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: **1996-03-31**
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FILER

ANNIES HOMEGROWN INC
CIK:**890818**| IRS No.: **061258214** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10QSB** | Act: **34** | File No.: **033-93982-LA** | Film No.: **96687524**
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

[X] Quarterly report under Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarter ended March 31, 1996

[ ] 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 X

Number of shares of Common Stock, $.001 par value, outstanding as of March 31, 1996:

4,100,476 shares

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

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.

ANNIE'S HOMEGROWN, INC.
Balance Sheet
Unaudited

	March 31, 1996
Assets	
Current assets	
Cash and cash equivalents	$ 67,433
Accounts receivable	
Trade	354,375
Related parties	27,376
Inventory	233,076
Other current assets	25,481
Total current assets	707,741
Office equipment	58,513
Accumulated depreciation	(27,291)
Office equipment, net	31,222
Due from officer	75,000
Other assets	20,166
Total assets	$ 834,129
Liabilities and Stockholders' Equity (Deficit)	
Current liabilities	
Notes payable	$ 135,070
Accounts payable, trade	502,746
Accrued expenses	170,375
Due to employees	49,714

Total current liabilities	857,905
Commitments	
Stockholders' equity (deficit)	
Common stock, $.001 par value	
Authorized 10,000,000 shares	
issued 4,212,382 shares	4,212
Additional paid in capital	912,108
Accumulated deficit	(842,346)
Note receivable stockholder	(1,750)
Deferred compensation	(6,000)
Treasury stock, 111,906 common shares at cost	(90,000)
Total stockholders equity (deficit)	(23,776)
Total liabilities and stockholders' equity	$ 834,129

ANNIE'S HOMEGROWN, INC.
Statements of Operations
Unaudited

	Three months ended March 31, 1995	Three months ended March 31, 1996
Net sales	$ 1,224,820	$ 1,408,483
Cost of sales	710,861	888,505
Gross profit	513,959	519,978
Operating expenses:		
Selling	373,142	405,350
General and administrative	119,334	187,058
Slotting fees	109,980	57,727
Compensation of outside directors	--	9,000
Total operating expenses	602,456	659,135
Operating income (loss)	(88,497)	(139,157)
Other income (loss)		
Interest expense and other charges	(11,425)	(10,789)
Interest and other income	9,718	521
Income (loss) before income tax	(90,204)	(149,425)
Income tax expense	1,962	2,050
Net income (loss)	$ (92,166)	$ (151,475)
Weighted average common shares outstanding	3,949,980	4,090,700
Net income (loss) per share	(.02)	(.04)

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

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	Three months ended March 31, 1995	Three months ended March 31, 1996
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Cash flows from operating activities:		
Net income (loss)	$ (92,166)	$(151,475)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,000	3,000
Outside directors compensation	--	9,000
Changes in:		
Accounts receivable - trade	(66,724)	(149,682)
Affiliate accounts, net	190,349	(6,623)
Inventory	53,709	172,688
Other assets	(16,773)	(25,994)
Accounts payable - trade	(33,576)	(88,913)
Accrued expenses	107,483	(9,205)
Due to employees	(3,135)	--
Net cash (used in) provided by operating activities	141,167	(247,204)
Cash flows from investing activities:		
Purchases of office equipment	(4,125)	(1,891)
Net cash (used in) investing activities	(4,125)	(1,891)
Cash flows from financing activities:		
Repayment of notes payable	(118,906)	--
Net proceeds from notes payable	--	95,441
Issuance of common stock and exercise of stock options, net	280	185,624
Net cash (used in) provided by financing activities	(118,626)	281,065
Net (decrease) increase in cash and cash equivalents	18,416	31,970
Cash and cash equivalents, beginning of period	2,442	35,463
Cash and cash equivalents, end of period	$ 20,858	$ 67,433
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 11,425	$ 10,789
Cash paid for income taxes	$ 1,962	$ 2,050

</TABLE>

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

THREE MONTHS ENDED MARCH 31, 1996 COMPARED TO THREE MONTHS ENDED MARCH 31, 1995

NET SALES. Net sales increased by $183,663 or 15.00% from $1,224,820 in 1995 to $1,408,483 in 1996. The net sales increase was primarily a result of our growth in the slotting of new accounts in 1996 and 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. The Company believes it has penetrated many of the major natural food market stores across the country. 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 41.96% in 1995 to 36.92% in 1996. This decrease was primarily a result from two areas: (I) a higher production cost as raw materials increased in price and (ii) shipping more private label house brand which has a lower gross profit than the Company's regular products.

SELLING EXPENSES. Selling expenses increased by $32,208 or 8.63% from $373,142 in 1995 to $405,350 in 1996 and decreased as a percentage of net sales from 30.47% in 1995 to 28.78% in 1996. The increase in costs in selling expenses 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 1996.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by $67,724 or 56.75% from $119,334 in 1995 to $187,058 in 1996 and increased as a percentage of net sales from 9.74% in 1995 to 13.28% in 1996. 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 decreased by $52,253 or 47.51% from $109,980 in 1995 to $57,727 in 1996, and decreased as a percentage of net sales from 8.98% in 1995 to 4.10% in 1996. The decrease was due to the Company's decision, based on the initial public offering, to slow down the expansion of 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.

COMPENSATION OF OUTSIDE DIRECTORS. In 1996, $8,000 in compensation for stock options granted was recorded for the four outside directors of the Company. In 1995, the Company had $45,000 paid to the four outside directors in the fourth quarter. No compensation was paid to its directors who also were employees of the Company.

ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations to date through the initial public offering of Common Stock, private sale of equity and convertible debt securities, a line of credit from a financial institution and cash generated from operations. At March 31, 1996, the Company had a working capital deficit of $150,164. The decrease in working capital deficit was primarily generated by the Company's decision to proceed 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 March 31, 1996 the Company had $127,570 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 1996 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. Some of the proceeds were used to fund operating losses during the first three months of fiscal 1996 amounting to approximately $151,000, which included slotting fees of approximately $57,000.

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 March 31, 1996.

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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