

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

Filing Date: **1996-12-30** | Period of Report: **1995-06-30**
SEC Accession No. **0000903893-96-001130**

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FILER

ANNIES HOMEGROWN INC

CIK: **890818** | IRS No.: **061258214** | State of Incorpor.: **DE** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **033-93982-LA** | Film No.: **96687518**
SIC: **2090** Miscellaneous food preparations & kindred products

Mailing Address
108 SECOND ST
STE 202
CHELSEA MA 02150

Business Address
108 SECOND ST
STE 202
CHELSEA MA 02150

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-QSB

Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarter ended June 30, 1995

Transition report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____ to _____

Commission file number: 33-93982-LA

ANNIE'S HOMEGROWN, INC.

(Exact name of Small Business Issuer as specified in its charter)

DELAWARE

06-1258214

(State or other jurisdiction of incorporation or organization)

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

180 SECOND STREET, SUITE 202, CHELSEA, MA

02150

(Address of principal executive offices)

(Zip Code)

617-889-2822

(Issuer's telephone number, including area code)

NONE

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 _____

Number of shares of Common Stock, \$.001 par value, outstanding as of June 30, 1995:

3,999,999 shares

Transitional Small Business Disclosure Format (check one): Yes _____ No _____

ANNIE'S HOMEGROWN, INC.

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Statement of Fair Presentation

The financial information included herein is unaudited. In addition, the financial information does not include all disclosures required under generally accepted accounting principles because certain note information included in the Company's annual report to shareholders has been omitted and such information should be read in conjunction with the prior year's annual report. However, the financial information reflects all adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary to a fair statement of results for the interim periods. The Company considers the disclosures adequate to make the information presented not misleading.

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ANNIE'S HOMEGROWN, INC.
Balance Sheet
Unaudited

	June 30, 1995

Assets	
Current assets	
Cash and cash equivalents	\$ 40,314
Accounts receivable	
Trade	163,801
Related parties	23,208
Inventory	89,287
Other current assets	780

Total current assets	317,390
Office equipment	45,449
Accumulated depreciation	(18,725)

Office equipment, net	26,724
Due from officer	75,000
Other assets	5,937

Total assets	\$ 425,051 =====
Liabilities and Stockholders' Equity (Deficit)	
Current liabilities	
Notes payable	\$ 7,500
Accounts payable, trade	289,649
Accrued expenses	184,027
Due to employees	28,177

Total current liabilities	509,353
Commitments	
Stockholders' equity (deficit)	
Common stock, \$.001 par value	
Authorized 10,000,000 shares	
issued 4,111,905 shares	4,112
Additional paid in capital	408,003
Accumulated deficit	(404,667)
Note receivable stockholder	(1,750)
Treasury stock, 111,906 common shares at cost	(90,000)

Total stockholders equity (deficit)	(84,302)
Total liabilities and stockholders' equity	\$ 425,051 =====

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ANNIE'S HOMEGROWN, INC
Statements of Operations
Unaudited

<TABLE>
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	Three months ended June 30, -----		Six months ended June 30, -----	
	1994 ----	1995 ----	1994 ----	1995 ----
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 581,004	\$ 965,492	\$ 1,384,312	\$ 2,190,312
Cost of sales	329,181	573,606	789,486	1,280,942
	-----	-----	-----	-----
Gross profit	251,823	391,886	594,826	909,370
Operating expenses:				
Selling	134,448	263,048	295,848	569,715
General and administrative	103,936	165,814	203,254	343,172
Slotting fees	11,588	42,872	11,868	165,171
	-----	-----	-----	-----
Total operating expenses	249,972	471,734	510,970	1,078,058
	-----	-----	-----	-----
Operating income (loss)	1,851	(79,848)	83,856	(168,688)
Other income (loss)				
Interest expense and other charges	(14,959)	(757)	(15,915)	(13,523)
Interest and other income	902	8,310	1,408	19,370

Income (loss) before income tax	(12,206)	(72,295)	69,349	(162,841)
Income tax expense	519	--	2,275	1,962
Net income (loss)	\$ (12,725)	\$ (72,295)	\$ 67,074	\$ (164,803)
Weighted average common shares outstanding	3,665,255	3,957,296	4,666,406	3,950,536
Net income (loss) per share	(.00)	(.02)	.01	(.04)

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ANNIE'S HOMEGROWN, INC.
Statements of Cash Flows
Unaudited

