HAUSER INC
Form 10-Q
February 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER
TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED DECEMBER 31, 2000 COMMISSION FILE NO. 0-17174

HAUSER, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	84-0926801
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. IDENTIFICATION NUMBER)
5555 AIRPORT BLVD., BOULDER, COLORADO	80301
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

Registrant's telephone number, including area code: (303) 443-4662

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value $.001
(TITLE OF CLASS)

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 X No

Indicate the number of shares outstanding of each of the Registrant's classes of

common stock, as of the latest practicable date.

Common Stock, $.001 par value	4,959,515
Class	Outstanding at December 31, 2000

Part 1. FINANCIAL INFORMATION

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HAUSER, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS-UNAUDITED

	Three months ended December 31,		Nine mont
	2000	1999	2000
REVENUES:			
Natural products	$ 3,865,134	$ 9,120,565	$ 15,359
Fine chemicals	5,319,660	8,319,806	24,300
Technical services	3,954,872	4,158,332	11,922
Pharmaceuticals	-	1,434,675	668
Total revenues	13,139,666	23,033,378	52,250
COST OF REVENUES:			
Natural products	3,708,946	7,613,951	15,411
Fine chemicals	4,528,482	6,853,764	21,068
Technical services	3,574,843	3,508,136	10,322
Pharmaceuticals	-	1,452,128	
Other costs of revenues	3,100,000	-	3,100
Total cost of revenues	14,912,271	19,427,979	49,903
GROSS PROFIT (LOSS)	(1,772,605)	3,605,399	2,347
OPERATING EXPENSES:			
Research and development	514,040	170,814	1,823
Sales and marketing	861,414	1,563,891	2,950
General and administrative	2,718,452	2,886,748	7,847
Merger related costs	-	-	
Total operating expenses	4,093,906	4,621,453	12,621
LOSS FROM OPERATIONS	(5,866,511)	(1,016,054)	(10,274
OTHER INCOME (EXPENSE):			
Interest income	7,766	19,622	35
Interest expense	(576,803)	(543,521)	(1,795
Other income and expense	250,000	(10,481)	250
Net gain from sale of assets	1,032,489	-	1,633
Total other (expense) income	713,452	(534,380)	123
LOSS BEFORE INCOME TAX	(5,153,059)	(1,550,434)	(10,150
INCOME TAX EXPENSE (BENEFIT)	-	-	
NET LOSS	$(5,153,059)	$(1,550,434)	$(10,150
LOSS PER SHARE: BASIC AND DILUTED	$ (1.05)	$ (0.31)	$ (
WEIGHTED AVERAGE SHARES OUTSTANDING:			
BASIC AND DILUTED	4,889,020	5,069,833	4,883

See notes to consolidated financial statements.

HAUSER, INC.

CONSOLIDATED BALANCE SHEETS-UNAUDITED

ASSETS	December 31, 2000
CURRENT ASSETS:	
Cash and cash equivalents	$ 786,9
Accounts receivable, less allowance for doubtful accounts:	
December 31, 2000, $903,329; March 31, 2000, $976,101	12,560,9
Inventory, at cost or market	12,366,3
Prepaid expenses and other	1,501,4
Total current assets	27,215,6
PROPERTY AND EQUIPMENT:	
Land and buildings	8,820,4
Laboratory and processing equipment	25,098,8
Furniture and fixtures	4,601,7
Total property and equipment	38,521,0
Accumulated depreciation and amortization	(23,623,4
Net property and equipment	14,897,6
OTHER ASSETS:	
Goodwill, less accumulated amortization:	
December 31, 2000 $2,588,061; March 31, 2000, $1,742,698	17,710,8
Deposits and other	580,8
	$ 60,405,0
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 5,276,3
Current portion of long-term debt	18,395,5
Accrued salaries and benefits	965,3
Deposits	723,2
Note payable to related party	2,675,2
Accrued exit costs	944,2
Other current liabilities	3,238,2
Total current liabilities	32,218,2

LONG-TERM DEBT	12,4
STOCKHOLDERS' EQUITY:	
Common stock, $.001 par value; 50,000,000 shares authorized; shares issued and outstanding: December 31, 2000, 4,959,515; March 31, 2000, 4,811,585	4,9
Additional paid-in capital	94,752,0
Accumulated deficit	(66,582,5
	28,174,4
	$ 60,405,0

See notes to consolidated financial statements.

