

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: **1996-06-30**
SEC Accession No. **0000903893-96-001133**

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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.: **96687525**
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, 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 June 30,
1996:

4,127,281 shares

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

ANNIE'S HOMEGROWN, INC.

Index

Page No.

Part I.	Financial Information	
	Item 1. Financial Statements	
	Balance Sheet as of June 30, 1996 (unaudited)	3
	Statements of Operations for the Three Months and Six Months Ended June 30, 1996 and 1995 (unaudited)	4
	Statements of Cash Flows for the Six Months Ended June 30, 1996 and 1995 (unaudited)	5
	Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation	6-8
Part II	Other Information	
	Item 6. Exhibits and Reports on Form 8-K	9
	Signatures	9

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.

-2-

ANNIE'S HOMEGROWN, INC.
Balance Sheet
Unaudited

	June 30, 1996

Assets	
Current assets	
Cash and cash equivalents	\$ 19,639
Accounts receivable	
Trade	88,336
Related parties	32,308
Inventory	250,284
Other current assets	500

Total current assets	391,067
Office equipment	58,745
Accumulated depreciation	(30,291)

Office equipment, net	28,454
Due from officer	75,000
Other assets	24,470

Total assets	\$ 518,991
	=====
Liabilities and Stockholders' Equity (Deficit)	
Current liabilities	
Notes payable	\$ 64,163
Accounts payable, trade	451,758
Accrued expenses	141,512
Due to employees	47,614

Total current liabilities	705,047
Commitments	
Stockholders' equity (deficit)	
Common stock, \$.001 par value	
Authorized 10,000,000 shares	
issued 4,239,187 shares	4,239
Additional paid in capital	1,044,841
Accumulated deficit	(1,143,386)
Note receivable stockholder	(1,750)
Treasury stock, 111,906 common shares at cost	(90,000)

Total stockholders equity (deficit)	(186,056)
Total liabilities and stockholders' equity	\$ 518,991
	=====

-3-

ANNIE'S HOMEGROWN, INC.
Statements of Operations
Unaudited

<TABLE>
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	Three months ended June 30,		Six months ended June 30,	
	----- 1995 -----	----- 1996 -----	----- 1995 -----	----- 1996 -----
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Net sales	\$ 965,492	\$ 902,465	\$ 2,190,312	\$ 2,310,948
Cost of sales	573,606	545,819	1,280,942	1,434,323
	-----	-----	-----	-----
Gross profit	391,886	356,646	909,370	876,625
Operating expenses:				
Selling	263,048	335,803	569,715	737,138
General and administrative	165,814	165,273	343,172	354,831
Slotting fees	42,872	146,286	165,171	204,013
Compensation of outside directors	--	6,000	--	15,000
	-----	-----	-----	-----
Total operating expenses	471,734	653,362	1,078,058	1,310,982
	-----	-----	-----	-----
Operating income (loss)	(79,848)	(296,716)	(168,688)	(434,357)

Other income (loss)				
Interest expense and other charges	(757)	(10,369)	(13,523)	(21,158)
Interest and other income	8,310	6,048	19,370	5,053
	-----	-----	-----	-----
Income (loss) before income tax	(72,295)	(301,037)	(162,841)	(450,462)
Income tax expense	--	--	1,962	2,050
	-----	-----	-----	-----
Net income (loss)	\$ (72,295)	\$ (301,037)	\$ (164,803)	\$ (452,512)
	=====	=====	=====	=====
Weighted average common shares outstanding	3,957,297	4,118,961	3,950,536	4,104,831
Net income (loss) per share	(.02)	(.07)	(.04)	(.11)