<TABLE>
<CAPTION>

	Six months ended June 30,	
	1994	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ 67,074	\$ (164,803)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	--	4,100
Changes in:		
Accounts receivable - trade	(66,614)	58,009
Affiliate accounts, net	1,021	273,918
Inventory	(6,833)	116,093
Other assets	(1,041)	1,626
Accounts payable - trade	(110,406)	(29,092)
Accrued expenses	42,718	68,929
Due to employees	(27,260)	(3,771)
Net cash (used in) provided by operating activities	(101,341)	325,009
Cash flows from investing activities:		
Purchases of office equipment	(11,810)	(7,614)
Net cash (used in) investing activities	(11,810)	(7,614)
Cash flows from financing activities:		
Repayment of notes payable	--	(210,658)
Net proceeds from notes payable	110,840	--
Issuance of common stock and exercise of stock options, net	--	(68,865)
Net cash (used in) provided by		

financing activities	110,840	(279,523)
Net (decrease) increase in cash and cash equivalents	(2,311)	37,872
Cash and cash equivalents, beginning of period	4,722	2,442
	-----	-----
Cash and cash equivalents, end of period	\$ 2,411	\$ 40,314
	=====	=====
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 15,915	\$ 13,523
	=====	=====
Cash paid for income taxes	\$ 2,275	\$ 1,962
	=====	=====

</TABLE>

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ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The Company's net sales are generated by sales to supermarkets and natural and specialty food stores. Net sales are net of product returns and allowances. The Company sells most of its product to its customers on a credit basis with 2% 10 day, net 15 day terms. The Company has developed four premium macaroni and cheese dinners: Annie's Shells and Cheddar, Annie's Alfredo, Annie's Whole Wheat Shells and Cheddar, and Annie's Mild Mexican(TM). The Company also has an agreement with a specialty retailer to provide a private label house brand using the Company's premium all natural white cheddar cheese formulae together with elbow macaroni.

The Company's cost of sales consists of purchasing cheese from a cheese supplier as well as finished product from pasta manufacturers. The products are manufactured according to the specifications provided by the Company, which include the recipe, ingredients, graphics and packaging for the product. The Company products are shipped directly from the manufacturer via common carrier to either of two public warehouses located in Massachusetts and California. The Company generally distributes its products by either shipping directly to the supermarket chains' central warehouses or to a wholesale grocery distributor.

Selling expenses include the costs of product marketing, sales commissions, cost of product distribution and account management. The Company retains brokers who present the Company's products to supermarket chains and distributors. The brokers work on a commission basis, generally 5% of net cash received. The Company negotiates, through the broker, the cost of acquiring shelf space (introductory slotting) as well as the continuing support needed for the product. Introductory slotting fees can take the form of cash payments and/or free product allowances.

The Company's strategy is to continue to expand its supermarket and natural food distribution nationally as well as to develop new and unique all natural food products for sale to its existing customer base.

RESULTS OF OPERATIONS

SIX MONTHS ENDED JUNE 30, 1995 COMPARED TO SIX MONTHS ENDED JUNE 30, 1994

NET SALES. Net sales increased by \$806,000 or 58.22% from \$1,384,312 in 1994 to \$2,190,312 in 1995. The net sales increase was primarily a result of our growth

in the slotting of new accounts in 1995. The Company believes that it has penetrated all major supermarket chains in the New England states, and sells in several major supermarket chains in New York and California. The Company has expanded its supermarket business into the Mid-Atlantic states as well as the Rocky Mountain region. Additionally, the Company continues to produce for a specialty retailer their private label brand macaroni and cheese dinner using the Company's white cheddar cheese formula.

GROSS PROFIT. As a percentage of net sales, gross profit decreased from 42.97% in 1994 to 41.52% in 1995. This small decrease was primarily a result of a different mix in the Company's products including shipping the private label house brand which has a lower margin than the Company's regular products.

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ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SELLING EXPENSES. Selling expenses increased by \$273,867 or 92.57% from \$295,848 in 1994 to \$569,715 in 1995 and increased as a percentage of net sales from 21.37% in 1994 to 26.01% in 1995. The increase in selling expenses as a percentage of net sales primarily reflected an increase in spending in three primary areas: (i) the hiring of additional personnel to sell and support the Company's products and customer base, (ii) increase in freight costs due to a customer base expanding further away from the Company's warehouses in Massachusetts and California, (iii) marketing costs, including price reductions and trade show appearances, associated with the continued roll-out of the Company's products in 1995.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by \$139,918 or 68.84% from \$203,254 in 1994 to \$343,172 in 1995 and increased as a percentage of net sales from 14.68% in 1994 to 15.67% in 1995. The increase in costs relates to hiring more personnel to handle the increase in volume as well as the initial public offering.

SLOTting FEES. Slotting expenses increased by \$153,303 or 1291.73% from \$11,868 in 1994 to \$165,171 in 1995, and increased as a percentage of net sales from 0.86% in 1994 to 7.54% in 1995. The increase was due to the Company's decision to proceed in anticipation of the initial public offering with the expansion by purchasing additional shelf space which requires paying introductory slotting fees for the acquisition of shelf space at supermarkets. These slotting fees are required by most supermarkets and are expensed at the time of product introduction.

