

American Home Food Products, Inc.
Form 10-Q
January 22, 2008

FORM 10-QSB

**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, 2007

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.

(Formerly Novex Systems International Inc.)
(Exact name of registrant as specified in its charter)

New York

0-26112

41-1759882

(State of Jurisdiction)

(Commission
File Number)

(IRS Employer
Identification No.)

500 West 37th Street

New York, New York

10018

(Address of Principal Executive offices)

(Zip Code)

Registrant's telephone number, including area code 212-239-1200

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 .

The Company had 6,997,649 shares of its \$.001 par value common stock and 5,015,000 shares of its \$.001 par value preferred stock issued and outstanding on November 30, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Location in Form 10-Q

Incorporated Document

None

AMERICAN HOME FOOD PRODUCTS, INC.

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PART I

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AMERICAN HOME FOOD PRODUCTS, INC.
BALANCE SHEET
November 30, 2007
(unaudited)

ASSETS

CURRENT ASSETS:

| | |
|---|--------------|
| Cash | \$ 1,161,771 |
| Accounts receivable | 472,325 |
| Inventories | 644,148 |
| Prepaid expenses - related party | 39,145 |
| Prepaid expenses and other current assets | 117,421 |

Total Current Assets 2,434,810

FIXED ASSETS, NET 846,619

OTHER ASSETS 50,201

INTANGIBLES - at cost, net 3,835,231

\$ 7,166,861

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:

| | |
|--|------------|
| Current portion of long term debt | \$ 125,000 |
| Accounts payable | 973,984 |
| Notes payable | 228,000 |
| Prepaid Gift Certificates and Other Deferred Revenue | 72,399 |
| Accrued expenses and other current liabilities | 106,512 |
| Accrued interest | 89,583 |
| Accrued payroll taxes | 655,061 |

Total Current Liabilities 2,250,539

COMMITMENTS AND CONTINGENCY

LONG TERM DEBT, net of current portion 487,097

SHAREHOLDERS' EQUITY:

Preferred stock - \$0.001 par value, 4,000,000 shares authorized, Series A Preferred Stock, 6,000,000 authorized 5,015,000 shares issued and outstanding (liquidation preference \$5,015) 5,015

6,997

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| | |
|--|---------------------|
| Common stock - \$0.001 par value, 40,000,000 shares authorized 6,997,649 shares issued and outstanding | |
| Additional paid-in capital | 15,874,509 |
| Accumulated deficit | <u>(11,457,296)</u> |
| Total shareholders' equity | <u>4,429,225</u> |
| | <u>\$ 7,166,861</u> |

See notes to financial statements.

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AMERICAN HOME FOOD PRODUCTS, INC.
STATEMENTS OF OPERATIONS

| | Three Months Ended November 30, | | Six Months Ended November 30, | |
|--|---------------------------------|-------------------|-------------------------------|-------------------|
| | 2007 Unaudited | 2006 Unaudited | 2007 Unaudited | 2006 Unaudited |
| SALES | \$ 1,243,120 | \$ — | \$ 1,410,231 | \$ — |
| COST OF GOODS SOLD | 941,418 | — | 1,053,478 | — |
| GROSS PROFIT | 301,702 | — | 356,753 | — |
| SELLING, GENERAL AND ADMINISTRATIVE | 502,097 | 76,659 | 660,720 | 152,979 |
| DEPRECIATION AND AMORTIZATION | 61,614 | — | 74,403 | — |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND INTEREST | (262,009) | (76,659) | (378,370) | (152,979) |
| OTHER INCOME (EXPENSES): | | | | |
| Interest income (expense) | (9,943) | (48,586) | (63,525) | (89,139) |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES | (271,952) | (125,245) | (441,895) | (242,118) |
| INCOME TAXES | — | — | — | — |
| LOSS FROM CONTINUING OPERATIONS | (271,952) | (125,245) | (441,895) | (242,118) |
| DISCONTINUED OPERATIONS (Note 20) | | | | |
| INCOME FROM OPERATIONS, net of tax | — | 56,669 | 43,528 | 102,958 |
| GAIN ON SALE OF OPERATIONS, net of tax | — | — | 479,043 | — |
| NET GAIN ON DISCONTINUED OPERATIONS | — | 56,669 | 522,571 | 102,958 |

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| | | | | |
|--|--------------|-------------|-----------|--------------|
| NET INCOME (LOSS) TO COMMON SHAREHOLDERS | \$ (271,952) | \$ (68,576) | \$ 80,676 | \$ (139,160) |
|--|--------------|-------------|-----------|--------------|

INCOME (LOSS) PER COMMON SHARE - CONTINUING OPERATIONS:

| | | | | |
|---------|-----------|-----------|-----------|-----------|
| Basic | \$ (0.04) | \$ (0.03) | \$ (0.09) | \$ (0.06) |
| Diluted | \$ (0.04) | \$ (0.03) | \$ (0.09) | \$ (0.06) |

INCOME (LOSS) PER COMMON SHARE - DISCONTINUED OPERATIONS:

| | | | | |
|---------|------|---------|---------|---------|
| Basic | \$ — | \$ 0.01 | \$ 0.10 | \$ 0.03 |
| Diluted | \$ — | \$ 0.01 | \$ 0.10 | \$ 0.03 |

WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:

| | | | | |
|---------|-----------|-----------|-----------|-----------|
| basic | 6,927,649 | 3,903,955 | 5,120,504 | 3,842,884 |
| diluted | 6,927,649 | 3,903,955 | 5,120,504 | 3,842,884 |

See notes to financial statements.

