

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

American Home Food Products, Inc.  
Form 10-Q  
January 14, 2009

**FORM 10-Q**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED NOVEMBER 30, 2008  
or
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

AMERICAN HOME FOOD PRODUCTS, INC.

(Exact name of registrant as specified in its charter)

New York  
(State of Jurisdiction)

0-26112  
(Commission File Number)

41-1759882  
(IRS Employer I.D. No.)

500 West 37<sup>th</sup> Street  
(Address of Principal Executive offices)

New York, New York

10018  
(Zip Code)

Registrant's telephone number, including area code 212-871-3150

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 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 filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12-2 of the Exchange Act.

Large accelerated filer.

Accelerated filer.

Non-accelerated filer.

Smaller reporting company.

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes

No

The Company had 7,835,316 shares of its \$.001 par value common stock and 5,995,939 shares of its \$.001 par value preferred stock issued and outstanding on November 30, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-Q

Incorporated Document

None

---

AMERICAN HOME FOOD PRODUCTS, INC.

Index

	<u>Page No.</u>
<b>Part I Financial Information</b>	
Item 1. Financial Statements (Unaudited)	
<u>Balance Sheets at November 30, 2008 and May 31, 2008</u>	F-1
<u>Statements of Operations for the three and six months Ended November 30, 2008 and November 30, 2007</u>	F-2
<u>Statements of Cash Flows for the six months Ended November 30, 2008 and November 30, 2007</u>	F-3
<u>Notes to Financial Statements</u>	F-4
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	1
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	4
<u>Item 4T.</u> <u>Controls and Procedures</u>	4
<b>Part II Other Information</b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	5
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	5
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	5
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	5
<u>Item 5.</u> <u>Other Information</u>	5
<u>Item 6.</u> <u>Exhibits</u>	5



**PART I**

<b>Item 1.</b>	<b>Financial Information (Unaudited)</b>	<b><u>Page No.</u></b>
	Balance Sheets at November 30, 2008 and May 31, 2008	F-1
	Statements of Operations for the three and six months ended November 30, 2008 and November 30, 2007	F-2
	Statements of Cash Flows for the six months Ended November 30, 2008 and November 30, 2007	F-3
	Notes to Financial Statements	F-4

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

**AMERICAN HOME FOOD PRODUCTS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

ASSETS

	November 30, 2008	May 31, 2008
	(unaudited)	(audited)
<b>CURRENT ASSETS:</b>		
Cash	\$ 13,689	\$ 750,133
Accounts receivable, net	470,254	378,711
Inventories	671,145	411,771
Prepaid expenses and other current assets	151,700	52,719
Total Current Assets	1,306,788	1,593,334
FIXED ASSETS, net	749,309	796,430
OTHER ASSETS	44,940	50,640
INTANGIBLES - at cost, net	3,794,873	3,830,461
	\$ 5,895,910	\$ 6,270,865

LIABILITIES AND SHAREHOLDERS' EQUITY

<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,076,729	\$ 654,242
Notes payable	—	55,500
Prepaid Gift Certificates and Other Deferred Revenue	69,222	67,909
Accrued expenses and other current liabilities	301,394	295,510
Accrued payroll taxes	650,377	650,377
Total Current Liabilities	2,097,722	1,723,538
LONG TERM DEBT, net of current portion	327,890	408,547
	327,890	408,547
COMMITMENTS AND CONTINGENCY		—
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock - \$0.001 par value, 10,000,000 shares authorized, 5,995,939 and 5,664,500 shares issued and outstanding, respectively	5,996	5,665
Common stock - \$0.001 par value, 40,000,000 shares authorized 7,835,316 and 7,427,649 shares issued and outstanding, respectively	7,835	7,428
Additional paid-in capital	16,432,179	16,285,242
Accumulated deficit	(12,975,712)	(12,159,555)
Total shareholders' equity	3,470,298	4,138,780
	\$ 5,895,910	\$ 6,270,865

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

See notes to financial statements.

