

AeroGrow International, Inc.
Form 10-K/A
August 22, 2011

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

FORM 10-K/A
Amendment No.1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended March 31, 2011
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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
(I.R.S. Employer
Identification No.)

6075 Longbow Drive, Suite 200
Boulder, Colorado 80301

(303) 444-7755

(Address, including zip code and telephone number, including area code, of registrant's of principal executive office)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class:
Common Stock, par value \$0.001 per share

Name of each exchange on which registered:
OTC Bulletin Board

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to the Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated	Smaller reporting company
<input type="radio"/>	<input type="radio"/>	filer <input type="radio"/>	<input checked="" type="radio"/>
		(Do not check if a	
		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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of September 30, 2010 was \$1,101,721, the last day of the Company's most recent second quarter. For the purpose of the foregoing calculation only, all directors and executive officers of the registrant and owners of more than 5% of the registrant's common stock are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily conclusive for any other purpose.

The number of shares of the registrant's common stock outstanding as of July 29, 2011 is 19,244,160.

DOCUMENTS INCORPORATED BY REFERENCE

None

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Form 10-K/A
Amendment No. 1
For the Fiscal Year Ended March 31, 2011

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EXPLANATORY NOTE

AeroGrow International, Inc. (the “Company”) is filing this Amendment on Form 10-K/A to the Company’s Report on Form 10-K for the fiscal year ended March 31, 2011, originally filed on August 15, 2011 (the “Report”). This Form 10-K/A is being filed solely for the purpose of revising the audit opinion letter to include the name of the Company’s public auditors, which was inadvertently omitted from the Report due to a clerical error.

Except as described above, no other amendments are being made to the Report. This Form 10-K/A does not reflect events occurring after the August 15, 2011 filing of the Company’s Report or modify or update the disclosures contained in the Report in any way other than as required to reflect the amendment discussed above.

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PART II

ITEM 8. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee, Board of Directors and Stockholders
AeroGrow International, Inc.
Boulder, Colorado

We have audited the accompanying balance sheets of AeroGrow International, Inc. (“the Company”) as of March 31, 2011 and 2010, and the related statements of operations, changes in stockholders’ equity (deficit) and cash flows for the years then ended. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 AeroGrow International, Inc. as of March 31, 2011 and 2010, 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 of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1, the Company does not currently have sufficient liquidity to meet its anticipated working capital, debt service and other liquidity needs in the near term. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Eide Bailly LLP

Fargo, North Dakota
August 15, 2011

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AEROGROW INTERNATIONAL, INC.

BALANCE SHEETS

	March 31, 2011	March 31, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$355,781	\$249,582
Restricted cash	162,837	443,862
Accounts receivable, net of allowance for doubtful accounts of \$17,791 and \$87,207 at March 31, 2011 and March 31, 2010, respectively	290,997	478,113
Other receivables	260,692	259,831
Inventory, net	2,547,570	3,493,732
Prepaid expenses and other	335,854	338,095
Total current assets	3,953,731	5,263,215
Property and equipment, net of accumulated depreciation of \$2,525,853 and \$2,486,377 at March 31, 2011 and March 31, 2010, respectively	359,962	1,002,530
Other assets		
Intangible assets, net of \$24,834 and \$6,854 of accumulated amortization at March 31, 2011 and March 31, 2010, respectively	273,081	275,599
Deposits	159,631	240,145
Deferred debt issuance costs, net of accumulated amortization of \$737,531 and \$486,791 at March 31, 2011 and March 31, 2010, respectively	1,488,491	62,291
Total other assets	1,921,203	578,035
Total Assets	\$6,234,896	\$6,843,780
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities		
Accounts payable	\$1,506,841	\$3,354,703
Notes payable	350,798	-
Notes payable – Related party	211,321	-
Current portion - long term debt – Related Party	13,947	911,275
Current portion – long term debt	1,168,160	3,053,984
Accrued expenses	614,234	1,449,977
Customer deposits	122,377	339,041
Deferred rent	22,513	40,773
Total current liabilities	4,010,191	9,149,753
Long-term debt	3,716,229	1,020,957
Long-term debt-related party	359,751	-
Stockholders' equity (deficit)		
Preferred stock, \$.001 par value, 20,000,000 shares authorized, 7,576 and 7,586 issued and outstanding at March 31, 2011 and March 31, 2010, respectively	8	8
Common stock, \$.001 par value, 500,000,000 shares authorized, 19,244,160 and 12,398,249 shares issued and outstanding at March 31, 2011 and March 31, 2010, respectively	19,244	12,398
Additional paid-in capital	62,324,016	52,933,467
Accumulated (deficit)	(64,194,543)	(56,272,803)