AMERICAN HOME FOOD PRODUCTS, INC.
STATEMENTS OF CASH FLOWS

| | Six Months ended November 30, | |
|--|-------------------------------|-----------------|
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss applicable to continuing operations | \$ (441,895) | \$ (242,118) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and impairment of equipment | 36,883 | — |
| Amortization of intangibles | 34,943 | 25,256 |
| Preferred and common stock issued for services | 76,100 | 20,900 |
| Changes in assets and liabilities, net of the effect from acquisition: | | |
| Accounts receivable | (169,474) | — |
| Royalty/Licensee receivable | 30,845 | (7,738) |
| Inventory | (440,673) | — |
| Prepaid expenses - related party | (39,145) | — |
| Prepaid expenses and other assets | (42,454) | — |
| Accounts payable | 100,111 | (6,917) |
| Accrued expenses and other current liabilities | 350,183 | 65,289 |
| Accrued payroll taxes | 109,454 | 30,370 |
| Cash flow from operations of discontinued operations | 43,528 | 102,958 |
| NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (351,595) | (12,000) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of Artisanal, net of expenses | (3,262,013) | — |
| Increase in other assets | (24,729) | — |
| Purchase of fixed assets | (43,258) | — |
| Cash flow from investing activities of discontinued operations | 863,747 | — |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | (2,466,253) | — |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES: | | |
| Increase in notes payable | (105,697) | 1,000 |
| Payment of shareholder note | (219,940) | 11,000 |
| Sale of preferred stock | 5,000,000 | — |
| Payment of long-term debt | (12,903) | — |
| Payment of note payable | (700,000) | — |
| NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES | 3,961,460 | 12,000 |

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| | | |
|---|--------------|-----------|
| NET INCREASE IN CASH | 1,143,612 | — |
| CASH AT BEGINNING OF YEAR | 18,159 | — |
| CASH AT END OF PERIOD | \$ 1,161,771 | \$ — |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | \$ 9,000 | \$ 15,000 |
| Income taxes | — | — |
| Non-cash financing activities: | | |
| Preferred and common shares issued for services | 76,100 | 20,900 |
| 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.

AMERICAN HOME FOOD PRODUCTS, INC.
NOTES TO FINANCIAL STATEMENTS
SIX MONTHS ENDED NOVEMBER 30, 2007
(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-QSB and Regulation S-B. 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, 2007 are not necessarily indicative of the results that may be expected for the year ending May 31, 2008. For further information, refer to the financial statements and footnotes thereto included in the Company's Annual Report on Form 10-KSB for the year ended May 31, 2007. 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 is payable on or before November 14, 2007 (See Note 8 - Notes Payable); (iii) issued a note payable for \$130,000 which bears interest at 5% per annum and is payable over a three year period (See Note 15 - Long Term Debt); (iv) issued a note payable for \$370,000 which bears interest at 5% per annum and is payable over a three year period (See Note 15 - Long Term Debt); 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 (See Note 8 - Notes Payable). 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

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agreement pursuant to which the company shall receive equipment and non-equipment services for one year and comptroller services for four months (See Note 18 - Commitments and Contingencies).

As part of this transaction, the Company also obtained from each of the former members of Artisanal Cheese, LLC, a five-year non-competition agreement.

The following table sets forth the determination of the consideration paid for Artisanal at the date of acquisition:

| | |
|-----------------------------|---------------------|
| Cash | \$ 3,298,608 |
| Notes | 1,200,000 |
| Total purchase price | \$ 4,498,608 |

The transaction was accounted for as a purchase and, accordingly, the preliminary purchase price was allocated to the underlying assets acquired and liabilities assumed based upon their estimated fair values at the date of the acquisition. The Company intends to conduct a detailed valuation using the guidance as set forth in Statement of Financial Accounting Standard (“SFAS”) No. 141, “Business Combinations”, to make the final determination of fair value of the intangible assets and goodwill acquired in the acquisition. The purchase price allocation is, therefore, preliminary and may be adjusted for up to one year after the acquisition.