F-1

---

**AMERICAN HOME FOOD PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended November		Six Months Ended November	
	2008 Unaudited	2007 Unaudited	2008 Unaudited	2007 Unaudited
SALES	\$ 1,299,220	\$ 1,243,120	\$ 2,470,084	\$ 1,410,231
COST OF GOODS SOLD	915,306	941,418	1,785,648	1,053,478
GROSS PROFIT	383,914	301,702	684,436	356,753
SELLING, GENERAL AND ADMINISTRATIVE DEPRECIATION AND AMORTIZATION	700,825 46,753	502,097 61,614	1,379,396 108,367	660,720 74,403
GAIN (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INTEREST	(363,664)	(262,009)	(803,327)	(378,370)
OTHER INCOME( EXPENSES):				
Interest income (expense)	(8,428)	(9,943)	(12,833)	(63,525)
GAIN (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(372,092)	(271,952)	(816,160)	(441,895)
INCOME TAXES	—	—	—	—
GAIN (LOSS) FROM CONTINUING OPERATIONS	(372,092)	(271,952)	(816,160)	(441,895)
DISCONTINUED OPERATIONS				
INCOME FROM OPERATIONS, net of tax	—	—	—	43,528
GAIN ON SALE OF OPERATIONS, net of tax	—	—	—	479,043
NET GAIN ON DISCONTINUED OPERATIONS	—	—	—	522,571
NET INCOME (LOSS) -	\$ (372,092)	\$ (271,952)	\$ (816,160)	\$ 80,676
LESS PREFERRED STOCK DIVIDEND	(174,639)	(136,950)	(331,089)	(136,950)
NET INCOME (LOSS) APPLICABLE TO COMMON SHARES	\$ (546,731)	\$ (408,902)	\$ (1,147,249)	\$ (56,274)
INCOME (LOSS) PER COMMON SHARE - CONTINUING OPERATIONS:				
Basic	\$ (0.05)	\$ (0.04)	\$ (0.11)	\$ (0.09)
Diluted	\$ (0.05)	\$ (0.04)	\$ (0.11)	\$ (0.09)
INCOME (LOSS) PER COMMON SHARE - DISCONTINUED OPERATIONS:				
Basic	\$ —	\$ —	\$ —	\$ 0.10
Diluted	\$ —	\$ —	\$ —	\$ 0.10
INCOME (LOSS) PER COMMON SHARE:				
Basic	\$ (0.07)	\$ (0.06)	\$ (0.15)	\$ (0.01)
Diluted	\$ (0.07)	\$ (0.06)	\$ (0.15)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING: basic	7,810,316	6,927,649	7,682,760	5,120,504
diluted	7,810,316	6,927,649	7,682,760	5,120,504



Edgar Filing: American Home Food Products, Inc. - Form 10-Q

See notes to financial statements.

F-2

---

**AMERICAN HOME FOOD PRODUCTS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Six Months ended November 30,	
	<u>2008</u>	<u>2007</u>
	(Unaudited)	(Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (816,160)	\$ (441,895)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and impairment of equipment	63,226	36,883
Amortization of intangibles	45,140	34,943
Increase of other assets	(10,000)	—
Preferred and common stock issued for services	15,543	76,100
Changes in assets and liabilities, net of the effect from acquisition:		
Accounts receivable	(91,542)	(169,474)
Royalty/Licensee receivable	—	30,845
Inventory	(259,374)	(440,673)
Prepaid expenses and other assets	(92,833)	(81,600)
Accounts payable	422,487	100,111
Accrued expenses and other current liabilities	(48,018)	350,183
Accrued payroll taxes	—	109,454
Cash flow from operations of discontinued operations	—	43,528
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(771,531)</b>	<b>(351,595)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Artisanal, net of expenses	—	(3,262,013)
Increase in other assets	—	(24,729)
Purchase of fixed assets	(16,107)	(43,258)
Cash flow from investing activities of discontinued operations	—	863,747
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>(16,107)</b>	<b>(2,466,253)</b>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:</b>		
Increase in notes payable	—	(105,697)
Payment of shareholder note	(55,480)	(219,940)
Sale of preferred stock	—	5,000,000
Loan proceeds	187,351	—
Payment of long-term debt	—	(12,903)
Payment of note payable	(80,677)	(700,000)
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>51,194</b>	<b>3,961,460</b>
<b>NET INCREASE IN CASH</b>	<b>(736,444)</b>	<b>1,143,612</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>750,133</b>	<b>18,159</b>
<b>CASH AT END OF PERIOD</b>	<b>\$ 13,689</b>	<b>\$ 1,161,771</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ —	\$ 9,000
Income taxes	—	—
Non-cash financing activities:		
Common shares issued for services	50,000	76,100
Preferred shares issued for dividends	331,089	—

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

Six Months ended November 30,

	<u>Six Months ended November 30,</u>	
Seller financing for the purchase of Artisanal	—	1,200,000
Payables paid with issuance of equity	—	530,000
Artisanal liabilities assumed	\$ —	\$ 745,516

See notes to financial statements.