HAUSER, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS-UNAUDITED

	Nine months ended Dece	
	2000	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash provided by operating activities	$ 4,512,117	$
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(3,506,235)	
Proceeds from sale of assets	3,778,561	
Net change in restricted cash	-	
Net cash provided by (used in) investing activities	272,326	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in bank line of credit	-	
Net repayments of bank line of credit	(7,741,039)	
Net proceeds from bank line of credit	-	
Proceeds from related party note payable	3,000,000	
Repayments of long-term debt	(674,514)	
Proceeds from issuance of common stock	145,165	
Net cash used in financing activities	(5,270,388)	

Net decrease in cash and cash equivalents	(485,945)	
Cash and cash equivalents, beginning of period	1,272,875	
Cash and cash equivalents, end of period	$ 786,930	$

See notes to consolidated financial statements.

HAUSER, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2000 AND MARCH 31, 2000 AND FOR THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2000 AND 1999 (UNAUDITED)

1. BASIS OF PRESENTATION

Hauser, Inc., a Delaware corporation, and its wholly owned subsidiaries (together, the "Company"), is a manufacturer of extracts from natural sources, using its proprietary technologies in extraction and purification. Hauser is also a leading supplier of herbal extracts and related products to the dietary supplement market in the United States. Hauser and its subsidiaries are able to source, process, and distribute products to the dietary supplement market including branded product sellers. The Company also provides interdisciplinary laboratory testing services, chemical engineering services, and contract research and development. The Company's services are principally marketed to the pharmaceutical, dietary supplement and food ingredient industries.

On June 11, 1999, the Company completed a merger (the "Merger") with three subsidiaries (the "Contributed Subsidiaries") of privately-held Zuellig Group N.A., Inc., ("ZGNA") and its wholly owned subsidiary Zuellig Botanicals, Inc. ("ZBI"). At the closing of the Merger, the Company issued 2,515,349 shares of its common stock to ZGNA and ZBI, which constituted 49% of the Company's then outstanding shares. After the closing, the Company's existing officers and public shareholders owned 51.0% of the combined company, while ZGNA and ZBI collectively owned 49.0%. On December 15, 1999 the number of shares that were issued to ZGNA and ZBI was reduced to 2,193,568 (44% of shares outstanding at December 31, 2000) in accordance with the terms of the Merger. Simultaneously with the Merger, the Company effected a one-for-four reverse stock split. The reverse stock split was implemented in order to satisfy NASDAQ's listing requirements. All share and per share information has been adjusted for the reverse stock split.

In October 2000, the Company contributed its laboratory assets operated by its Hauser Laboratories division to the Company's newly formed, wholly owned subsidiary, Hauser Technical Services, Inc. ("HTS"). Simultaneous with the asset contribution, the Company merged Shuster Laboratories with and into HTS. Currently, the Company's laboratory and technical services business is owned and operated by HTS.

The Company has experienced significant losses from operations and has violated the financial covenants in its past borrowing agreements. The operating losses in prior years have resulted primarily from the failure of customers purchasing

the Company's paclitaxel product to renew their purchase contracts and in the current year from a worldwide oversupply of dietary supplement products. The Company has responded by terminating the production of paclitaxel; reducing its operating costs through closure of the Wilcox operations; substantially reducing manufacturing costs while increasing manufacturing efficiencies; consolidating its technical services operations; and restructuring its administrative activities. In December 2000, the Company announced its intention to sell HTS. The sale will permit the Company to focus its resources on the production and sale of bulk herbal extracts and nutritional supplements, including the development of new products, and the distribution of fine chemicals to dietary supplement manufacturers.

In connection with the Merger, Wells Fargo Bank, N.A. ("Wells Fargo") provided a $35.0 million line of credit and a $10.0 million fixed asset line (the "Credit Facility") in support of the merged companies. As part of the Merger, the Company repaid approximately $21.0 million in bank debt of Contributed Subsidiaries with proceeds from the Credit Facility. The Credit Facility is collateralized by all of the Company's assets. In October 2000, the Credit Facility was amended to eliminate defaults and to revise the financial covenants. In addition, the $35 million line of credit was reduced to $24.5 million, was further reduced to $21.0 million effective October 31, 2000, and will be reduced to $17.0 million effective March 31, 2001. The amended Credit Facility bears interest at the prime borrowing rate and expires on September 30, 2001.

In October 2000, as a condition to Wells Fargo entering into the amendment to the Credit Facility, the Company sold a $3 million Subordinated Promissory Note (the "Note") to Zatpack, Inc. ("Zatpack"). ZGNA is a wholly owned subsidiary of Zatpack. The Note is subordinate to the Credit Facility, will accrue interest at a rate of 6.5%, requires no principle or interest payments until its maturity date of October 2003, and has five-year warrants attached. The warrants permit Zatpack to purchase 992,789 shares of Hauser's common stock at a price of approximately $.5855 per share. Approximately $2 million of the proceeds of the sale of the Note were used to pay down the line of credit.