The following table sets forth the preliminary allocation of the purchase price:

| | |
|---|---------------------|
| Total purchase price | \$ 4,498,608 |
| Less assets acquired: | |
| Accounts receivable | (287,008) |
| Inventory | (203,475) |
| Other current assets | (35,175) |
| Long - term assets | (861,237) |
| Total tangible assets acquired | (1,386,895) |
| Liabilities assumed | 745,516 |
| Cost in excess of net tangible assets acquired | \$ 3,857,229 |

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

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 collectibility of such trade and notes receivables outstanding. The 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, 2007 and 2006 was \$0 and \$0 respectively.

Property and Equipment

Property and equipment acquired in the Artisanal Acquisition is carried at net book value which approximates fair market value at the date of the acquisition. Amounts incurred for repairs and maintenance are charged to operations in the period incurred. Depreciation is calculated on a straight-line basis over the following useful lives:

| | |
|------------------------|------------|
| Equipment | 3-5 years |
| Furniture and fixtures | 5-7 years |
| Leasehold improvements | 5-10 years |
| Software | 2-5 years |

Goodwill and Intangible Assets

Intangible assets at November 30, 2007 relates to the assets acquired in the Artisanal Acquisition (See Note 2 – Acquisition) and will be allocated to specific items upon an analysis to be performed.

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The Company reviews long-lived assets, certain identifiable assets and any impairment related to those assets at least annually or whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. To the extent carrying values have exceeded fair values, an impairment loss has been recognized in operating results.

Revenue Recognition

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

Shipping and Handling Costs

Shipping and handling costs are included in cost of sales

Advertising Costs

All advertising costs are expensed as incurred. Advertising expenses charge to operations for the six months ended November 30, 2007 was approximately \$7,735.

Interest Income/(Expense)

Interest expense relates to interest owed on the Company's debt. Interest expense is recognized over the period the debt is outstanding at the stated interest rates (see Note 11).

Income Taxes

Income taxes have been provided using the liability method. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured by applying estimated tax rates and laws to taxable years in which such differences are expected to reverse. The deferred tax asset attributed to the net operating losses has been fully reserved, since the Company has yet to achieve recurring income from operations.

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.

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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. We did not include the common stock equivalents of the conversion of the preferred stockholders, as such shares of preferred stock were issued post the discontinuance of the segment of operations discontinued.

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, 2007, 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.

Segment Disclosure

Management believes the Company operates as one segment.

Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 permits entities to choose, at specified election dates, to measure eligible items at fair value (the "fair value option"). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). Management is in the process of assessing if this statement will have a material impact on the Company's financial statements once adopted.

In September 2006, the FASB issued SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is a relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. However, for some entities, the application of this Statement will change current practices. This Statement is effective for financial statements for fiscal years beginning after November 15, 2007. Early adoption is permitted provided that the reporting entity has not yet

issued financial statements for that fiscal year. Management is in the process of assessing if this statement will have a material impact on the Company's financial statements once adopted.

In December 2007, the FASB issued FASB Statement No. 141 (revised 2007), Business Combinations. This Statement replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This Statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This Statement's scope is broader than that of Statement 141, which applied only to business combinations in which control was obtained by transferring consideration. By applying the same method of accounting—the acquisition method—to all transactions and other events in which one entity obtains control over one or more other businesses, this Statement improves the comparability of the information about business combinations provided in financial reports.

This Statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the Statement. That replaces Statement 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values.

This Statement applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquirer), including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. This Statement applies to all business entities, including mutual entities that previously used the pooling-of-interests method of accounting for some business combinations. It does not apply to: (a) The formation of a joint venture, (b) The acquisition of an asset or a group of assets that does not constitute a business, (c) A combination between entities or businesses under common control, (d) A combination between not-for-profit organizations or the acquisition of a for-profit business by a not-for-profit organization.

This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. Management believes this Statement will have no impact on the financial statements of the Company once adopted.

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

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4. ACCOUNTS RECEIVABLE

Accounts receivable are comprised of the following at November 30, 2007:

| | | |
|---------------------------|----|---------|
| Trade accounts receivable | \$ | 470,555 |
| Employees | | 1,770 |
| | | 1,770 |
| | \$ | 472,325 |

5. INVENTORIES

Inventories are valued on a first-in-first-out (FIFO) basis. Inventory at November 30, 2007 consisted of the following::

| | | |
|-------------------------------------|----|---------|
| Cheese Inventory | \$ | 508,266 |
| Shipping/Packing Material Inventory | | 83,784 |
| Accessories & Books Inventory | | 52,099 |
| | | 136,883 |
| | \$ | 644,149 |

6. PREPAID EXPENSES and PREPAID EXPENSES – RELATED PARTY

At November 30, 2007, the Company's had prepaid expenses of \$78,421, which consisted primarily of prepaid catalog costs and \$39,000 of an advance to an employee and another \$39,145 of an advance to an officer, both for a compensation arrangement to be ratified.

