Selling Expenses
For the Years Ended December 31, 1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| Advertising and promotion | $ 221,247 | $ 345,889 |
| Sales salaries | 327,134 | 306,766 |
| Sales commissions | 267,134 | 225,538 |
| Travel | 98,287 | 126,016 |
| Bad debt | 21,579 | 92,563 |
| Shipping | 16,467 | 22,083 |
| Other | 14,489 | 17,297 |
| | $ 966,337 | $ 1,136,152 |



BLUE SKY NATURAL BEVERAGE CO.

Supplemental Schedule of General
and Administrative Expenses
For the Years Ended December 31, 1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| Salaries: | | |
| General office employees | $ 190,020 | $ 172,352 |
| Officers and executives | 165,906 | 298,444 |
| Contributions | 28,293 | 95,773 |
| Professional fees | 60,728 | 63,749 |
| Travel, entertainment and meals | 46,149 | 52,368 |
| Rent | 37,239 | 38,578 |

| | | |
|---|---|---|
| Telephone | 40,726 | 36,452 |
| Product development | - | 26,197 |
| Insurance | 13,933 | 25,463 |
| Depreciation and amortization | 42,334 | 23,347 |
| Repairs and maintenance | 24,010 | 18,703 |
| Other | 46,254 | 104,642 |
| | $ 695,592 | $ 956,068 |

BLUE SKY NATURAL BEVERAGE CO.

BALANCE SHEET
SEPTEMBER 30, 2000 (Unaudited)

| | September 30, 2000 |
|---|---|
| ASSETS | |
| CURRENT ASSETS: | |
| Cash | $ 5,024,998 |
| Trade accounts receivable, net of allowance for doubtful accounts of $41,108 | 221,678 |
| Note receivable from stockholder, current portion | 5,638 |
| | 5,252,314 |
| NOTE RECEIVABLE FROM STOCKHOLDER, NET OF CURRENT PORTION | 6,932 |
| FURNITURE, FIXTURES AND EQUIPMENT, NET | 15,400 |
| | $ 5,274,646 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES: | |
| Accounts payable | $ 576,900 |
| Accrued expenses | 79,780 |
| Current portion of long-term debt | |
| | 656,680 |
| STOCKHOLDERS' EQUITY | |
| Common stock - $.0001 par value; 3,000,000 shares authorized; 600,000 issued and outstanding | 600 |
| Retained earnings | 4,617,366 |
| Total stockholders' equity | 4,617,966 |
| Total liabilities and stockholders' equity | $ 5,274,646 |

BLUE SKY NATURAL BEVERAGE CO.

STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (Unaudited)

| | 2000 |
|---|---|
| NET SALES | $ 5,156,185 |
| COST OF SALES | 3,643,876 |
| GROSS PROFIT | 1,512,309 |
| SELLING EXPENSES | 598,968 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 1,004,593 |
| OPERATING LOSS | (91,252) |
| INTEREST INCOME AND OTHER | 314,335 |
| GAIN ON SALE OF ASSETS | 6,402,838 |
| INTEREST EXPENSE | (101,646) |
| NET INCOME | $ 6,524,275 |