F-3

---

AMERICAN HOME FOOD PRODUCTS, INC.

NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED NOVEMBER 30, 2008

(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of American Home Food Products, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Operating results expected for the six months ended November 30, 2008 are not necessarily indicative of the results that may be expected for the year ending May 31, 2009. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended May 31, 2008. Per share data for the periods are based upon the weighted average number of shares of common stock outstanding during such periods, plus net additional shares issued upon exercise of options and warrants.

2. ACQUISITIONS

On August 15, 2007, the Company acquired all right, title and interest to 100% of the issued and outstanding membership interests of Artisanal Cheese, LLC ("Artisanal"). The purchase price for this acquisition was approximately \$4.4 million plus legal and other professional costs (the "Artisanal Acquisition"). Pursuant to the membership interest purchase agreement, the Company (i) paid \$3,200,000 to the members of Artisanal Cheese, LLC, (ii) issued a note payable for \$700,000 which bears no interest and was payable on or before November 14, 2007; (iii) issued a note payable for \$130,000 which bears interest at 5% per annum and is payable over a three year period; (iv) issued a note payable for \$370,000 which bears interest at 5% per annum and is payable over a three year period; and (v) issued a note payable to a former Artisanal shareholder for \$228,000 payable in one year with payments due quarterly of \$57,000 per quarter without interest, payable either in cash or product to one or more of the former shareholders restaurant establishments. As part of this transaction, the Company also entered into (vi) a five-year preferred vendor agreement with two restaurants which are affiliated with the seller; (vii) a five-year product development agreement with the same two restaurants; (viii) a trademark license agreement granting a royalty-free license to a former member of Artisanal Cheese, LLC, to utilize certain trademarks and names in connection with his restaurant establishments; (ix) a one-year consulting agreement with a former member of Artisanal Cheese, LLC; and (x) a transitional services agreement pursuant to which the company shall receive equipment and non-equipment services for

F-4

one year and comptroller services for four months .

The operating results for Artisanal are included in the accompanying Consolidated Statements of Operations from the date of the acquisition.

The Company has recorded \$111,640 of amortization on its intangibles to date.

Pro-forma operations as if the Artisanal Cheese LLC acquisition had been acquired for the recent fiscal year and the comparable prior year are as follows:

	Pro-forma Six months ended November 30, 2007
Sales	\$ 2,333,060
Loss from continuing operations	\$ (380,600)
Loss to common shareholders	\$ (61,936)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All material intercompany accounts and transactions have been eliminated on consolidation.

#### Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents include investments in money market funds and are stated at cost, which approximates market value. Cash at times may exceed FDIC insurable limits.

#### Trade Accounts Receivable and Other Receivables, Net

The Company's accounts receivable consist primarily of amounts due from customers for the sale of its products. The Company records an allowance for doubtful accounts based on management's estimate of collectability of such trade and notes receivables outstanding. The

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

allowance for doubtful accounts represents an amount considered by management to be adequate to cover potential losses, if any. The recorded allowance at November 30, 2008 and May 31, 2008, was \$3,233 and \$1,800, respectively.

F-5

---

### Revenue Recognition

The Company recognizes revenues associated with the sale of its products at the time of delivery to customers.

### Advertising Costs

All advertising costs are expensed as incurred. Advertising expenses charge to operations for the six months ended November 30, 2008 was approximately \$7,131.

### Reclassifications

Certain reclassifications have been made to the prior quarter amounts presented to conform to the current period presentations.

### 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Stock-based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123-R Share-Based Payment ("SFAS No. 123-R"). The Company records compensation expense using a fair-value-based measurement method for all awards granted. In computing the impact, the fair value of each option is estimated on the date of grant based on the Black-Scholes options-pricing model utilizing certain assumptions for a risk free interest rate; volatility; and expected remaining lives of the awards. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, the Company's stock-based compensation expense could be materially different in the future. In addition, the Company is required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. In estimating the Company's forfeiture rate, the Company analyzed its historical forfeiture rate, the remaining lives of unvested options, and the amount of vested options as a percentage of total options outstanding. If the Company's actual forfeiture rate is materially different from its estimate, or if the Company reevaluates the forfeiture rate in the future, the stock-based compensation expense could be significantly different from what we have recorded in the current period. Equity-based compensation for the six months ended November 30, 2008 and 2007 was \$43,376 and \$61,500 respectively.