7. FIXED ASSETS

Fixed assets are valued at net book value at the date of the Artisanal Acquisition which approximates fair market value. Fixed assets are comprised of the following at November 30, 2007:

| | | |
|-----------------------------|----|-----------|
| Furniture and fixtures | \$ | 168,649 |
| Kitchen Equipment | | 253,392 |
| Computer Equipment | | 97,096 |
| Software & Web Design | | 5,279 |
| Design Fees | | 51,539 |
| Leasehold Improvement | | 1,106,224 |
| | | 1,682,178 |
| Less: Accumulated | | |
| Depreciation & Amortization | | (835,558) |
| | | 846,620 |
| | \$ | 846,620 |

8. NOTES PAYABLES

Notes payable consist of the following:

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 in product to one or more of the former shareholders restaurant establishments.

Upon closing the Artisanal acquisition, the Company executed a note payable to a former Artisanal shareholder for \$700,000. The note was non-interest bearing and secured by a first priority security interest in all assets of the Company. The principal was paid in full on November 15, 2007.

A \$5,000 note to a shareholder was also repaid during the quarter together with interest of \$215.09 in interest.

9. LOANS PAYABLE SHAREHOLDER

Over the last few years, the Company's current president, Daniel W. Dowe, had loaned money to the Company to assist with its operating cash flow. Mr. Dowe had an agreement with the Company's board of directors to have the loan repaid without interest and only when the Company has adequate cash on hand. The loan was paid in full during this quarter.

10. PREPAID GIFT CERTIFICATES AND OTHER DEFERRED REVENUE

The Company records cash received in advance of the delivery of products or services as deferred revenue until the products are delivered to customers or the services are provided. Gift certificates are issued for a one-year period at which time the certificate expires. The Company has not recorded any income for expired or unused gift certificates.

11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses consists primarily of accrued accounting expenses of \$25,000 and about \$28,000 of accrued other miscellaneous expenses. Approximately \$53,000 of accrued expenses is attributable to payable reductions.

12. ACCRUED INTEREST

Accrued interest of \$89,583 represents the interest owing on the Quilcap debenture. (See Note 15 - Long Term Debt).

13. ACCRUED PAYROLL TAXES

The Company prior to the acquisition of Artisanal remains in arrears with paying payroll taxes of approximately \$652,000. The Company is currently negotiating a payment program with the relevant tax authorities.

14. INCOME TAXES

At November 30, 2007, the Company has available unused net operating loss carryforward (“NOL”) of approximately \$8,300,000 that may be applied against future taxable income and expire at various dates through 2025. The Company has a deferred tax assets arising from such net operating loss deductions and has recorded a valuation allowance for the full amount of such deferred tax asset since the likelihood of realization of the tax benefits cannot be determined. Such valuation allowance has decreased approximately \$27,000 during 2007.

| | 2007 |
|---------------------------------|--------------|
| Deferred tax asset: | |
| Net operating loss carryforward | \$ 2,990,000 |
| Valuation allowance | (2,990,000) |
| Net deferred tax asset | \$ — |

A reconciliation of the statutory federal income (tax) benefit to actual tax benefit is as follows:

| | 2007 | 2006 |
|--|-------------|-----------|
| Statutory federal income (tax) benefit | \$ (27,000) | \$ 47,000 |
| Income tax benefit utilized (not utilized) | 27,000 | (47,000) |
| Actual tax benefit | \$ — | \$ — |

If the Company has a greater than 50% change in ownership of certain stock holdings by shareholders of the Company pursuant to Section 382 of the Internal Revenue Code, the net operating losses may be limited. Currently no such evaluation has been performed. As a result of the Artisanal Acquisition described above, the Company is reviewing whether its ability to utilize its net operating loss carryovers may be restricted based on Internal Revenue Code Section 382 “changes in ownership.”

15. LONG TERM DEBT

Long-term debt consists of the following:

| | |
|------------------------------|-------------------|
| Debenture payable (a) | 125,000 |
| Artisanal Sellers' Notes (b) | 487,097 |
| | <u>612,097</u> |
| Less: Current portion | (125,000) |
| | <u>\$ 487,097</u> |

- a. The Company is currently in default on a \$125,000 debenture due a stockholder of the company, Quilcap, Corp., in the amount of \$125,000. This debenture from February 25, 1999, bears interest at 15% per annum and matured on May 31, 1999. The Company is currently negotiating with the debenture holder.
- b. In connection with the acquisition of Artisanal Cheese, LLC, the Company obtained two sellers' note--one from each of the former members of Artisanal Cheese, LLC. The notes are for \$130,000 and \$370,000, respectively. The note for \$130,000 bears interest at 5% per annum and is payable in consecutive monthly payments of principal and interest in the amount of \$3,896.22 commencing November 1, 2007. All principal and accrued interest shall be due and payable in full on October 1, 2010. The note for \$370,000 bears interest at 5% per annum and is payable in consecutive monthly payments of principal and interest in the amount of \$11,089.23 commencing November 1, 2007. All principal and accrued interest shall be due and payable in full on October 1, 2010. Both notes are secured pursuant to a Security Agreement pursuant to which the note holders have a first priority security interest in all assets of the Company except that the note holders have agreed to subordinate their security interest on those assets so that the Company may obtain asset-based debt financing.