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Total Stockholders' Equity (Deficit)	(1,851,275)	(3,326,930)
Total Liabilities and Stockholders' Equity (Deficit)	\$6,234,896	\$6,843,780

See accompanying notes to the financial statements

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STATEMENTS OF OPERATIONS

	Years ended March 31,		
	2011	2010	2009
Revenue			
Product sales, net	\$ 11,313,212	\$ 17,251,347	\$ 37,449,868
Operating expenses			
Cost of revenue	7,928,687	11,846,399	23,710,787
Research and development	187,178	424,741	2,146,493
Sales and marketing	3,760,290	6,104,742	13,772,822
General and administrative	3,116,446	5,112,647	7,043,391
Total operating expenses	14,992,601	23,488,529	46,673,493
(Loss) from operations	(3,679,389)	(6,237,182)	(9,223,625)
Other (income) expense, net			
Interest (income)	(8,582)	(8,537)	(6,285)
Interest expense	3,787,684	931,468	796,070
Interest expense – related party	415,109	117,382	195,961
Other (income) expense, net	48,140	(946,290)	104,143
Total other (income) expense, net	4,242,351	94,023	1,089,889
Net (loss)	\$(7,921,740)	\$(6,331,205)	\$(10,313,514)
Net (loss) per share, basic and diluted	\$(0.56)	\$(0.50)	\$(0.82)
Weighted average number of common shares outstanding, basic and diluted	14,240,761	12,564,140	12,519,999

See accompanying notes to the financial statements

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AEROGROW INTERNATIONAL, INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock		Preferred Stock		Additional Paid-in Capital	Accumulated (Deficit)	Total
	Shares	Amount	Shares	Amount			
Balances, April 1, 2008	12,076,717	12,076	-	-	44,024,559	(39,628,084)	4,408,551
Common stock issued for services	22,605	23	-	-	46,769	-	46,792
Exercise of common stock warrants at \$.66	213,276	213	-	-	140,549	-	140,762
Exercise of common stock warrants at \$.75	976,703	977	-	-	731,550	-	732,527
Exercise of common stock warrants at \$2.50	10,000	10	-	-	24,990	-	25,000
Exercise of stock options	43,576	44	-	-	51,599	-	51,643
Stock options issued under equity compensation plans	-	-	-	-	676,614	-	676,614
Net (loss)	-	-	-	-	-	(10,313,514)	(10,313,514)
Balances, March 31, 2009	13,342,877	13,343	-	-	45,696,630	(49,941,598)	(4,231,625)
Preferred Stock issued in private placements	-	-	7,586	8	6,685,478	-	6,685,486
Exercise of stock options	4,075	4	-	-	16	-	20
Repurchase and Retirement of Common Stock	(948,703)	(949)	-	-	-	-	(949)
Warrants issued in accordance with debt	-	-	-	-	38,200	-	38,200
Stock options issued under	-	-	-	-	513,143	-	513,143