Management believes that cash flow generated through operations, the restructured Credit Facility and Note will enable the Company to continue operations during fiscal 2001.

On November 1, 2000, the Company announced that the Common Stock was delisted from the Nasdaq National Market. The delisting is based upon the Company's lack of compliance with the Nasdaq National Market's listing requirements, which call for a minimum bid price of $1.00 and a minimum public float value of $5 million. The Company's common stock is now traded in the over-the-counter market and quoted on the OTC Bulletin Board ("OTCBB"). The OTCBB is a regulated quotation service that displays real-time quotes and last-sale price and volume information in over the counter ("OTC") equity securities.

The results of operations of the Contributed Subsidiaries have been included subsequent to June 11, 1999. The following pro forma consolidated results of operations assumes the Merger was consummated on April 1, 1999. Additionally, the pro forma results summarized below exclude the results of paclitaxel activities. These pro forma results do not purport to be indicative of the results which would have actually resulted had the Merger occurred on that date.

	Three Months Ended December 31,		N
	2000	1999	20
Revenues	$13,139,666	$21,598,703	$ 51
Loss from operations	(5,866,511)	(998,601)	(10
Net loss	$(5,153,059)	$(1,532,981)	$(10
Basic and diluted loss per share	$ (1.05)	$ (0.31)	$

DISCONTINUANCE OF PACLITAXEL ACTIVITIES
Prior to the Merger, in the third quarter fiscal 1999, the Company discontinued the manufacture and sale of paclitaxel. In the quarter ended January 31, 1999, the Company incurred a one-time charge to earnings of $25,600,000. During fiscal 2000, the Company reversed approximately $4,000,000 of the charge to earnings taken in fiscal 1999 principally because of a favorable settlement of its yew tree

cultivation agreements. The charge and paclitaxel revenues and cost of sales have been included in the continuing operations because paclitaxel activities did not constitute a separate business segment of the Company. In February 1999, the Company signed a purchase agreement for the sale of its paclitaxel inventory as part of the planned closure of the paclitaxel business. Under the purchase agreement and from other sales of paclitaxel, the Company has received $11,708,557 through December 31, 2000. The Company has negotiated settlement of its yew tree cultivation agreements and termination of a multi year non-exclusive agreement to supply paclitaxel to a customer. The Company has substantially completed its exit from the paclitaxel business as of December 31, 2000.

CLOSURE OF WILCOX NATURAL PRODUCTS ("WILCOX")
In March 2000, the Company elected to cease the operations of Wilcox. Wilcox principally purchased wild botanical raw materials gathered in the United States and sold those materials to customers in the United States, Europe and Asia. The decision to terminate the activities of Wilcox was taken as a result of the significant decline in market prices for the botanicals purchased by Wilcox during fiscal 2000.

CONSOLIDATION OF SHUSTER LABORATORIES ("SHUSTER")
In March 2000, the Company consolidated its technical services operations in order to gain operational efficiencies. As part of this consolidation, the Company ceased its laboratory operations in Smyrna, Georgia.

The following analysis provides a summary of the liabilities established as a result of the above referenced items, and subsequent activity to such reserves through December 31, 2000:

	Reserve Balance March 31, 2000	Expenses Paid April 1 - December 31, 2000

Lease termination	$1,467,455	$ (667,303)
Employee severance	194,000	(194,000)
Paclitaxel	325,759	(181,639)
Total	$1,987,214	$(1,042,942)

Management believes that the reserve balance at December 31, 2000 is adequate to cover remaining costs relating to the discontinuance of paclitaxel, the liquidation of Wilcox and the closure of Shuster's Smyrna facility.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to present fairly the Company's financial position as of December 31, 2000, and the results of its operations and its cash flows for the three and nine month periods ended December 31, 2000 and 1999. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. Certain fiscal 2000 amounts have been reclassified to conform to the fiscal 2001 presentation.

BASIS OF CONSOLIDATION - The accompanying financial statements include the accounts of Hauser and its wholly owned subsidiaries: Botanicals International Extracts, Inc. ("BIE"), HTS, Wilcox and

ZetaPharm, Inc. ("ZetaPharm"). All significant intercompany accounts and transactions have been eliminated in consolidation.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of these financial statements. Actual results could differ from those estimates.

The Company has incurred significant losses from operations that it believes will be curtailed by the results of the restructuring activities entered into in fiscal 2000 and 2001. If the results of the restructuring activities are not as effective as anticipated by management, or if market prices for the Company's products do not recover as expected, it is possible that the Company will recognize an impairment charge related to its $17.7 million goodwill balance in the future. Further, the Company is evaluating the estimated remaining life of its goodwill and it is also reasonably possible that the life will be shortened in the near future due to the factors described above.