16. SHAREHOLDERS' EQUITY

Terms of Series A Preferred Stock (Preferred Stock)

The Company has sold 5,000,000 shares of redeemable convertible Preferred Stock at a price of \$1.00 per share for a total gross proceeds of \$5,000,000. Another 15,000 shares of Preferred Stock was issued in exchange for consulting services. The Preferred Stock is convertible at \$.30 per share into \$.001 par value Common Stock of Company, (equaling 60% of the issued and outstanding Common Stock of the Company on a fully diluted basis, excluding the Management Stock Option (see below)). Dividends shall be paid (a) 12% Paid-in-Kind in first two years from Closing Date, and (b) 12% Paid-In-Cash after the first two years from Closing or 15% Paid-In-Kind, at the election of the Company. These dividends shall convert into Common Stock at \$.30 per share, unless the Company elects to pay dividends in cash pursuant to (b) above.

At any time prior to the third anniversary of the Closing Date and upon 30 days advance notice, the Company shall have the right to redeem one-half of the Preferred Stock that is issued and

outstanding at the Closing (2,507,500 shares if all shares are sold) by paying the Holder the full par value of the Preferred Stock (\$5,015,000 if all shares are sold), plus accrued dividends in cash (the "First Redemption"). The remaining one-half of the Preferred Stock that is issued and outstanding after the First Redemption can either be: (a) redeemed by the Company in cash at par value (i.e., \$2,507,500 if all shares are sold), plus accrued dividends with the Holder also receiving a 2-year option to acquire 5% of the issued and outstanding Common Stock of the Company at an exercise price of \$.30 per share, or, (b) converted into 30% of the issued and outstanding Common Stock of the Company (the "Second Redemption"). The Holder shall have sole authority to elect subsection (a) or (b) above upon receiving a Redemption Notice. Any Common Stock or Common Stock Option issued pursuant to the First Redemption or the Second Redemption shall be on a fully-diluted basis, excluding the Management Stock Option below.

The Company has agreed to file a registration statement with respect to the number of shares of its Common Stock 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. All costs of the registration shall be borne by the Company.

So long as over \$1,500,000 of the Preferred Stock is issued and outstanding the Company shall require the prior written consent of Holders representing 2/3 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 at the Closing, excluding the Management Stock Option.

In the event of a liquidation, the Preferred Stockholders shall receive a cash payment at par value per preferred share plus accrued dividends in calendar 2007, the liquidation preference in calendar 2008 increases to \$1.10 per preferred share plus accrued dividends and the liquidation preference in calendar 2009 increases to \$1.20 per preferred share plus accrued dividends and remains at this amount for each year thereafter.

Preferred Stock Issuances

In August 2007, several accredited investors made an equity investment of \$3,900,000 for which these investors received 3,900,000 shares of the Company's redeemable convertible preferred stock. The proceeds were used to acquire the membership interests of a specialty food company.

In August 2007, the Company issued 15,000 shares of redeemable convertible preferred stock in exchange for consulting services. The Company recorded a \$15,000 expense in connection with the issuance of these shares.

In the three months ended November 30, 2007, several private accredited investors made an equity investment of \$1,100,000 for which these investors received 1,100,000 shares of the Company's

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redeemable convertible preferred stock. The proceeds were used to pay off a \$700,000 seller's note and working capital.

Accrued and undeclared dividends on the preferred stock as of November 30, 2007 total \$136,950.

Preferred Stock –Subsequent Event

Subsequent to the six months ending November 30, 2007, the Company sold an additional 200,000 shares of Preferred Stock for which it received \$200,000 thereby completing its \$5.2 million equity offering

Common Stock Issuances

In January 2006, the Company and a judgment creditor reached an agreement whereby the creditor agreed to refrain from enforcing its judgment in exchange for a monthly payment of interest on the creditor's original loan to the Company and the Company's commitment to pay the judgment upon the earlier of the recapitalization of the Company or September 30, 2006. Through subsequent amendments to the agreement, the date was extended to August 2007. In September 2007, the creditor received 40,000 shares of the Company's common stock relating to a forbearance agreement in April 2007 but which the Company inadvertently neglected to issue at that time. The Company recorded additional paid-in capital of \$13,560 for the 40,000 shares and an interest expense of \$13,600 in connection with these shares.

In August 2007, two secured creditors agreed to convert the outstanding principal and interest of their respective notes totaling approximately \$2,000,684 into 1,675,000 shares of the Company's common stock. The Company recorded additional paid-in capital of \$1,999,009 with respect to these shares.