Net Income/(Loss) Per Share

In accordance with SFAS No. 128, "Earnings Per Share", basic net income/(loss) per share is computed using the weighted average number of common shares outstanding during each period. For the six months ended November 30, 2008, diluted loss per share is the same as basic loss per share since the inclusion of stock options and warrants would be antidilutive. Options have been excluded in the amount of 770,000 for the six months ended November 30, 2008.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash and cash equivalents, marketable securities, accounts receivable, notes receivable, and accounts payable, approximated fair value as of November 30, 2008, because of the relatively short-term maturity of these instruments and their market interest rates. Since a portion of long-term debt is in default, it is not possible to estimate its value.

Recent Accounting Pronouncements

Any new accounting pronouncements issued but not yet effective have been deemed not to be relevant to the operations of the Company, hence the effects of such undisclosed new accounting pronouncements will have no effect on the Company .

4. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	November 30, 2008	May 31, 2008
Trade accounts receivable	\$ 470,492	\$ 378,639
Employees	2,995	1,935
	473,487	380,574
Less allowance for doubtful accounts	(3,233)	(1,863)
	\$ 470,254	\$ 378,711

5. INVENTORIES

Inventories are valued on a first-in-first-out (FIFO) basis. Inventories consisted of the following:

	November 30, 2008	May 31, 2008
Cheese Inventory	\$ 539,508	\$ 327,067
Shipping/Packing Material Inventory	70,372	38,592

Edgar Filing: American Home Food Products, Inc. - Form 10-Q

Accessories & Books Inventory	56,640	41,352
Beverage	4,625	4,760
	\$ 671,145	\$ 411,771

F-7

---

6. PREPAID EXPENSES

At November 30, 2008, the Company's had prepaid expenses of \$151,700, which consisted primarily of prepaid utility contracts of \$9,308, product insurance claim of \$20,541, shipping service claim of \$15,700, marketing materials – artwork of \$36,690, catalog development costs of \$34,708, and prepaid insurance of \$14,472.

7. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

As of November 30, 2008, the Company had accrued expenses and other liabilities of \$301,394 which consisted primarily of \$43,050 for professional fees, \$2,999 for commissions, \$10,004 for prepaid cheese club, \$187,351 short-term bridge loan and \$57,990 for other various items. As of May 31, 2008, the Company had accrued expenses and other liabilities of \$295,510 which consisted primarily of \$113,000 in accrued liquidating damages, \$33,760 for professional fees, \$34,792 for accounting fees, \$18,008 for commissions, \$11,552 for prepaid cheese clubs and \$84,398 for other various items.

8. ACCRUED PAYROLL TAXES

The Company prior to the acquisition of Artisanal remains in arrears with paying payroll taxes of approximately \$650,000. The Company is currently negotiating a payment program with the relevant tax authorities.

9. SHAREHOLDERS' EQUITY

Preferred Stock Issuances

During the six months ended November 30, 2008, the Company issued to preferred shareholders a total of 331,089 shares of preferred stock representing the preferred stock dividends through November 30, 2008.

Common Stock Issuances

Pursuant to a Registration Rights Agreement with each preferred shareholder, the Company agreed to file a registration statement with respect to the preferred shares issued and the number of common shares necessary to enable all holders to have resale rights in the common stock underlying their preferred stock if and when converted, or upon a redemption payable in common stock. As an inducement for the Company to undertake the registration process in a timely manner, the Registration Rights Agreement included a liquidated damage penalty if the Company failed to meet certain target dates or failed to register the shares altogether. The Company filed a registration statement in May 2008. In the meantime, recent amendments to Rule 144 have effectively shortened the holding periods for both non-affiliates and affiliates. Consequently, substantially all of the shares included in the Company's registration statement have become unrestricted and freely-tradeable, thereby obviating

## Edgar Filing: American Home Food Products, Inc. - Form 10-Q

the need to pursue the Registration Statement any further. The registration statement was subsequently withdrawn. All costs relating to the registration statement have been borne by the Company. The Company has issued 347,668 shares

F-8

---

of common stock to the preferred shareholders representing the liquidating damage penalty.