3. INVENTORIES

Raw material, work in process, and finished goods inventories, which include costs of materials, direct labor and manufacturing overhead, are priced at the lower of average cost or market. Write-downs for excess and obsolete inventories are charged to expense in the period when conditions giving rise to the write-downs are first recognized. The Company purchases raw material inventory

during harvest seasons, generally in the spring and fall. These purchases may take place well in advance of scheduled production of finished product.

Inventories, at cost, are classified as follows:

	December 31, 2000	March 31, 2000
Raw materials and supplies	$ 2,327,970	$ 4,197,169
Work in process	2,289,262	2,856,394
Finished goods	7,749,070	15,578,351
Total inventories	$12,366,302	$22,631,914

In December 2000, the Company recorded a charge of $3,100,000 in order to write-down inventories to the lower of cost or market, and to reserve for excess quantities on-hand.

4. DEBT

Notes payable and long-term debt consisted of the following:

	December 31, 2000	March 31, 2000
Line of credit	$18,052,681	$25,793,720
Note payable to related party	2,675,283	-
Capital leases	355,245	1,002,750
Total	21,083,209	26,796,470
Less current portion	21,070,807	26,377,638
Long term debt	$ 12,402	$ 418,832

In connection with the Merger, Wells Fargo Bank, N.A. ("Wells Fargo") provided a $35.0 million line of credit and a $10.0 million fixed asset line (the "Credit Facility") in support of the merged companies. As part of the Merger, the Company repaid approximately $21.0 million in bank debt of the Contributed Subsidiaries with proceeds from the Credit Facility. The lines of credit are subject to borrowing base limitations on inventory and is secured by all of the Company's assets. Additionally, the Credit Facility contains affirmative and negative covenants, including certain financial covenants.

In October 2000, the Credit Facility was amended to eliminate defaults and to revise the financial covenants. In addition, the $35 million line of credit was reduced to $24.5 million, was further reduced to $21.0 million effective October 31, 2000, and will be reduced to $17.0 million effective March 31, 2001. The amended Credit Facility bears interest at the prime borrowing rate and expires on September 30, 2001. At December 31, 2000 $18,052,681 was outstanding with an interest rate of 9.50% (the Bank's prime borrowing rate).

Also in October 2000, as a condition of Wells Fargo to execute the amended Credit Facility, the Company sold a $3 million Subordinated Promissory Note (the "Note") to Zatpack, Inc. ("Zatpack"). ZGNA is a wholly owned subsidiary of Zatpack. The Note is subordinate to the Credit Facility, will accrue interest at a rate of 6.5%, is payable in three years and has five-year warrants attached. The warrants permit Zatpack to purchase 992,789 shares of Hauser's common stock at a price of $.5855 per share. The proceeds of the sale of the Note were used by the Company to repay a portion of the line of credit outstanding under the Credit Facility. During June 2000, the Company received an advance of $969,250 against the purchase of the Note.

The Company has recorded a discount of $354,237 in connection with the warrants attached to the Note described above. The discount was computed based on the value of the warrants as determined by use of an option pricing model (Black Scholes), and will be amortized to interest expense on a straight-line basis over the term of the Note, through September 2003. Interest expense of $29,520 was recorded for the quarter ended December 31, 2000 in connection with the amortization of the discount.

As of December 31, 2000, the Company was not in compliance with its financial covenants in the Credit Facility. The Company is currently in negotiations with the Bank to further amend the Credit Facility.

5. EARNINGS (LOSS) PER SHARE

The Company calculates basic earnings (loss) per share by dividing the net earnings or loss by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is determined by dividing the net earnings or loss by the sum of (1) the weighted average number of common shares outstanding and (2) if not antidilutive, the effect of outstanding warrants and stock options determined

utilizing the treasury stock method. For the three and nine months ended December 31, 2000, and 1999, all options were excluded from the calculation of diluted loss per share since the result would have been antidilutive.

6. RELATED PARTY TRANSACTIONS

The Company sells botanical raw materials to ZBI. During the nine months ended December 31, 2000 and 1999, sales to ZBI totaled $2,914,162 and $3,380,028, respectively. The related trade accounts receivable due from ZBI totaled $1,132,969 and $1,131 at December 31, 2000 and March 31, 2000, respectively.

In October 2000, the Company sold the Note to Zatpack, Inc. (See Note 4 to the Consolidated Financial Statements.)