In August 2007, several of the Company's judgment creditors agreed to accept \$91,903 in cash and a total of 166,194 shares of common stock in exchange for satisfactions of their respective claims totaling approximately \$411,125. As a result of these settlements, the Company reduced its accounts payable by \$161,327.85, increased paid-in capital by approximately \$130,000 and reduced the gain on sale by approximately \$60,000.

In August 2007, the Company issued 25,000 shares of common stock in exchange for consulting services. The company recorded an expense of \$7,500 in connection with these shares.

In September 2007, the Company issued 40,000 shares for an extension of a pre-existing debt arrangement. An expense of \$13,600 was recorded for the then market value of such shares issued.

In October 2007, the Company issued 100,000 shares of common stock to one of its employees. The company recorded deferred compensation of \$39,000 in connection with these shares.

Stock Option

At the closing, Daniel W. Dowe and William Feeney were granted a 5-year Stock Option at an exercise price of \$.30 per share that is exercisable into 20% of the Common Stock of the Company on a fully-diluted basis. The Stock Option was fully-vested at the Closing Date, but not exercisable until the Company achieves: (a) \$21.6 million in revenue or \$2 million in EBITDA in a full calendar year by no later than Calendar Year 2009, and, (b) the First Redemption is concluded by the Company. The failure to meet either of these conditions shall cause the entire Management Stock Option to terminate in its entirety. Daniel W. Dowe and Will Feeney shall receive 12% and 8% respectively of the 20% Stock Option. An expense will

be recorded once these shares become exercisable and the contingency has been resolved.

17. DISPOSITION OF ASSETS INTANGIBLES

Intangibles arose in connection with the acquisitions of Arm Pro in September 1998, and with the acquisition of Allied / Por-Rok lines in August 1999 and Sta-Dri in August 2000. The intangible assets were re-characterized pursuant to SFAS 142 from “Goodwill” to be “Intangibles”, since such intangibles are actually comprised of trademarks, acquired proprietary technology and customer lists. We have attributed the cost of these intangibles to be \$606,164 for trademarks, \$75,771 for proprietary technology and \$75,771 for customer lists. These intangibles were being amortized over a fifteen-year life on a straight-line basis. The Company sold these intangibles on August 15, 2007. On that date, the accumulated amortization was \$375,580.

On August 15, 2007, the Company sold all of its intangible property relating to the building material business 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. The Company had carried these intangibles at a net value of \$382,126 and, thus, recorded a gain on sale of \$479,043, including other minimal costs against the gain on sale of intangibles.

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18. COMMITMENTS AND CONTINGENCIES

| <u>Term</u> | <u>Agreement</u> | <u>Monthly Expense</u> |
|--------------------|---|------------------------|
| 8/15/07 – 12/15/07 | Transitional Services Agreement Comptroller services (a) | \$ 3,500.00 |
| 8/15/07 – 8/14/08 | Transitional Services Agreement Equipment services (a) | \$ 23,700.00 |
| 8/15/07 – 7/31/08 | Consulting Agreement (b) | \$ 4,333.33 |
| 8/15/07 – 8/14/12 | Preferred Vendor Agreement (c) | n/a |
| 8/15/07 – 8/14/12 | Product Development Agreement (d) | n/a |
| 8/15/07 – 8/14/12 | Trademark Assignment (e) | n/a |

- a. The Company has entered into a Transitional Services Agreement with Artisanal Group, LLC, a company owned by the former member of Artisanal Cheese, LLC, to provide equipment services for equipment leased by Artisanal Group for varying periods of up to three years, non-equipment services for no more than one year and comptroller services for a period of four months from the date of acquisition. The equipment services include telephones, computers, photocopiers, presentation equipment and delivery trucks and the non-equipment services encompass health, liability and auto insurances.
- b. The Company has entered into a one-year Consulting Agreement with executive chef, Terrence Brennan, the founder of Artisanal Cheese LLC and owner of two Manhattan restaurants, Picholine and Artisanal Bistro & Fromagerie, to provide consulting services including advice on product mix, marketing plans in the retail sector and presentation to retail supermarket buyers. Mr. Brennan shall receive \$13,000 every quarter for 24 hours worth of consulting services during each three month period. The agreement also provides for a finder's fee of \$10,000 in connection with any supply or sales agreement between the Company and any strategic partner introduced to the Company by Mr. Brennan, with an additional payment of \$20,000 if sales to the strategic partner exceed \$500,000 in the aggregate. The Consulting Agreement also provides for office space for Mr. Brennan and two of his staff members at the Company's principal offices located at 500 West 37th Street, New York, New York.
- c. The Company has entered into a five-year Preferred Vendor Agreement with two restaurant establishments owned by the former member of Artisanal Cheese, LLC, pursuant to which the Company will supply the restaurants or their affiliates with any and all premium cheese products at a high volume discount and at prices not to exceed prices offered to other customers, and the restaurants which purchase exclusively from the Company provided the Company can meet terms and conditions acceptable to the restaurants. The Preferred Vendor

Agreement also provides for a credit to the restaurant establishments which credit shall be applied to the first \$228,000 worth of product, not to exceed \$57,000 in any calendar quarter. This credit is the result of the payoff in full at the closing of Artisanal by one of its former members of a certain loan to the Company. (See Note 8 – Notes Payable).