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equity compensation plans								
Net (loss)	-	-	-	-	-	(6,331,205)	(6,331,205)	
Balances, March 31, 2010	12,398,249	\$ 12,398	7,586	\$ 8	\$ 52,933,467	\$ (56,272,803)	\$ (3,326,930)	
Common stock issued upon conversion of convertible debt	6,045,911	6,046	-	-	598,545	-	604,591	
Conversion of preferred stock to common stock	100,000	100	(10)	-	(100)	-	-	
Common stock issued to consultants	700,000	700	-	-	34,300	-	35,000	
Warrants issued to consultants	-	-	-	-	1,548,600	-	1,548,600	
Stock options issued under equity compensation plans	-	-	-	-	138,804	-	138,804	
Convertible debt discount	-	-	-	-	7,070,400	-	7,070,400	
Net (loss)	-	-	-	-	-	(7,921,740)	(7,921,740)	
Balances, March 31, 2011	19,244,160	\$ 19,244	7,576	\$ 8	\$ 62,324,016	\$ (64,194,543)	\$ (1,851,275)	

See accompanying notes to the financial statements

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STATEMENTS OF CASH FLOWS

	Years Ended March 31,		
	2011	2010	2009
Cash flows from operating activities:			
Net (loss)	\$(7,921,740)	\$(6,331,205)	\$(10,313,514)
Adjustments to reconcile net (loss) to cash and cash equivalents provided (used) by operations:			
Issuance of common stock and options under equity compensation plans	138,804	452,393	723,406
Issuance of common stock and options under equity compensation associated with severance agreements	-	60,750	-
Issuance of common stock not under equity compensation plans	35,000	-	-
Issuance of warrants related to debt	-	38,200	-
Issuance of warrants for services	-	-	-
Depreciation and amortization expense	698,432	840,315	844,427
Loss on disposal of fixed assets	73,438	-	-
Allowance for bad debt	(69,407)	(1,336,311)	911,798
Amortization of debt issuance costs	800,451	242,854	191,437
Amortization of debt issuance costs – related party	-	-	52,500
Gain on forgiveness of accounts payable	-	(807,310)	-
Loss from revision of vendor payment agreement	105,591	-	-
Amortization of convertible debentures, beneficial conversion feature	1,134,140	-	-
Amortization of convertible debentures, beneficial conversion, feature -related party	157,002	-	-
Interest expense from warrants issued with convertible debentures	1,040,149	-	-
Interest expense from warrants issued with convertible debentures – related party	135,823	-	-
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	256,523	3,136,250	(777,749)
(Increase) decrease in other receivable	(861)	72,228	90,471
(Increase) decrease in inventory	946,162	4,856,403	(3,661,691)
Decrease in other current assets	2,241	227,359	196,559
(Increase) decrease in deposits	80,514	(129,369)	(9,612)
Increase (decrease) in accounts payable	(1,903,453)	(1,747,506)	5,315,193
(Decrease) in accrued expenses	(174,297)	(868,693)	(133,355)
Increase in accrued interest – related party	39,025	14,465	19,418
Increase in accrued interest	408,473	10,878	35,528
Increase (decrease) in customer deposits	(216,664)	92,313	14,528
(Decrease) in deferred rent	(18,260)	(16,510)	(7,754)
Net cash and cash equivalents provided (used) by operating activities	(4,252,914)	(1,192,496)	(6,508,410)
Cash flows from investing activities:			
(Increase) decrease in restricted cash	281,025	(5,531)	(351,655)
Purchases of equipment	(111,322)	(71,139)	(796,067)
Patent expenses	(15,463)	(47,347)	(161,410)
	154,240	(124,017)	(1,309,132)

Net cash and cash equivalents provided (used) by investing activities

Cash flows from financing activities:			
(Decrease) in amount due to factor	-	-	(1,480,150)
Proceeds from long term debt borrowings	6,554,677	13,981,196	27,034,153
Proceeds from long term debt borrowings – related party	300,000	863,439	1,213,953
Repayment of long term borrowings	(2,349,266)	(17,851,462)	(20,552,850)
Repayment of long term borrowings – related party	(169,485)	-	-
Proceeds from notes payable	1,050,000	-	-
Proceeds from notes payable – related party	450,000	-	-