7. OPERATING SEGMENTS

The Company's three business segments are: Natural Products, Technical Services, and Fine Chemicals and Excipients, each having a separate management team and infrastructure offering different products and services, and utilizing different marketing strategies to customers. Included in corporate and other are the results of the Company's paclitaxel related activities, which are being terminated. Selected financial information from the Company's business segments are as follows:

	Three Months Ended December 31, 2		
	Natural Products	Technical Services	Fine Chemicals and Excipients
Revenues	$ 3,865,134	$ 3,954,872	$ 5,319,660
Cost of revenues	6,808,946	3,574,843	4,528,482
Gross profit (loss)	(2,943,812)	380,029	791,178
Operating expenses	1,171,893	1,358,679	596,033
(Loss) income from operations	(4,115,705)	(978,650)	195,145
Net income (loss)	$(4,443,442)	$(1,063,246)	$ 330,828

	Three Months Ended December 31, 1		
	Natural Products	Technical Services	Fine Chemicals and Excipients
Revenues	$ 9,120,565	$ 4,158,332	$ 8,319,806
Cost of revenues	7,613,951	3,508,136	6,853,764
Gross profit (loss)	1,506,614	650,196	1,466,042
Operating expenses	1,461,895	1,169,800	1,077,764
(Loss) income from operations	44,719	(519,604)	388,278
Net income (loss)	$ (464,763)	$ (526,255)	$ 365,717

	Nine Months Ended December 31, 20		
	Natural Products	Technical Services	Fine Chemicals and Excipients
Revenues	$15,359,311	$11,922,466	$24,300,360
Cost of revenues	18,511,699	10,322,588	21,068,773
Gross profit (loss)	(3,152,388)	1,599,878	3,231,587
Operating expenses	4,003,830	3,642,894	2,202,087
(Loss) income from operations	(7,156,218)	(2,043,016)	1,029,500
Net income (loss)	$(8,320,150)	$(2,212,838)	$ 978,537

	Nine Months Ended December 31, 19		
	Natural Products	Technical Services	Fine Chemicals and Excipients
Revenues	$22,161,423	$12,393,307	$18,577,207
Cost of revenues	22,649,727	9,942,057	15,381,307
Gross profit (loss)	(488,304)	2,451,250	3,175,900
Operating expenses	3,899,797	3,378,605	2,243,288
(Loss) income from operations	(4,388,101)	(927,355)	932,612
Net income (loss)	$(5,640,149)	$ (909,358)	$ 863,997

Included in Corporate other income for the quarter ended December 31, 2000 is a net gain from the sale of land in the amount of $1,032,489. Additionally, Fine Chemicals and Excipient other income of $250,000 was recorded in connection with the termination of ZetaPharm's distribution agreement with its principal excipient supplier, Blanver.

8. RECENTLY ISSUED ACCOUNTING STANDARDS

SFAS NO. 133. In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133 - An Amendment of FASB Statement No. 133" ("SFAS 137"). SFAS 137 delays the effective date of SFAS 133 to financial quarters and financial years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. Management believes that the adoption of SFAS 133 will not have a significant impact on the Company's financial condition and results of operations.

SAB 101. In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, "Revenue Recognition ("SAB 101"). SAB 101 provides guidance on the recognition, presentation, and disclosures related to revenue in the financial statements. The Company is required to adopt this standard in its fourth quarter of fiscal 2001 effective April 1, 2000. Management does not believe the adoption of SAB 101 will have a significant impact on the results of operations or financial position of the Company.

PART 1, ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

OPERATIONS

OVERVIEW

The Company operates in three business segments: Natural Products, Technical Services, and Fine Chemicals and Excipients.

RESULTS OF CONTINUING ACTIVITIES:

The results of continuing activities exclude paclitaxel related activities, as discussed in Note 1 to the financial statements. Additionally, the following discussion of results of operations is based on a comparison of fiscal 2001 operating results to the pro forma fiscal 2000 operating data because management believes the merger has made comparison of actual results between quarters meaningless. Pro forma adjustments incorporated into the table below include the operating results of the Contributed Subsidiaries as if the Merger had occurred on April 1, 1999.

	Three Months Ended December 31,		Nine
	2000	1999	2000
Revenues	$13,139,666	$21,598,703	$ 51,582
Cost of Revenues	14,912,271	17,975,851	49,903
Gross Profit	(1,772,605)	3,622,852	1,679
Operating Expenses	4,093,906	4,621,453	12,621
Loss from Operations	(5,866,511)	(998,601)	(10,942
Net Loss	$(5,153,059)	$(1,532,981)	$(10,821

COMPARISON OF THE THREE MONTHS ENDED DECEMBER 31, 2000 TO THE THREE MONTHS ENDED DECEMBER 31, 1999:

REVENUES. The Company's revenues by product and service are as follows:

	Three Months Ended December 31,	
	2000	1999
Natural Products	$ 3,865,134	$ 9,120,565
Technical Services	3,954,872	4,158,332
Fine Chemicals and Excipients	5,319,660	8,319,806
	$13,139,666	$21,598,703

Total revenues decreased by 39% to $13,139,666 in the third quarter of fiscal 2001 from $21,598,703 in the third quarter of the prior fiscal year.