- d. The Company has entered into a five-year Product Development Agreement pursuant to which the Company shall have a “first-look” right and 30-day exclusivity period to evaluate and negotiate in good faith a distribution arrangement (including minimum orders, exclusivity, prices/royalty rates and terms) for all new cheeses, cheese related products and other products developed by the two restaurant establishments owned by the former member of Artisanal Cheese, LLC. After the 30-day exclusivity period, the Company will have an opportunity to match any terms and conditions of a distribution agreement that the restaurants may subsequently reach with a third party. The Agreement provides for a written trademark license from the Company to the restaurants upon terms to be mutually agreed upon with respect to any distribution by the restaurants under the Artisanal brand of such new products other than distribution by the Company.
- e. The Company has entered into a Trademark License Agreement pursuant to which the Company grants a royalty-free license to the two restaurant establishments to use the tradename “Artisanal Fromagerie & Bistro” and the derivative logo (consisting of an oval design with four stylized sheep seated in front of a barn and the words “Artisanal Fromagerie – Bistro – Wine Bar”) in connection with the operation, distribution and sale of cheese, cheese products and other food products from the restaurant establishments or their affiliated restaurants or retail stores.

19. 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. In the three months ended November 30, 2007 Ms. Dowe received \$25,000 for legal work in connection with finalizing the Artisanal Acquisition. In the quarter ended November 30, 2006, Ms. Dowe received \$10,500 for legal and administrative work performed for the Company.

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.

20. 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

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building material business in the amount of \$479,043 for fiscal year 2008.

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

Summarized results of the discontinued operation is as follows:

| | Six months ended November 30, | |
|--|-------------------------------|------------|
| | 2007 | 2006 |
| Net Sales | \$ 52,039 | \$ 133,964 |
| Loss/Gain from operations | 43,528 | 102,958 |
| Loss/Gain on disposal | 479,043 | — |
| Total Loss/Gain on discontinued operations | \$ 522,571 | \$ 102,958 |

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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-QSB. The Financial Statements for the six month period ending November 30, 2007, included in this Form 10-QSB 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, 2007 vs. November 30, 2006

On August 15, 2007, the Company completed its acquisition of all the ownership interests in Artisanal Cheese, LLC. With this transaction, the Company sold its building material assets and recapitalized its existing debts primarily through a tax-free exchange of debt for equity and cash payments to satisfy other obligations. Due to its expanded operations into the specialty food industry, the Company realized a significant increase in its revenues and costs versus the prior period.

In the six month period ended November 30, 2007, the Company had sales of \$1,410,231 versus \$0 in the corresponding six month period in 2006. Cost of goods sold in this period was \$1,053,478 which was 75% of gross revenues, versus 0% for the same period in 2006. Until it sold its building material assets on August 15, 2007, the Company's gross margin of 100% was attributable to the Company's conversion in February 2003 of its manufacturing business into a licensing business. From February 2003 to August 15, 2007, the Company maintained an exclusive licensing agreement with CGM, Inc., whereby CGM fulfilled all orders for products sold under the trade names that the Company owned and thereafter paid the Company a cash royalty on sales. All royalty payments were based on actual sales in the previous month and were paid on a monthly basis. The increase in cost of goods sold and general operating expenses was attributable primarily to the acquisition of Artisanal Cheese, LLC and the increase in sales of its new line of specialty foods.

In this six month period, the Company recorded a net loss from operations of \$378,370 versus \$152,979 for the same period in 2006. The net income to common shareholders during this period 2007 was \$80,676 versus a net loss of \$139,160 during the same period in 2006. The difference is attributable primarily to the sale of the Company's intangible assets relating to the building material business and the discontinuation of its royalty-generating business. The Company incurred \$63,525 in interest charges. Of this amount approximately \$63,000 was attributable to interest on loans that were converted into equity as part of the Artisanal transaction. The Company also incurred \$20,538 of amortization charges of which \$7,521 related to the building material assets which were sold on August 15, 2007.

On November 30, 2007, the Company had \$2,434,810 in current assets, which consisted primarily of cash of \$1,161,771, inventory of \$644,148 and accounts receivable of \$472,325. The Company's leasehold and equipment was \$846,619 and intangibles increased to \$3,835,231 net of amortization,

which represents the goodwill and other intangibles.

Three months ending November 30, 2007 vs. November 30, 2006

In the three month period ended November 30, 2007, the Company had sales of \$1,243,120 versus \$0 in sales in the corresponding three month period in 2006. Cost of goods sold in this period was \$941,418 which was 76% of gross revenues, versus \$0 and 0%, respectively, for the same period in 2006.