THREE MONTHS ENDED JUNE 30, 1995 COMPARED TO THREE MONTHS ENDED JUNE 30, 1994

NET SALES. Net sales increased by \$384,488 or 66.18% from \$581,004 in 1994 to \$965,492 in 1995. The net sales increase was primarily a result of our growth in the slotting of new accounts in 1995. The Company believes that it has penetrated all major supermarket chains in the New England states, and sells in several major supermarket chains in New York and California. The Company has expanded its supermarket business into the Mid-Atlantic states as well as the Rocky Mountain region.

GROSS PROFIT. As a percentage of net sales, gross profit decreased from 43.34% in 1994 to 40.59% in 1995. This decrease was primarily a result of a different mix in the Company's products including shipping the private label house brand which has a lower margin than the Company's regular products.

SELLING EXPENSES. Selling expenses increased by \$128,600 or 95.65% from \$134,448 in 1994 to \$263,048 in 1995 and increased as a percentage of net sales from 23.14% in 1994 to 27.24% in 1995. The increase in selling expenses as a percentage of net sales primarily reflected an increase in spending in marketing costs, including advertising and price reductions.

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ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by \$61,878 or 59.53% from \$103,936 in 1994 to \$165,814 in 1995 and decreased as a percentage of net sales from 17.89% in 1994 to 17.17% in 1995. The increase in costs relates to hiring more personnel to handle the increase in volume as well as the initial public offering.

SLOTTING FEES. Slotting expenses increased by \$31,284 or 269.97% from \$11,588 in 1994 to \$42,872 in 1995, and increased as a percentage of net sales from 1.99% in 1994 to 4.44% in 1995. The increase was due to the Company's decision to proceed in anticipation of the initial public offering with the expansion by purchasing additional shelf space which requires paying introductory slotting fees for the acquisition of shelf space at supermarkets. These slotting fees are required by most supermarkets and are expensed at the time of product introduction.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date through a private sale of equity and convertible debt securities, a line of credit from a financial institution and cash generated from operations. At June 30, 1995, the Company had a working capital deficit of \$191,963. The working capital deficit was primarily generated by the Company's decision to proceed in anticipation of the initial public offering with the expansion by purchasing additional shelf space which requires paying introductory slotting fees for the acquisition of shelf space at supermarkets.

The Company has a revolving line of credit with a financial institution in the amount of \$150,000 which bears interest at the prevailing prime rate plus 3%. In addition, each borrowing incurs a service fee which varies from 0.5% to 8% (up to 90 days) depending on the number of days the borrowing is outstanding. The line of credit is secured by the Company's accounts receivable and inventory and guaranteed by an officer and certain directors of the Company. The Company also has a \$10,000 unsecured line of credit with a bank which bears interest at the prime rate plus 8.9%. At June 30, 1995 the Company had no outstanding borrowings under the lines of credit.

The Company's primary capital needs are for expansion into national supermarket distribution and to develop new products. The Company intends to expand its supermarket distribution throughout the United States by acquiring shelf space or new "slots" (one product in one store equals one slot). The Company's planned expenditures for slotting fees for the balance of 1995 are to be funded with a portion of the net proceeds of the initial public offering. The Company believes that the net proceeds from the public offering, together with the Company's increased line of credit and funds that may be generated from operations, will be sufficient to fund the Company's currently anticipated working capital requirement and expenditure for at least the next twelve months.

SUBSEQUENT EVENTS

In June 1996, the Company renegotiated its line of credit with the financial institution. The Company increased its line of credit from \$150,000 to \$300,000. In addition, the service fees charged were reduced from 0.5% to 8% (up to 90 days) to 0.4% to 6.4% (up to 90 days).

On July 31, 1996, the Company closed its initial public offering of Common Stock. In total, 256,490 shares were sold resulting in gross proceeds of approximately \$1,500,000. Expenses from the inception of the offering totaled approximately \$325,000.

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ANNIE'S HOMEGROWN, INC.

PART II - OTHER INFORMATION

EXHIBITS LIST AND REPORTS ON FORM 8-K

(A) EXHIBITS

Exhibit Number

27.1

Financial Data Schedule

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the Company during the Company's fiscal quarter ended June 30, 1995.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANNIE'S HOMEGROWN, INC.

Date: December 16, 1996

/s/ Paul B. Nardone

Paul B. Nardone
President

Date: December 16, 1996

/s/ Neil Raiff

Neil Raiff
Chief Financial Officer & Treasurer

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