Natural Product revenues decreased by 58% to $3,865,134 in the third quarter of fiscal 2001 from $9,120,565 in the third quarter of the prior fiscal year. The decrease was due to the world-wide oversupply of herbal extracts for dietary supplements, which has resulted in depressed prices for herbal extracts. In addition, the Company made the decision to close the Wilcox facility in March 2000. The decrease in Wilcox sales accounts for approximately 51% of the total decrease in Natural Product revenues.

Technical Service revenues decreased by 5% to $3,954,872 in the third quarter of fiscal 2001 from $4,158,332 in the third quarter of the prior fiscal year. In November 2000, HTS moved its facility from Quincy, MA to Canton, MA. The decrease in Technical Service revenues was due to a lack of sales primarily as a result of the delay in entering into new contracts and starting new projects because of the move of the Shuster Laboratories division of HTS to a new facility. In addition, a slow down of growth in the dietary supplement industry also contributed to such a decrease.

Fine Chemical and Excipient revenues decreased by 36% to $5,319,660 in the third quarter of fiscal 2001 from $8,319,806 in the third quarter of the prior fiscal year. In July 2000, the Company was informed that its principal excipient supplier, Blanver, had elected to sell products directly. Accordingly, excipient sales have decreased significantly from the prior year. Sales of Blanver products totaled $0 and $2.9 million during the quarters ended December 31, 2000 and 1999, respectively.

GROSS PROFIT. Gross profit decreased by 149% to ($1,772,605) in the third quarter of fiscal 2001 from $3,622,852 in the third quarter of the prior year. During the third quarter of the current year, the Company recorded a charge of $3,100,000 in order to write-down inventories to the lower of cost or market, and to reserve for excess quantities on-hand. No such charge was recorded during the third quarter of fiscal 2000. Excluding the impact of such charge, gross profit decreased by 63% from the prior year. Additionally, excluding the impact of the inventory write-downs, the gross profit percentage of 10% in the quarter ended December 31, 2000 has deteriorated from the gross profit percentage of 17% for the same period in the prior year. This decrease can be attributed primarily to reduced prices caused by the world-wide oversupply of herbal extracts.

OPERATING EXPENSES. Operating expenses decreased by 11% to $4,093,906 in the quarter ended December 31, 2000 from $4,621,453 in the same period in the prior year. This decrease primarily results from a reduction of general and administrative expenses due to the Company's restructuring and cost containment efforts.

INTEREST INCOME/EXPENSE. Interest expense, net increased by 9% to $569,037 in the quarter ended December 31, 2000 from $523,899 in the same period in the prior year. The increase in interest expense is due to the increased debt levels, combined with higher interest rates in the current year.

OTHER INCOME/EXPENSE. Other income/(expense) increased to $1,282,489 in the quarter ended December 31, 2000 from ($10,481) in the same period in the prior year. The increase from the prior year is due primarily to a net gain on the sale of land of $1,032,489. In addition, the Company received $250,000 from Blanver in connection with the termination of its agreement with ZetaPharm.

COMPARISON OF THE NINE MONTHS ENDED DECEMBER 31, 2000 TO THE NINE MONTHS ENDED DECEMBER 31, 1999:

REVENUES. The Company's revenues by product and service are as follows:

	Nine Months Ended December 31,	
	2000	1999
Natural Products	$15,359,311	$30,192,639
Technical Services	11,922,466	12,393,307
Fine Chemicals and Excipients	24,300,360	23,934,614
	$51,582,137	$66,520,560

Total revenues decreased by 23% to $51,582,137 in the nine months ended December 2000 from $66,520,560 in the same period of the prior fiscal year.

Natural Product revenues decreased by 49% to $15,359,311 in the nine months ended December 2000 from $30,192,639 in the same period of the prior fiscal year. The decrease was due to the world-wide oversupply of herbal extracts for dietary supplements, which has resulted in depressed prices for herbal extracts. In addition, the Company made the decision to close the Wilcox facility in March 2000. The decrease in Wilcox sales accounts for approximately 11% of the total decrease in Natural Product revenues.

Technical Service revenues decreased by 4% to $11,922,466 in the nine months ended December 2000 from $12,393,307 in the same period of the prior fiscal year. The decrease was due to a lack of sales primarily as a result of the delay in entering into new contracts and starting new projects resulting from the move of the Shuster Laboratories division of HTS to a new facility. In addition, a slow down of growth in the dietary supplement industry also contributed to such a decrease.

