

# 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: **1995-09-30**  
SEC Accession No. **0000903893-96-001131**

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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.: **96687522**  
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 September 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 September 30, 1995:

4,003,984 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

	September 30, 1995
	-----
Assets	
Current assets	
Cash and cash equivalents	\$ 171
Accounts receivable	
Trade	238,071
Related parties	31,249
Inventory	74,549
Other current assets	500
	-----
Total current assets	344,540
Office equipment	49,436
Accumulated depreciation	(20,825)
	-----
Office equipment, net	28,611
Due from officer	75,000
Other assets	24,587
	-----
Total assets	\$ 472,738
	=====
Liabilities and Stockholders' Equity (Deficit)	
Current liabilities	
Notes payable	\$ 167,500
Accounts payable, trade	446,744
Accrued expenses	174,032
Due to employees	28,177
	-----
Total current liabilities	816,453
Commitments	
Stockholders' equity (deficit)	
Common stock, \$.001 par value	
Authorized 10,000,000 shares	
issued 4,115,890 shares	4,116
Additional paid in capital	300,730
Accumulated deficit	(556,811)
Note receivable stockholder	(1,750)
Treasury stock, 111,906 common shares at cost	(90,000)
	-----
Total stockholders equity (deficit)	(343,715)
Total liabilities and stockholders' equity	\$ 472,738
	=====

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ANNIE'S HOMEGROWN, INC.  
Statements of Operations  
Unaudited<TABLE>  
<CAPTION>

Three months ended

Nine months ended

	September 30,		September 30,	
	1994	1995	1994	1995
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 661,349	\$ 1,328,834	\$ 2,045,662	\$ 3,519,146
Cost of sales	404,252	787,841	1,193,739	2,068,784
Gross profit	257,097	540,993	851,923	1,450,362
Operating expenses:				
Selling	170,566	367,165	474,685	966,615
General and administrative	118,026	204,457	313,007	518,748
Slotting fees	11,854	113,095	23,722	278,266
Total operating expenses	300,446	684,717	811,414	1,763,629
Operating income (loss)	(43,349)	(143,724)	40,509	(313,267)
Other income (loss)				
Interest expense and other charges	(8,190)	(8,277)	(24,106)	(20,945)
Interest and other income	26,703	24	28,111	19,394
Income (loss) before income tax	(24,836)	(151,977)	44,514	(314,818)
Income tax expense	0	166	2,275	2,129
Net income (loss)	\$ (24,836)	\$ (152,143)	\$ 42,239	\$ (316,947)
Weighted average common shares outstanding	3,846,789	4,000,308	4,667,304	3,966,546
Net income (loss) per share	(.01)	(.04)	.01	(.08)

</TABLE>

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

<TABLE>  
<CAPTION>

	Nine months ended September 30,	
	1994	1995
<S>	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ 42,239	\$ (316,947)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	--	6,200
Changes in:		
Accounts receivable - trade	(45,622)	(16,261)
Affiliate accounts, net	(119,115)	265,877
Inventory	91,162	130,831
Other assets	(1,041)	(16,744)
Accounts payable - trade	(76,120)	128,003
Accrued expenses	78,718	58,934
Due to employees	(27,260)	(3,771)
Net cash (used in) provided by operating activities	(57,039)	236,122
Cash flows from investing activities:		

Purchases of office equipment	(19,415)	(11,601)
Net cash (used in) investing activities	(19,415)	(11,601)
Cash flows from financing activities:		
Repayment of notes payable	(2,600)	(91,750)
Net proceeds from notes payable	75,171	41,092
Issuance of common stock and exercise of stock options, net	3,600	(176,134)
Net cash (used in) provided by financing activities	76,171	(226,792)
Net (decrease) increase in cash and cash equivalents	(283)	(2,271)
Cash and cash equivalents, beginning of period	4,722	2,442
Cash and cash equivalents, end of period	\$ 4,439	\$ 171
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 24,106	\$ 20,605
Cash paid for income taxes	\$ 2,275	\$ 2,128

</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

NINE MONTHS ENDED SEPTEMBER 30, 1995 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1994

NET SALES. Net sales increased by \$1,473,484 or 72.03% from \$2,045,662 in 1994 to \$3,519,146 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 41.65% in 1994 to 41.21% 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 in combination with the Company switching to a lower price supplier in 1995 from 1994.

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ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SELLING EXPENSES. Selling expenses increased by \$491,930 or 103.63% from \$474,685 in 1994 to \$966,615 in 1995 and increased as a percentage of net sales from 23.20% in 1994 to 27.46% 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 \$205,741 or 65.73% from \$313,007 in 1994 to \$518,748 in 1995 and decreased as a percentage of net sales from 15.30% in 1994 to 14.74% 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 \$254,544 or 1073.03% from \$23,722 in 1994 to \$278,266 in 1995, and increased as a percentage of net sales from 1.16% in 1994 to 7.91% 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 SEPTEMBER 30, 1995 COMPARED TO THREE MONTHS ENDED  
SEPTEMBER 30, 1994

NET SALES. Net sales increased by \$667,485 or 100.93% from \$661,349 in 1994 to \$1,328,834 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 increased from 38.87% in 1994 to 40.71% in 1995. This increase was primarily a result of the Company switching to a lower price supplier in 1995 from 1994.

SELLING EXPENSES. Selling expenses increased by \$196,599 or 115.26% from \$170,566 in 1994 to \$367,165 in 1995 and increased as a percentage of net sales from 25.79% in 1994 to 27.63% 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 \$86,431 or 73.23% from \$118,026 in 1994 to \$204,457 in 1995 and decreased as a percentage of net sales from 17.85% in 1994 to 15.39% 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 \$101,241 or 854.07% from \$11,854 in 1994 to \$113,095 in 1995, and increased as a percentage of net sales from 1.79% in 1994 to 8.51% 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 September 30, 1995, the Company had a working capital deficit of \$471,913. 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 September 30, 1995 the Company had \$160,000 in 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

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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 September 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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