In July 2008, the Company issued 10,000 shares of common stock in exchange for the rights to the website name "Artisanalpremium.com". The company recorded an expense of \$2,500 in connection with these shares.

In July 2008, the Company issued 50,000 shares of common stock to one of its employees vesting over two years. The company recorded deferred compensation of \$8,000 in connection with these shares.

#### Stock Option

No common stock options were issued during the six month period ended November 30, 2008.

#### 10. RELATED PARTY TRANSACTIONS

The wife of Daniel W. Dowe, the Company's Chief Executive Officer and Chief Financial Officer, periodically provides legal and administrative services to the Company. For the quarter ended November 30, 2008, Ms. Dowe received \$15,000 for legal and administrative work performed throughout the year for the Company. In the three months ended November 30, 2007 Ms. Dowe received \$25,000 for legal work in connection with finalizing the Artisanal Acquisition.

With respect to the foregoing transactions, the Company believes that the terms of these transactions were as fair to the Company as could be obtained from an unrelated third party. Future transactions with affiliates including loans will be on terms no less favorable than could be obtained from unaffiliated parties and will be approved by a majority of the independent disinterested members of the board of directors.

#### 11. GAIN ON DISCONTINUED OPERATIONS

On August 15, 2007, the Company sold all of its intangible property relating to the building material business ("Por Rok intangibles") to GT Holding, LLC ("GTH"). In exchange for these assets, the Company received \$850,000 in cash and GTH assumed approximately \$73,000 of the Company's liabilities. This resulted in a gain from disposition of assets of the discontinued building material business in the amount of \$ 479,043 for fiscal year 2008.

The prior year balance sheet, results of operations and cash flows for the Por Rok intangibles has been reclassified as discontinued operations.



Edgar Filing: American Home Food Products, Inc. - Form 10-Q

Summarized results of the discontinued operations are as follows:

	Six months ended November 30, 2007	
	<hr/>	
Net Sales	\$	52,039
Income/(loss) from operations		43,528
Gain on sale of operations		479,043
Net gain/(loss) on discontinued operations	\$	522,571

F-10

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the information contained in the Financial Statements and the Notes to the financial statements appearing elsewhere in this Form 10-Q. The Financial Statements for the six month period ending November 30, 2008, included in this Form 10-Q are unaudited; however, this information reflects all adjustments (consisting solely of normal recurring adjustments), which are, in the opinion of management, necessary to present a fair statement of the results for the interim period.

**Results of Operations**

**Six months ending November 30, 2008 v. November 30, 2007**

In the six month period ended November 30, 2008, the Company had sales of \$2,470,084 versus \$1,410,231 in the corresponding six month period in 2007. Cost of goods sold in this period was \$1,785,648 which was 72% versus 75% for the same period in 2007.

In this six month period, the Company recorded a net loss from continuing operations before interest of \$803,327 versus a net loss from operations before interest of \$378,370 for the same period in 2007. The net loss to common shareholders during this period 2008 was \$1,147,249 versus \$56,274 during the same period in 2007. Of the net loss to common shareholders, \$331,089 was attributable to non-cash stock dividends paid to preferred shareholders during the first two quarters of 2008 in the form of new shares of preferred versus \$136,950 in 2007. In 2007, the Company generated a gain of \$522,571 on the sale of its former intangible assets relating to the building material business and the discontinuation of its royalty-generating business. The net gain was attributable primarily to the sale of the Company's intangible assets relating to the building material business. In 2008, the Company incurred \$12,833 in interest charges, which is attributable primarily to interest on long-term debt owed to the former members of Artisanal Cheese LLC. The Company also incurred \$45,140 of amortization charges relating to the intangible assets and \$63,226 of depreciation on the fixed assets.

On November 30, 2008, the Company had \$1,306,788 in current liquid assets, which consisted primarily of cash of \$13,689, inventory of \$671,145 and accounts receivable of \$470,254. The Company had leasehold improvements and equipment of \$794,249 and intangibles of \$3,794,873 net of amortization.