Fine Chemical and Excipient revenues increased by 2% to $24,300,360 in the nine months ended December 2000 from $23,934,614 in the same period of the prior fiscal year. This increase is due primarily to increased sales volume of Fine Chemicals. In July 2000, the Company was informed that its principal excipient supplier, Blanver, had elected to sell products directly. Thus, the increase in Fine Chemical revenues was offset by a significant decrease in sales of excipients. Sales of Blanver products totaled $4.4 million and $8.1 million during the nine months ended December 31, 2000 and 1999, respectively.

GROSS PROFIT. Gross profit decreased by 77% to $1,679,077 in the nine months ended December 2000 from $7,414,667 in the same period of prior fiscal year. During the nine months ended December 2000 and 1999, the Company recorded charges to write-down inventories to the lower of cost or market, and to reserve for excess quantities in the amount of $3,100,000 and $2,767,560, respectively. Excluding the impact of these charges, gross profit for the nine months ended December 2000 decreased by 53% from the prior fiscal year. Additionally,

excluding the impact of the inventory write-downs, the gross profit percentage of 9% in the nine months ended December 2000 has deteriorated from the gross

profit percentage of 15% for the same period in the prior year. This decrease is attributed primarily to reduced prices caused by the world-wide oversupply of herbal extracts.

OPERATING EXPENSES. Operating expenses decreased by 14% to $12,618,399 in the nine months ended December 2000 from $14,656,089 in the same period of the prior fiscal year. During the nine months ended December 1999, the Company recorded a charge of $814,000 in connection with post merger severance costs, asset abandonment and reserves for leases on obsolete equipment. Excluding the impact of the above referenced charge, operating expenses decreased by 9% from the prior year. This decrease primarily results from a reduction of general and administrative expenses due to the Company's restructuring and cost containment efforts.

INTEREST INCOME/EXPENSE. Interest expense, net increased by 11% to $1,760,023 in the nine months ended December 2000 from $1,573,235 in the same period of the prior fiscal year. The increase in interest expense is due to the increased debt levels, combined with higher interest rates in the current year.

OTHER INCOME/EXPENSE. Other income/(expense) increased to $1,883,682 in the nine months ended December 31, 2000 from ($10,481) in the same period in the prior year. The increase from the prior year is due primarily to a net gain on the sale of land of $1,633,682. In addition, the Company received $250,000 from Blanver in connection with the termination of its agreement with ZetaPharm.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL. Total cash and cash equivalents were $786,930 at December 31,2000, compared to $1,272,875 at March 31, 2000. The Company's primary cash needs are for operations, working capital and capital expenditures.

Cash provided by operating activities for the nine months ended December 31, 2000 was $4,512,117. This amount is comprised of a net loss of $10,150,525, offset primarily by non-cash expenditures of $4,918,985, reductions in accounts receivable and inventory of $4,080,034 and $6,843,370, respectively, and net changes in other working capital of ($1,179,747).

Cash provided by investing activities is comprised of capital expenditures of $3,506,235, and proceeds from sale of assets of $3,778,561.

Cash used in financing activities is comprised primarily of changes in the Company's bank line of credit, repayments of long-term debt and proceeds from a note payable to Zatpack, Inc.

In October 2000, the Credit Facility was amended. In accordance with the terms of the amendment, the $35 million line of credit commitment was reduced to $24.5 million, further reduced to $21.0 million effective October 31, 2000, and will be reduced to $17.0 million effective March 31, 2001. The Credit Facility bears interest at the prime borrowing rate and expires on September 30, 2001. As of December 31, 2000, the Company was not in compliance with its financial covenants in the Credit Facility. The Company is currently in negotiations with the Bank to further amend the Credit Facility.

Also in October 2000, the Company sold a $3 million Note to Zatpack. The Note is subordinate to the Credit Facility, will accrue interest at a rate of 6.5%, is payable in three years and has five-year warrants attached. The warrants permit Zatpack to purchase 992,789 shares of Hauser's common stock at a price of approximately $.5855 per share. The proceeds of the sale of the note were used to pay down the line of credit outstanding under the Credit Facility.

In December 2000, the Company announced its intention to sell HTS. The sale will permit the Company to focus its resources on the production and sale of bulk herbal extracts and nutritional supplements, including the development of new products, and the distribution of fine chemicals to dietary supplement manufacturers.

The Company expects to meet its liquidity requirements through cash flows from operations, the Credit Facility (see Notes 1 and 4 to the Financial Statements), the sale of HTS and operational changes as deemed necessary. Management believes that current cash reserves, proceeds from the sale of the Note to Zatpack, the Credit Facility, funds generated from operating activities and the sale of HTS will be sufficient to meet the Company's liquidity needs within the next twelve months.