</TABLE>

-4-

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

<TABLE>
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	Six months ended June 30,	
	1995	1996
	-----	-----
	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ (164,803)	\$ (452,512)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,100	6,000
Outside directors compensation	--	15,000
Changes in:		
Accounts receivable - trade	58,009	116,357
Affiliate accounts, net	273,918	(11,555)
Inventory	116,093	155,480
Other assets	1,626	(5,317)
Accounts payable - trade	(29,092)	(139,901)
Accrued expenses	68,929	(38,071)
Due to employees	(3,771)	(2,100)
	-----	-----
Net cash (used in) provided by operating activities	325,009	(356,619)
Cash flows from investing activities:		
Purchases of office equipment	(7,614)	(2,123)
	-----	-----
Net cash (used in) investing activities	(7,614)	(2,123)
Cash flows from financing activities:		

Repayment of notes payable	(210,658)	--
Net proceeds from notes payable	--	24,534
Issuance of common stock and exercise of stock options, net	(68,865)	318,384
	-----	-----
Net cash (used in) provided by financing activities	(279,523)	342,918
Net (decrease) increase in cash and cash equivalents	37,872	(15,824)
Cash and cash equivalents, beginning of period	2,442	35,463
	-----	-----
Cash and cash equivalents, end of period	\$ 40,314	\$ 19,639
	=====	=====
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 13,523	\$ 21,158
	=====	=====
Cash paid for income taxes	\$ 1,962	\$ 2,050
	=====	=====

</TABLE>

-5-

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, 1996 COMPARED TO SIX MONTHS ENDED JUNE 30, 1995

NET SALES. Net sales increased by \$120,636 or 5.51% from \$2,190,312 in 1995 to \$2,310,948 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 41.52% in 1995 to 37.93% in 1996. This decrease was primarily a result of higher production costs as raw materials increased in price.

-6-

ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

SELLING EXPENSES. Selling expenses increased by \$167,423 or 29.39% from \$569,715 in 1995 to \$737,138 in 1996 and increased as a percentage of net sales from 26.01% in 1995 to 31.90% in 1996. 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 1996.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses increased by \$38,842 or 23.52% from \$343,172 in 1995 to \$354,831 in 1996 and decreased as a percentage of net sales from 15.67% in 1995 to 15.35% 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 increased by \$38,842 or 23.52% from \$165,171 in 1995 to \$204,013 in 1996, and increased as a percentage of net sales from 7.54% in 1995 to 8.83% in 1996. The increase was due to 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. These slotting fees are required by most supermarkets and are expensed at the time of product introduction.

COMPENSATION OF OUTSIDE DIRECTORS. In 1996, \$15,000 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.

NET SALES. Net sales decreased by \$63,027 or 6.53% from \$965,492 in 1995 to \$902,465 in 1996. The net sales decrease was primarily a result of doing less sales in its private label house brand. 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 all of the major natural food market stores across the country.

GROSS PROFIT. As a percentage of net sales, gross profit decreased from 40.59% in 1995 to 39.52% in 1996. This decrease was primarily a result of higher production costs as raw materials increased in price.

SELLING EXPENSES. Selling expenses increased by \$72,755 or 27.66% from \$263,048 in 1995 to \$335,803 in 1996 and increased as a percentage of net sales from 27.24% in 1995 to 37.21% in 1996. 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.

-7-

ANNIE'S HOMEGROWN, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses decreased by \$541 or .33% from \$165,814 in 1995 to \$165,273 in 1996 and increased as a percentage of net sales from 17.17% in 1995 to 18.31% in 1996. The percentage increase was due primarily to personnel handling less volumes of work as sales decreased.

SLOTTING FEES. Slotting expenses increased by \$103,414 or 241.22% from \$42,872 in 1995 to \$146,286 in 1996, and increased as a percentage of net sales from 4.44% in 1995 to 16.21% in 1996. The increase was due to 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. 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 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 June 30, 1996, the Company had a working capital deficit of \$313,980. The 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. 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). 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, 1996 the Company had \$56,663 in outstanding borrowings under the lines of credit.

On July 31, 1996, the Company closed its offering. 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 six months of fiscal 1996 amounting to approximately \$450,000, which included slotting fees of approximately \$204,000. The Company expects profitable operations over the balance of 1996.

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.

-8-

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, 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

-9-

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