**Liquidity and Financial Resources at November 30, 2008**

As of November 30, 2008, the Company had \$2,097,722 in current liabilities. The Company had accounts payable of \$1,076,729, accrued taxes of \$650,377 and accrued expenses and other current liabilities totaling \$301,394. The Company's current liabilities also include outstanding prepaid gift certificates and other deferred revenue totaling \$69,222.

In the last fiscal year, the Company undertook a \$5.2 million private placement of redeemable convertible preferred stock. By mid-August 2007, the company had raised \$3,900,000 of equity for which it issued 3,900,000 shares of preferred stock. The Company used most of these funds to acquire the membership interests of Artisanal Cheese, LLC, for a purchase price of \$4,400,000. The members agreed to accept cash of



## Edgar Filing: American Home Food Products, Inc. - Form 10-Q

\$3,200,000 and sellers' notes totaling \$1,200,000. By mid-December 2007, the company had raised an additional \$1,300,000 and reduced the seller's notes by \$700,000. The balance was used for additional operating capital.

By the end of the third quarter, the Company intends to complete its plan to close on a two-part senior

1

---

## Edgar Filing: American Home Food Products, Inc. - Form 10-Q

debt facility consisting of an asset-based revolving line of credit secured by the accounts receivable of the company and then a term loan in the range of \$1 million secured by all of the other assets of the Company. This senior financing was contemplated as part of the acquisition of Artisanal Cheese LLC in August 2007. The Company has received a term sheet from a third-party asset-based lender for a revolving loan in an amount representing up to 80% of the company's accounts receivable and 50% of its inventories. The cost of this facility is at current prime rates.

In the interim the Company in October 2008 proposed to the existing preferred shareholders a \$500,000 bridge financing. Four of the preferred shareholders participated in the bridge loan in an amount directly proportionate to their interest in the preferred shares for a total bridge loan of \$187,000. The bridge loan bears interest at 12% per annum and matures on January 15, 2009. It is secured by the assets of the Company. The bridge loan will be paid with the proceeds of the aforementioned asset-based financing.

For so long as more than \$1,500,000 of the Preferred stock is issued and outstanding, the Company shall require the prior written consent of holders representing two-thirds of the Preferred stock issued and outstanding to (a) sell, merge with, acquire or consolidate with another business entity, (b) incur additional leverage beyond the leverage contemplated by the Company and Holders as part of the Company's acquisition of Artisanal Cheese, LLC, or (c) issue any new shares of common stock or securities convertible or exercisable into Common Stock in excess of 2% of the shares of Common Stock issued and outstanding on a fully diluted basis as of August 14, 2007, excluding the Management Stock Option granted to Messrs. Dowe and Feeney. At no time shall such securities be sold or granted at a price less than the thirty cents (\$.30) per share Conversion Price. If the Company cannot obtain the requisite two-thirds approval, these restrictions may affect our liquidity and our ability to execute our business plan.

The Company believes its cash flow will be sufficient to meet its fixed monthly expenses. The Company generates cash from the sales of its product. Wholesale customers purchasing on an open account basis have 30-day payment terms. All other sales pertaining to cheese and related items from our print catalog or website or sales relating to classes at the cheese center are paid through credit card which generally settle within three days of purchase.

All long-term liabilities are payable to the previous owners of Artisanal Cheese LLC and are being repaid in accordance with the terms of the two governing instruments. The short-term debt of \$228,000 payable to the restaurants owned by former owners of Artisanal Cheese LLC was paid quarterly and retired in full in July 2008.

The cost to carry the preferred stock is a dividend of 12% payable in stock for the first two years. Thereafter the dividend is 12% if payable in cash or 15% if payable in stock, at the Company's election. Where the Company elects to pay the dividend in shares, this will not present a drain on the company's capital resources.

### **Inflation and Changing Prices**

The Company does not foresee any risks associated with inflation or substantial price increases in the near future. In addition, the cheeses that are selected by the Company in its affinage process are often available from various sources. As such, while the Company has exposure to inflation, it does not believe that inflation will have any materially significant impact on its operations in the near future.

## Edgar Filing: American Home Food Products, Inc. - Form 10-Q

The Company does not foresee any increase in costs that cannot be passed on to its customer in the ordinary course of business. The company adjusts its wholesale and online prices throughout the year to reflect increase costs attributable to increases in energy prices. Under very limited circumstances, the Company has entered into agreements with certain customers for which the Company provides third-party drop-ship fulfillment

2

---

with contracted pricing for various cheese collections. The Company, in turn, usually has a corresponding agreement with the cheese suppliers whose products are incorporated into these collections for fixed prices to ensure that the company achieves its anticipated gross margin.