WORKING CAPITAL. Working capital as of December 31, 2000 was ($5,002,612) as compared to $3,754,120 as of March 31, 2000.

INCOME TAXES. The Company has a net deferred tax asset of approximately $25,600,000 that has been fully reserved for at December 31, 2000. Included in deferred tax assets at December 31, 2000, are federal net operating loss carry forwards of approximately $49,650,000, income tax credits of approximately $659,000 and alternative minimum tax credits of approximately $1,500,000. Although the deferred income taxes have been 100% reserved for, the reserve may be reversed and a related benefit recorded in the future when and if the assets are deemed realizable.

BACKLOG. Backlog of unfilled sales orders was $4,800,000 as of December 31, 2000, compared to $6,300,000 as of March 31, 2000. Backlog consists of unfilled sales orders for Natural Products, Technical Services and Fine Chemicals and Excipients.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact the financial position, results of operations or cash flows of the Company due to adverse changes in financial and commodity market prices and rates. The Company is exposed to market risk in the area of changes in United States interest rates. These exposures are directly related to the Company's fixed and variable rate borrowings used to fund its operations. Additionally, the Company is exposed to market risk because of market price reductions for botanical raw materials and extracts. The Company performs ongoing evaluations regarding the net realizable value of inventory and writes down such inventory as appropriate. Historically and as of September 30, 2000, the Company has not used derivative instruments or engaged in hedging activities.

The interest payable on the Company's revolving line of credit is variable based on the prime rate, and is therefore affected by changes in market interest rates. At December 31, 2000, $18,052,681 was outstanding with an interest rate of 9.50% (the bank's prime borrowing rate). Should the Company be required to

obtain financing for the existing line elsewhere, or should the Company's liquidity needs exceed amounts available under this line of credit, the interest rate to replace the credit facilities might be significantly higher. For example, if the interest rate on the Company's line of credit had been 2% higher for its quarter ended December 31, 2000, the Company would have incurred additional interest expense of approximately $106,000, with an associated $.02 increase in the per share loss for the quarter. Therefore, the Company's exposure to changes in interest rates will be significant until such time as its operating results permit it greater access to other lenders and lending instruments on terms equivalent to those available under the Credit Facility.

FORWARD-LOOKING STATEMENTS

Certain oral and written statements of management of the Company included in the Form 10-Q and elsewhere may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. These statements include the plans and objectives of management for future operations. The forward-looking statements included herein and elsewhere are based on current expectations that involve judgments which are difficult or impossible to predict accurately and many of which are beyond the control of the Company. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved.

PART 2.

Item 1 Legal Proceedings.

Reference is made to the Company's Report of Form 10Q for the period ended September 30, 2000.

Item 2 Changes in Securities.

Reference is made to the Company's Report of Form 10Q for the period ended September 30, 2000.

Item 3. Defaults Upon Senior Securities.

As of December 31, 2000, the Company was not in compliance with its financial covenants in the Credit Facility. The Company is currently in negotiations with the Bank to amend the Credit Facility. The Company expects to meet its liquidity requirements through cash flows from operations, the Credit Facility and the sale of HTS.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Stockholders held on November 28, 2000, pursuant to the Notice of Annual Meeting of Stockholders and Proxy Statement dated November 7, 2000 each of the eight nominees standing for election (Kenneth C. Cleveland, Michael C. Davis, Herbert Elish, James Mellor, Robert F. Saydah, Harvey L. Sperry, Dean P. Stull, Ph.D. and Volker Wypyszyk) were elected ad Directors of the Company by a majority of the votes cast in the election.

Item 5. Other Information.

Reference is made to the Company's Report of Form 10Q for the period ended September 30, 2000.

On December 18, 2000, the Company announced its intention to sell Hauser Technical Services, Inc., which consists of Hauser Laboratories and Shuster Laboratories.

On January 30, 2001, the Company announced that it has reached agreement with the Whitehall-Robins Healthcare division of American Home Products Corporation (NYSE: AHP) to jointly develop a new dietary supplement.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

99.1 Press release announcing the Company's intent to sell Hauser Technical Services, Inc.

99.2 Press release announcing the agreement with Whitehall-Robins Healthcare division of American Home Products Corporation.

(b) Reports on Form 8-K

None

FORM 10 Q

SIGNATURES

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, thereunto duly authorized.

HAUSER, INC.

Date: February 14, 2001 /s/ KENNETH C. CLEVELAND

Kenneth C. Cleveland
Chief Executive Officer

Date: February 14, 2001

/s/ TERRY FEIT
Terry L. Feit
Secretary/Treasurer