In this three month period, the Company recorded a net loss from operations before income taxes and interest of \$262,009 versus \$76,659 for the same period in 2006. The net loss to common shareholders during this period 2007 was \$271,952 versus a net loss of \$125,245 during the same period in 2006.

The Company incurred \$9,943 for the period 2007 versus \$48,586 for the period 2006 in interest charges. The Company also incurred \$61,614 of amortization charges for the period 2007.

Liquidity and Financial Resources at November 30, 2007

The Company undertook a \$5.2 million private placement of redeemable convertible preferred stock. By mid-August, 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 \$3,200,000 and sellers' notes totaling \$1,200,000. By November 30, 2007, the company had raised an additional \$1,100,000 and reduced the seller's notes by \$700,000. The balance was used for additional operating capital.

As of November 30, 2007, the Company had \$2,250,239 in current liabilities, which includes a \$228,000 note providing for quarterly payments in kind to one of the former shareholders' restaurants. See Note 8 – Notes Payable). Also included in current liabilities is a debenture for \$125,000 which is in default, although the Company is endeavoring to reach a settlement with the debenture holder. The Company had accounts payable of \$973,984, accrued taxes of \$655,061 and accrued expenses and interest totaling \$196,095. The Company's current liabilities also include outstanding prepaid gift certificates and other deferred revenue totaling \$72,399.

With the acquisition of the specialty food business, the Company believes its cash flow will be sufficient to meet its fixed monthly expenses.

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 foodstuffs that are used by the Company in its affinage process are available through from many 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.

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. We believe that our critical accounting policies are limited to those described below. For a detailed discussion on the application of these and other accounting policies see our note 2 to our financial statements.

Long-Lived Assets (including Tangible and Intangible Assets)

We acquired businesses in recent years, which resulted in tangible 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 that events or changes in circumstances indicate that the carrying amount of an assets 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 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 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. The Company has issued options for compensation purposes in the recent quarter, although they do not get valued until a earnings provision contingency is resolved.

Item 3. Controls and Procedures

Our principal executive officer and principal financial officer, who is the sole officer and employee, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the disclosure controls and procedures are effective to ensure that the information required to be disclosed in this report under the Securities Exchange Act of 1934 (1) is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure, and (2) has been recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

During the period covered by this report, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.

Part II Other Information

Item 1. Legal Proceedings

Upon the sale of the Company's intangibles relating to the building material business, the secured creditor, who otherwise would have been entitled to the proceeds of the sale, agreed to permit a portion of the proceeds to be used to pay judgment creditors a portion of their claims with the balance of their claims being paid in shares of common stock. Collectively, these creditors received approximately \$92,000 in cash for approximately one-third of their claims and 166,194 shares of common stock for the balance.

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

In the three months ended November 30, 2007, several private investors made equity investments totaling \$1,100,000 for which these investors received 1,100,000 shares of the Company's redeemable convertible preferred stock. The proceeds were used to pay off the seller's note so as to complete the acquisition of the membership interests of Artisanal Cheese LLC.

In January 2006, the Company and a judgment creditor reached an agreement whereby the creditor

agreed to refrain from enforcing its judgment in exchange for a monthly payment of interest on the creditor's original loan to the Company and the Company's commitment to pay the judgment upon the earlier of the recapitalization of the Company or September 30, 2006. Through subsequent amendments to the agreement, the date was extended to August 2007. In September 2007, the creditor received 40,000 shares of the Company's common stock relating to a forbearance agreement in April 2007 but which the Company inadvertently neglected to issue at that time. The Company recorded additional paid-in capital of \$13,560 for the 40,000 shares and an interest expense of \$13,600 in connection with these shares.

In October 2007, the Company issued 100,000 shares of common stock to one of its employees. The company recorded deferred compensation of \$39,000 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.

Item 6. Exhibits and Reports on Form 8-K.

On October 3, 2007, the Company filed with the Securities and Exchange Commission a Form 8-K announcing that it had entered a promotional agreement with American Express Publishing Corporation to promote the Artisanal brand of cheeses as part of a new American Express Departures Magazine Wine Reserve Club offering. On October 23, 2007, the Company filed a Form 8-K announcing that world-renowned cheese expert, Max McCalman, had joined the Company as its dean of curriculum. On December 21, 2007, the Company filed a Form 8-K/A setting forth the required historical and pro forma financial information relating to its acquisition of Artisanal Cheese LLC in August, 2007.

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 person who is duly authorized to sign on behalf of the Company as its principal executive officer and principal financial officer.

AMERICAN HOME FOOD PRODUCTS, INC.

By: /s/ Daniel W. Dowe

Daniel W. Dowe
Chief Executive Officer and Chief Financial Officer

Date: January 22, 2008