### **Critical Accounting Policies**

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure on contingent assets and liabilities at the date of our financial statements. Actual results may differ from these estimates under different assumptions and conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. The Company believes that its critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see Note 3 to our financial statements.

### **Long-Lived Assets (including Tangible and Intangible Assets)**

We acquired businesses in recent years, which resulted in intangible assets being recorded. The determination of the value of such intangible assets requires management to make estimates and assumptions that affect our consolidated financial statements. We assess potential impairment to the intangible and tangible assets on a quarterly basis or when evidence of events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Our judgments regarding the existence of impairment indicators, if any, and future cash flows related to these assets are based on operational performance of our business, market conditions and other factors.

### **Accounting for Income Taxes**

As part of the process of preparing our financial statements we are required to estimate our income taxes. Management judgment is required in determining our provision of our deferred tax asset. We recorded a valuation for the full deferred tax asset from our net operating losses carried forward due to the Company not demonstrating any consistent profitable operations. In the event that the actual results may differ from these estimates or we adjust these estimates in future periods we may need to adjust such valuation recorded.

### **Stock-Based Compensation**

The computation of the expense associated with stock-based compensation requires the use of a valuation model. SFAS 123(R) is a new and very complex accounting standard, the application of which requires significant judgment and the use of estimates, particularly surrounding Black-Scholes assumptions such as stock price volatility, expected option lives, and expected option forfeiture rates, to value equity-based compensation. The Company currently uses a Black-Scholes option pricing model to calculate the fair value of its stock options. The Company

## Edgar Filing: American Home Food Products, Inc. - Form 10-Q

primarily uses historical data to determine the assumptions to be used in the Black-Scholes model and has no reason to believe that future data is likely to differ materially from historical data. However, changes in the assumptions to reflect future stock price volatility and future stock award exercise experience could result in a change in the assumptions used to value awards in the future and may result in a material change to the fair value calculation of stock-based awards. SFAS 123(R) requires the recognition of the fair value of stock compensation in net income. Although every effort is made to ensure the accuracy of our estimates and assumptions, significant unanticipated changes in those estimates, interpretations and assumptions may result in recording stock option expense that may materially impact our financial statements for each

respective reporting period.

**Item 3 Quantitative and Qualitative Disclosures About Market Risk**

Omitted.

**Item 4T. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of our president who is also the chief financial officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, the president/chief financial officer concluded that as of the Evaluation Date, the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to management, including the president/chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the president/chief financial officer, does not expect that the Company's disclosure controls and procedures or its internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within American Home Food Products, Inc. can be prevented.

**(b) Management's Report on Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). The Company's management has assessed the effectiveness of our internal control over financial reporting as of November 30, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework. Our management has concluded that, as of November 30, 2008, our internal control over financial reporting is effective based on these criteria. This quarterly report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this quarterly report.

**(c) Changes in Internal Control over Financial Reporting**

There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



**Part II**            **Other Information**

**Item 1.**            **Legal Proceedings**

None.

**Item 2.**            **Unregistered Sales of Equity Securities and Use of Proceeds.**

In October 2008, the Company issued 50,000 shares of common stock to an employee. The company recorded a deferred expense of \$8,000 in connection with these shares.

**Item 3.**            **Defaults Upon Senior Securities.**                            None.

**Item 4.**            **Submission of Matters to a Vote of Security Holders.**                            None.

**Item 5.**            **Other Information.**                            None.

**Item 6.**            **Exhibits.**                            None.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, American Home Food Products, Inc. has duly caused this report to be signed on its behalf by the undersigned persons who are duly authorized to sign on behalf of the Company as its principal executive officer and principal financial officer and principal accounting officer.

AMERICAN HOME FOOD PRODUCTS, INC.

By: /ss/ Daniel W. Dowe  
Daniel W. Dowe  
Chief Executive Officer and Chief Financial Officer

Date: January 14, 2009

By: /ss/ Patrick C. Brady  
Patrick C. Brady  
Senior Corporate Controller  
Principal Accounting Officer

Date: January 14, 2009